

Scottish Forestry External Audit Plan

**Year ending
31 March 2024**

26th March 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 audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the organisation or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2021). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Introduction

Purpose

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

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

Respective responsibilities

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

Scope of our audit

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

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

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



Plan overview

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

01 Materiality

We have calculated our planning materiality using prior year gross expenditure as per audited 2022/23 financial statements as our benchmark, resulting in the following:

- £1.333 million planning materiality which is set at 1.9% of gross expenditure.
- Performance materiality of £0.999 million is based on 75% of planning materiality.
- Trivial of £0.067 million is based on 5% of planning materiality.
- A lower materiality will be used on:
 - £25,000 for the audit of the Remuneration and Staff Report (Please note this applies to salary and pension (CETV) tables for senior management only).

We will revisit our materiality throughout our audit including updating to reflect the draft unaudited financial statements for 2023/24.

02 Financial statement audit

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

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

We will communicate significant findings on these areas as well as other significant matters arising from the audit to you in our Annual Audit (ISA 260) Report.

03 Wider Scope and Best Value Audit

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

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

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

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

We will continue to review your arrangements in these areas and report findings and conclusions as part of the Annual Audit Report.

Plan overview (continued)

04 Other audit matters

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

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

05 Our Audit Fee

Audit fees were shared by Audit Scotland with Scottish Forestry in January 2024. The audit fee set by Audit Scotland is £55,640. This fee includes:

- Auditor remuneration £62,120
- Pooled costs £6,270 and
- Sectoral cap adjustment of -£12,750.

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

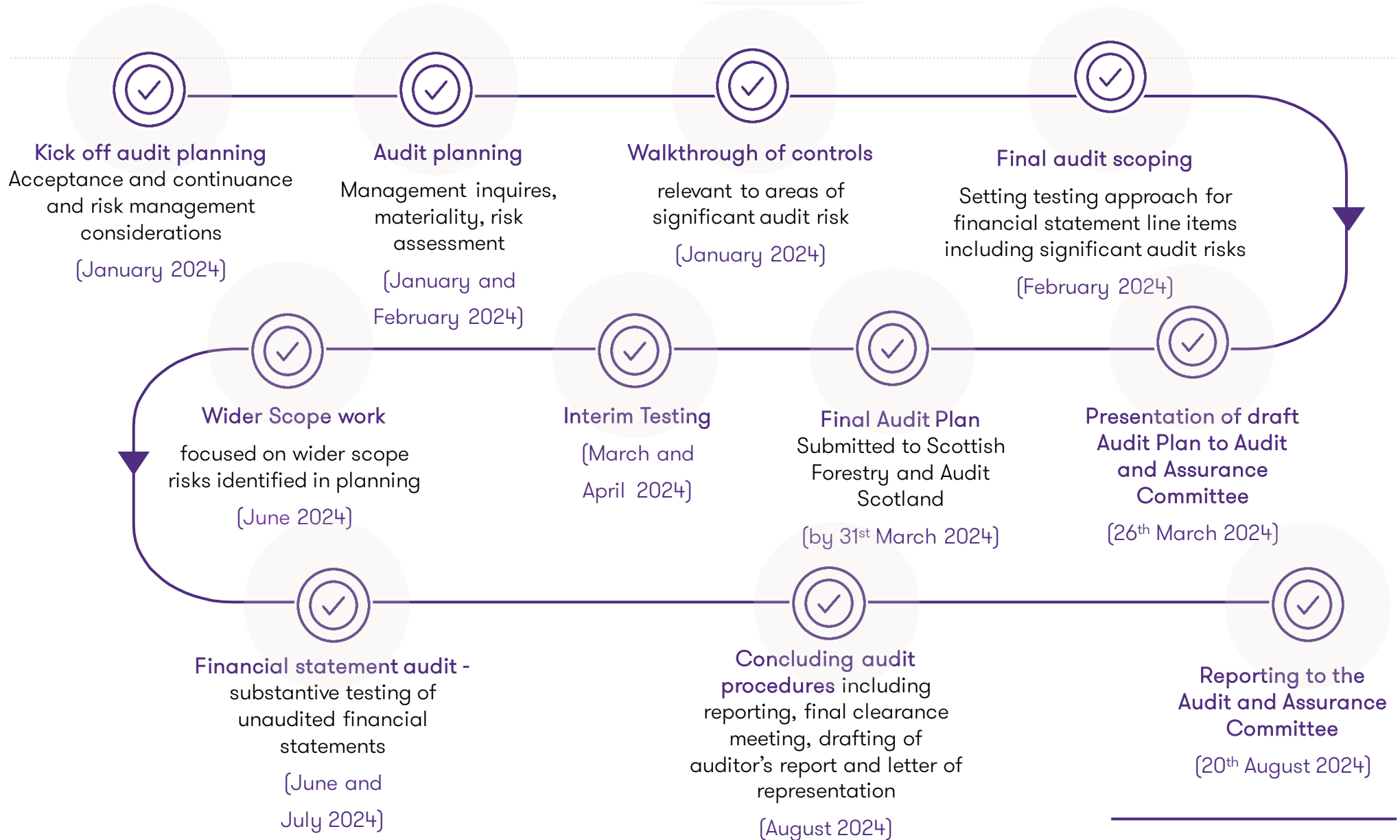
We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise. The audit fee does not include any work on the new accounting system, and if additional work is required for the 2023/24 audit, additional fees will be charged.

06 Adding Value Through the Audit

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

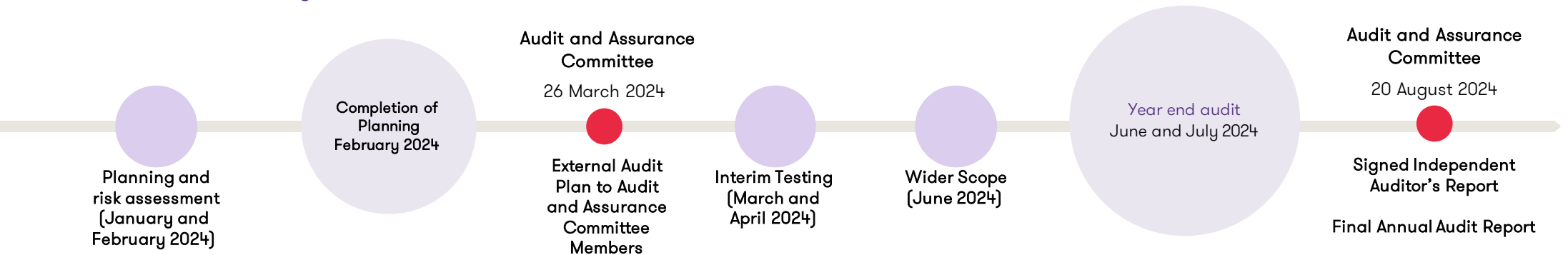
We aim to add value to Scottish Forestry through our external audit work by being constructive and forward looking, by attending Audit and Assurance Committees and be recommending and encouraging good practice. In doing so, we will help Scottish Forestry promote improved standards of governance, better management and decision making and more effective use of resources.

Audit approach



Audit timeline

We are required to submit audit plans to Audit Scotland by 31 March 2024, and it is anticipated that we will have drafted our Annual Audit Report and shared with management by 31 August 2024 in line with the Audit Scotland deadline. We have set out below our planned timescales for the Scottish Forestry audit.



Audited body responsibilities

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

Our requirements

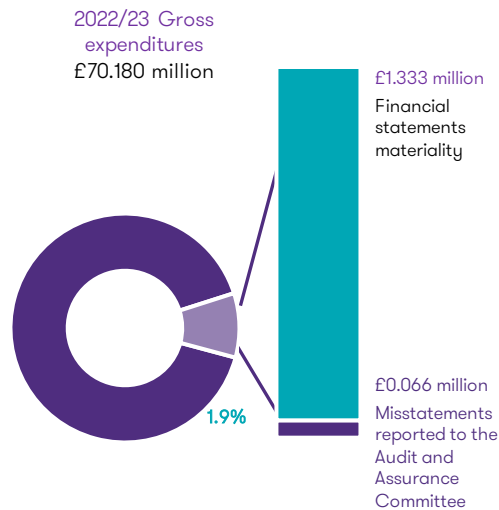
To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft accounts, comprising financial statements and related reports, of good quality, by the deadline you have agreed with us
- produce draft accounts that have cleared all issues identified during 2022/23 to ensure these do not reoccur
- produce draft accounts that are complete with all required adjustments included in the draft accounts
- prepare good quality working papers which support the figures included in the financial statements, in line with the working paper requirements schedule that we have shared with you, and make these available to us at the start of the year end audit visit
- provide all agreed data reports to us at the start of the audit, which are fully cleansed and reconciled to the figures in the financial statements
- ensure that all appropriate staff including management's valuers are available to us for queries over the planned period of the audit, or as otherwise agreed
- respond promptly and appropriately to all audit queries, within agreed timescales.

Receiving the draft accounts that are complete by the date agreed and working papers being available at the start of the audit are key. Our audit scheduling is such that we are staffed to complete the audit to the target deadlines and the impact of any client overrun impacts upon audit fees.

Materiality

Financial statement materiality is determined based on a proportion of gross expenditure. We have determined **planning materiality** to be £1.333 million (PY: £1.050 million), which equates to approximately 1.9% of gross expenditure (PY: 1.5%) as per the 2022/23 audited financial statements.



Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. We use this to determine our testing approach to the financial statements. We have set this at 75% (PY: 60%) of planning materiality (£0.999 million) (PY: £0.630 million). This is based on our understanding of Scottish Forestry and our overall risk assessment procedures.

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

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

- **£25,000 (PY: £5,000) for the audit of the Remuneration and Staff Report (Please note this applies to salary and pension (CETV) tables for senior management only).**

Under ISA 260 (UK) 'Communication with those charged with governance', we are required by auditing standards to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. We have determined this threshold to be £0.067 million, being 5% of planning materiality.

We will revisit our materiality based on the unaudited 2023/24 financial statements when received in May 2024. During the course of our audit engagement, we will continue to assess the appropriateness of our materiality.

Significant audit risks (1)

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

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

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

We will:

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

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

Significant audit risks (2)

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

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

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

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

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

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

We will:

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

Significant audit risks (3)

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

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

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

Other income, not received in this way, includes planting grant co-financing income, other income and operating income. In 2022/23, this amounted to £9.598 million and given the nature of the organisation and with the exit from the EU, grants approved after 31 December 2020 are not eligible for co-financing income, this figure is diminishing, reducing the opportunity for manipulation and the inherent risk of material misstatement in revenue recognition.

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

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

Other risks identified (1)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Resource shortages within the finance team results in inaccurate and incomplete annual report and accounts.	<p>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.</p> <p>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.</p> <p>We are aware of plans being made to recruit an Officer to support the finance team however, this is at an early stage.</p>	<p>Our initial planned audit procedures include:</p> <ul style="list-style-type: none"> Obtaining an update on the recruitment of finance support and to understand any contingency plans in place in the event that the remaining finance staff member is on leave. <p>During the course of our audit engagement, we will continue to assess the appropriateness of our planned approach and update where appropriate.</p>

Other risks identified (2)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Migration of data to the new finance system is not accurate and complete.	<p>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.</p> <p>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.</p>	<p>Our initial planned audit procedures include:</p> <ul style="list-style-type: none"> Obtaining an understanding of the implementation position and updates in terms of the go-live date. <p>During the course of our audit engagement, we will continue to assess the appropriateness of our planned approach and update where appropriate.</p> <p>Our planned procedures are based on the expectation that the new finance system will be implemented after the 2023/24 audit. If this is not the case, additional audit procedures will be required as part of the 2023/24 audit and additional audit fees will be required. If work is completed during 2024/25, additional costs will be levied as part of the 2024/25 audit.</p>

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you, in our Annual Report to those Charged with Governance and the Auditor General for Scotland in August 2024.

Other matters (1)

Auditor Responsibilities

We have a number of audit responsibilities as set out in the Code and Planning Guidance 2023/24 issued by Audit Scotland:

- We audit parts of your Remuneration and Staff Report in your Annual Report and check whether these sections have been properly prepared (opinion).
- We read the sections of your Annual Report which are not subject to audit and check that they are consistent with the financial statements on which we give an opinion (opinion).
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set out in the FReM (opinion).
- We carry out work in order to express an opinion on whether in all material respects, expenditure was incurred and income applied in accordance with applicable enactments and guidance issued by the Scottish Ministers (opinion).
- We consider our other duties under the Code and planning guidance (2023/24), as and when required, including:
 - Supporting Audit Scotland in Section 22 reporting
 - Providing regular updates to Audit Scotland to share awareness of current issues
 - Notifying Audit Scotland of any cases of money laundering or fraud
 - Participating in the Audit Scotland Central Government Sector group
 - Review of Central Government Technical guidance prior to issue by Audit Scotland

- Contribute to the National Fraud Initiative Report including the completion of an auditors' return
- Provide assurance on the Scottish Government consolidation return.

Going concern assessment

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

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

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

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

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

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

Other matters (2)

Other material balances and transactions

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

Internal control environment

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

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

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

Financial reporting developments

During our audit, we will actively discuss emerging financial reporting developments with you. There are currently no key financial reporting developments for 2023/24 central government audits that will impact upon Scottish Forestry.

Progress against prior year audit recommendation

As part of our final account's procedures, we will follow up on the implementation of prior year audit recommendations and report on progress against the recommendations in full within our Annual Audit Report.

Interim testing

As part of our interim procedures, we will complete testing on a number of areas for the first nine months of 2023/24 when efficient to do so, including:

- Payroll - starters, leavers and changes in circumstances
- Payroll substantive analytical procedure
- Grants

Wider scope risks identified in planning (1)

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

2021 Code of Audit Practice Audit Area	Definition
Financial Sustainability	Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.
Financial Management	Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
Vision, Leadership and Governance	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.
Use of Resources to Improve Outcomes	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.

The Code also requires that auditors assess and report on audited bodies' performance in meeting their Best Value and duties, as part of their annual audit. For central government bodies, we are required to consider the arrangements put in place by Accountable Officers to meet their Best Value obligations as part of our risk-based wider-scope audit work.

We consider each of these areas through our audit planning process and have set out below the identified areas of risk for our wider scope work. From our initial planning work, we have identified a significant risk in relation to Financial Sustainability. We have not identified risks in relation to Financial Management, Vision, Leadership and Governance or Use of Resources to Improve Outcomes from our initial planning work. We will continue to review your arrangements before we issue our Annual Audit Report.

Our findings and recommendation of wider scope work performed will be communicated through the Annual Audit Report.

Wider scope risks identified in planning (2)

Financial sustainability

Significant risk work area – future financial plans for 2024/25 and beyond

For 2023/24, the original budget, as set out within the Scottish Budget was £102.4 million. In the Autumn Budget Revision, proposed changes included an additional £0.4 million, resulting in a proposed budget of £102.8 million. In February 2024, the Spring Budget Revisions were announced which included a reduction of £9.0 million for the release of emerging and planned underspends, resulting in a proposed budget of £93.8 million for the 2023/24 financial year. As at February 2024, the total forecasted outturn was expected to be £82.5 million, resulting in a forecasted underspend of £11.4 million.

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.

We will seek 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 will also consider the action Scottish Forestry is taking to address identified funding gaps, associated savings plans and the impact of reduced funding. 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.

Wider scope risks identified in planning (3)

Financial management

We have not identified a risk in relation Scottish Forestry's financial management from our initial planning work. As at February 2024, Scottish Forestry are forecasting a total outturn position of £82.5 million, resulting in an underspend of £11.4 million.

Scottish Forestry have processes in place for members and senior management to manage the organisation's finances and these are set out within the Framework Document. We have not identified any evidence of the organisation not complying with these processes. Scottish Forestry identifies future cost pressures as part of its initial budget setting process and is monitored on an ongoing basis throughout the year through the budget monitoring reports which are presented to the Senior Executive Team.

We will seek to understand the effectiveness of Scottish Forestry's budgetary control system in communicating accurate and timely financial performance. This will include reviewing the profiling of budgets and the arrangements in place for identifying, monitoring and reporting savings. We will consider the overall financial position reached by Scottish Forestry and we will seek to understand the future financial implications of this. Additionally, we will seek to understand whether the control environment and internal controls are operating effectively which will include consideration of the capacity of the finance team and the work undertaken by internal audit and how management respond to their actions and recommendations.

Wider scope risks identified in planning (4)

Vision, Leadership and Governance

We have not identified a risk in relation to Scottish Forestry's vision, leadership and governance arrangements from our initial planning work. The Interim Chief Executive was appointed into the Chief Executive role in December 2023, having joined the organisation on an interim basis in July 2023. We will review the arrangements in place to support the transition of the new Chief Executive and ensure the continuation of strong leadership and governance.

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

Use of Resources to Improve Outcomes

We have not identified a risk in relation to Scottish Forestry's use of resources to improve outcomes from our initial planning work.

Scottish Forestry must make best use of its resources to meet stated outcomes and improvement objectives through effective planning and working with its strategic partners. This includes demonstrating economy, efficiency and effectiveness using available financial resources and reporting performance against outcomes. Scottish Forestry's first Corporate Plan covered the period from 2020-2023 and was due to be updated in Autumn 2023. At the time of planning, the Corporate Plan has not yet been updated and published.

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

Wider scope risks identified in planning (5)

Best Value

The Scottish Public Finance Manual (SPFM) explains that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. Auditors are required to confirm that there are organisational arrangements in place in this regard when planning and reporting on the wider scope areas. Auditors may also carry out specific audit work covering the seven Best Value characteristics set out in the SPFM. The nature and extent of this work is determined by the annual risk assessment carried out as part of our wider scope work.

We will review the arrangements Scottish Forestry has put in place to ensure it complies with the requirements to ensure that arrangements have been made to secure Best Value. This work will be carried out in conjunction with our work on the four wider scope themes.

We will report on the arrangements in place to secure Best Value within our Annual Audit Report.

Audit Fees

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

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

Audit fees were shared by Audit Scotland with Scottish Forestry in January 2024. Our audit fee was agreed and confirmed at the Audit and Assurance Committee on 26 March 2024. Audit fees are paid to Audit Scotland who in turn pay us. We reserve the right to review our fee during the audit should significant delays be encountered including working papers not being available, the quality of accounts are not at the level required and/or new technical matters arise.

Relevant professional standards

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

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

Fee assumptions

In setting the fee for 2023/24, we have assumed that you will:

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

Audit Fees for 2023/24

Service	Fees £
External Auditor Remuneration	£62,120
Pooled Costs	£6,270
Sectoral cap adjustment	-£12,750
2023/24 Fee	£55,640

Additional Fees (Non-Audit Services)

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

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Independence

Auditor independence

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

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

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

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

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

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

We confirm we are independent of Scottish Forestry.

Non-audit services provided prior to appointment

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



Responsibilities

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

Scottish Forestry

Your responsibilities include:

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

External Audit

Our responsibilities include:

- Compliance with the FRC Ethical Standard
- Compliance with the Code and UK Auditing Standards (ISA's UK) in the conduct and reporting of our financial statements audit
- Compliance with the Code and guidance issued by Audit Scotland in the conduct and reporting of our wider scope work
- Providing assurance on specified returns and other outputs (where required), as specified in guidance issued by Audit Scotland
- Liaison with and notifying Audit Scotland when circumstances indicate a statutory report may be required.
- Contributing to relevant performance studies (as set out in Audit Scotland's Planning Guidance for 2023/24).



Communication

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

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		•

Fraud responsibilities (1)

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

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

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

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

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

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

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

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

Fraud responsibilities (2)

During our audit work we will:

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

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

In addition, as set out in the Audit Scotland Planning Guidance 2023/24, we are required to:

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

Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017, there is an obligation on the Auditor General (as set out in the Audit Scotland Planning Guidance for 2023/24) to inform the National Crime Agency if he knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at Scottish Forestry we will report to the Auditor General as required by Audit Scotland.

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs), our audit will include the completion of an assessment of the design and implementation of relevant ITGCs.

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

IT system	Audit area	Planned level IT audit assessment
E-Financials	Financial Reporting Payroll	<ul style="list-style-type: none"> ITGC Assessment
Casebook	Grant Accruals	<ul style="list-style-type: none"> ITGC Assessment
RP&S	Grant Accruals	<ul style="list-style-type: none"> ITGC Assessment

Future auditing developments

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

Revised standards applicable for audits of financial statement for periods commencing on or after 15 December 2022 which will impact on Scottish Forestry for the first time in 2023/24 are:

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

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

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

