

Forestry and Land Scotland External Audit Plan

**Year ending
31 March 2023**

28 March 2023



Contents

Your key Grant Thornton team members are:

Angela Pieri

Engagement Lead

T: 0161 214 6337

E: Angela.L.Pieri@uk.gt.com

Hannah McKellar

Audit Manager

T: 0131 659 8568

E: Hannah.L.McKellar@uk.gt.com

Rajat Malik

In-charge

T: 0131 229 9181

E: Rajat.Malik@uk.gt.com

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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 Forestry and Land Scotland for those charged with governance.

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

Respective responsibilities

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

The Code summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities, and that of the **Forestry and Land Scotland** 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 Forestry and Land Scotland's financial statements, which have been prepared by management with the oversight of those charged with governance (the Audit and Risk Committee). Our audit of the financial statements does not relieve management or the Audit and Risk 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 Forestry and Land Scotland and is risk based.



Plan overview

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

01 Materiality

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

- £60.853 million planning materiality which is based upon 1.2% of total assets. Performance materiality of £36.511 million is based on 60% of planning materiality. Trivial is capped at £250,000.
- A lower materiality will be used on:
 - £2.857 million for the revenue account, debtors, creditors and cash. £2.857 million is 1.5% of the gross expenditure based on the 2021/22 financial statements.
 - Performance materiality of £1.714 million is based on 60% of the lower materiality.
 - A lower materiality of £25,000 will be used on our audit of the Remuneration and Staff Report.
- We will revisit our materiality throughout our audit including updating to reflect the draft unaudited financial statements for 2022/23.

02 Financial statement audit

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

- Management override of controls (ISA (UK) 240);
- Risk of fraud in income recognition – sales of timber, management & development of estate income and communities, recreation and tourism income (occurrence) (ISA (UK) 240)
- Valuation of forest estate and land (valuation); and
- Valuation of biological assets (valuation);

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

03 Wider Scope and Best Value Audit

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

We have identified the following wider scope significant risks and will conclude on these during the audit:

- **Financial Sustainability:** future financial plans for 2023/24 and beyond
- **Vision, Leadership and Governance:** implementation of future governance arrangements

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

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

Plan overview (continued)

04 Other audit matters

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

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

05 Our Audit Fee

Audit fees were shared by Audit Scotland with Forestry and Land Scotland in December 2022. Our fee agreed with Forestry and Land Scotland is £101,980. This fee includes:

- Auditor remuneration £112,480
- Pooled costs £7,470;
- Sectoral cap adjustment of -£21,930 and
- Contribution of £3,960 to Audit Scotland costs.
- Auditors expert (TBC)*

*If an auditor's expert is engaged and any additional challenge is required above the expected norms, then we would seek to recover any additional cost through the audit fee. This would be subject to an agreement with Forestry and Land Scotland and Audit Scotland.

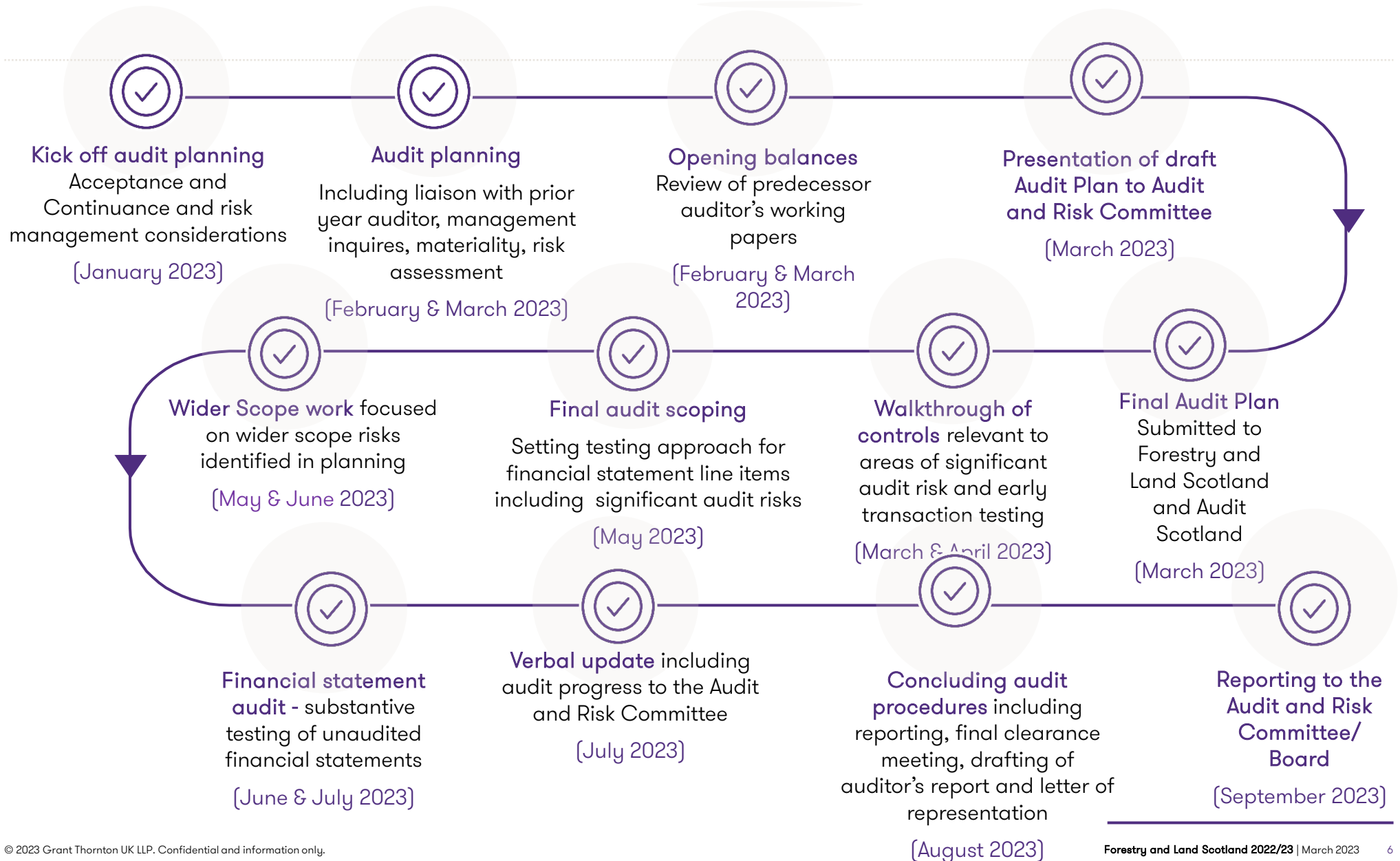
Audit fees are paid to Audit Scotland who in turn pay Grant Thornton UK LLP.

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

06 Adding Value Through the Audit

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

Audit approach



Audit timeline

The target dates specified by Audit Scotland for submission of audit plans, audited accounts and the Annual Audit Report have been brought forward in the 2021 Code. We are required to submit audit plans to Audit Scotland by 31 March 2023, and it is anticipated that we will have drafted our Annual Audit Report and shared with management by 31 August 2023. However, the earliest that the Audit and Risk Committee can convene is 28 September 2023, therefore, submission of the audited accounts and Annual Audit Report will not be made by the targeted deadline of 31 August 2023. We have set out below our planned timescales for the Forestry and Land Scotland audit.



Audited body responsibilities

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

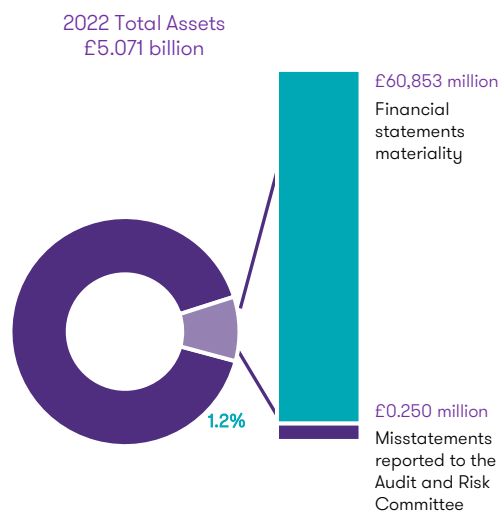
Our requirements

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

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

Materiality

Financial statement materiality is determined based on a proportion of total assets]. We have determined **planning materiality** to be £60.853 million, which equates to approximately 1.2% of total assets as per the 2021/22 audited financial statements.



Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. We use this to determine our testing approach to the financial statements. We have set this at 60% of planning materiality (£36.511 million). This is based on our understanding of Forestry and Land Scotland 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:

- **Revenue account, debtors, creditors and cash:** we have set a lower materiality of £2.857 million which is 1.5% of the gross expenditure based on the 2021/22 financial statements. Performance materiality of £1.714 million is based on 60% of the lower materiality.
- **Remuneration and Staff Report:** This is set at £25,000 in order to ensure a high level of precision in this area of the financial statements.

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 £250,000 being the maximum threshold prescribed by Audit Scotland.

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

Significant audit risks (1)

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

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

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

We will:

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

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

Significant audit risks (2)

Risk of Fraud in Revenue (occurrence)

(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 forest production and maintenance, environment and heritage income, management services income and government grant income. We have therefore rebutted the risk of fraud in revenue in relation to these income streams.

However, Forestry and Land Scotland continues to face significant external pressure to deliver planned budgets and minimise any overspends. Forestry and Land Scotland's budget indicates that it will recognise sales of timber income, management and development of estate income and communities, recreation and tourism income in 2022/23 which we deem to be material to the financial statements. We have therefore identified the risk of fraud in revenue in relation to other Income.

In relation to sales of timber income, management and development of estate income and communities, recreation and tourism income we will:

- Evaluate your accounting policy for recognition for appropriateness and compliance with the FREM;
- Perform substantive testing of transactions at and around year end to verify the accounting period the transactions relate to and confirm that transactions have been recognised in the correct accounting period;
- Review post year end receipts and verify the accounting period these transactions relate to and confirm they have been accounted for in the correct accounting period;
- Review the judgements and estimates made by management when recognising accrued and deferred income at year end within the financial statements and where appropriate challenge management accordingly.

Significant audit risks (3)

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.

Forestry and Land Scotland'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.

Having considered the risk factors and the nature of the expenditure streams at Forestry and Land Scotland, we have determined that the risk of fraud in expenditure can be rebutted as the organisation has a sufficient reserves balance to utilise against and opportunities to manipulate expenditure recognition are deemed to be limited.

Significant audit risks (4)

Valuation of forest estate and land (valuation)

This significant risk is one of the most significant assessed risks of material misstatement for the audit and expected to be a key audit matter.

In accordance with the HM Treasury Financial Reporting Manual (FReM), subsequent to initial recognition, Forestry and Land Scotland is required to hold property, plant and equipment on a valuation basis. The valuation basis used will depend on the nature and use of the assets. Specialised land, buildings, equipment, installations and fittings are held at depreciated replacement costs, as a proxy for fair value. Non-specialised forest estate, land and buildings, such as offices, are held at fair value.

Forestry and Land Scotland appoint the Valuation Office Agency to undertake an annual valuation of the Forest Estate including non-forest land, houses and other buildings. Professional valuations of other land-related assets such as windfarms, hydro schemes, leased mineral sites and telecom masts are undertaken by the Valuation Office Agency, Johnson Poole & Bloomer, Wardell Armstrong LLP and Galbraith,

As at 31 March 2022, Forestry and Land Scotland held property, plant and equipment (PPE) of £2.072 billion including forest estate and land of £2.028 billion. Given the significant value of the forest estate and land held by Forestry and Land Scotland and the level of complexity and judgement involved in the estimation process, there is an inherent risk of material misstatement in the year end valuation of some of these assets.

The valuation of forest estate and land is a key accounting estimate which is derived, depending on the valuation methodology, from assumptions that reflect market observations and the condition of the asset at the time. We will therefore focus our audit attention on assets that have large and unusual changes in valuations compared to last year and / or unusual approaches to their valuations, as a significant risk requiring special audit consideration. The risk will be pinpointed as part of our final accounts work, once we have understood the population of assets revalued. We will report an updated risk assessment for valuation of forest estate and land in our Annual Audit Report in August.

Significant audit risks (5)

Valuation of forest estate and land (valuation)

This significant risk is one of the most significant assessed risks of material misstatement for the audit and expected to be a key audit matter.

Our testing will include:

- Evaluating management's processes and controls for the calculation of the valuation estimates, the instructions issued to their management experts and the scope of their work;
- Evaluating the competence, capabilities and objectivity of the valuation expert;
- Writing to the valuer to confirm the basis on which the valuations were carried out;
- Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- Evaluating the valuer's report to identify assets that have large and unusual changes and/or approaches to the valuation – these assets will be substantially tested to ensure the valuations are reasonable;
- Testing, a sample of other asset revaluations made during the year to ensure they have been input accurately into the body's asset register and associated entries in the financial statements;
- Evaluating the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value;
- Where we deem appropriate, make use of an audit expert to assess aspects of the valuation instructions issued by Forestry and Land Scotland to their valuers and final valuations;
- For any assets not formally revalued, evaluate the judgement made by management or others in the determination of the current value of these assets

Significant audit risks (6)

Valuation of biological assets (valuation)

This significant risk is one of the most significant assessed risks of material misstatement for the audit and expected to be a key audit matter.

In accordance with the HM Treasury Financial Reporting Manual (FReM), Timber growing on Forest Estate Land is categorised as Biological Asset Timber or Other Timber depending on the strategic objective the land is held to meet. Trees growing on land that is primarily held in support of the Scottish Government's objective of making a positive contribution to a thriving and sustainable Scottish economy are classed as Biological Assets under IAS 41. Other trees are classed as Other Timber and are out-with the scope of IAS 41. Biological Assets include standing trees and are measured at fair value less estimated point-of-sale costs. Holdings of plants and seed are also accounted for by Forestry and Land Scotland as Biological Assets under IAS 41. They are stated at fair value less estimated point of sale costs.

Forestry and Land Scotland appoint the Valuation Office Agency to undertake an annual valuation of the Forest Estate including biological assets which comprises of timber and plant & seed. As at 31 March 2022, Forestry and Land Scotland held biological assets of £2.826 billion. Given the significant value of the biological assets held by Forestry and Land Scotland and the level of complexity and judgement involved in the estimation process, there is an inherent risk of material misstatement in the year end valuation of these assets.

The valuation of biological assets is a key accounting estimate which is derived, depending on the valuation methodology, from assumptions that reflect market observations and the condition of the asset at the time. We will therefore focus our audit attention on assets that have large and unusual changes in valuations compared to last year and / or unusual approaches to their valuations, as a significant risk requiring special audit consideration. The risk will be pinpointed as part of our final accounts work, once we have understood the population of assets revalued. We will report an updated risk assessment for valuation of forest estate and land in our Annual Audit Report in August.

Significant audit risks (7)

Valuation of biological assets (valuation)

This significant risk is one of the most significant assessed risks of material misstatement for the audit and expected to be a key audit matter.

Our testing will include:

- Evaluating management's processes and controls for the calculation of the valuation estimates, the instructions issued to their management experts and the scope of their work;
- Evaluating the competence, capabilities and objectivity of the valuation expert;
- Writing to the valuer to confirm the basis on which the valuations were carried out;
- Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- Evaluating the valuer's report to identify assets that have large and unusual changes and/or approaches to the valuation – these assets will be substantially tested to ensure the valuations are reasonable;
- Testing, a sample of other asset revaluations made during the year to ensure they have been input accurately into the body's asset register and associated entries in the financial statements;
- Evaluating the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value;
- Where we deem appropriate, make use of an audit expert to assess aspects of the valuation instructions issued by Forestry and Land Scotland to their valuers and final valuations;
- For any assets not formally revalued, evaluation the judgement made by management or others in the determination of the current value of these assets

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

Other risks identified

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

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

Other matters (1)

Auditor Responsibilities

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

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

Going concern assessment

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

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

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

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

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

Within our wider scope work we will conclude on Forestry and Land Scotland 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: material areas of revenue, valuation of forest estate and land, valuation of biological assets, journal entries and material areas of management estimate and judgement.

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

Audit handover

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

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

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

Financial reporting developments

During our audit we will actively discuss emerging financial reporting developments with you. The key financial reporting development for 2022/23 central government audits is the implementation of IFRS16 from 1 April 2022, as set out on page 16 of this Audit Plan.

As this is the first year audit of Forestry and Land Scotland under the new five-year audit cycle, given the value of both biological assets and forest estate, a peer reviewer will be included within our audit process and a technical review of the financial statements will be undertaken.

Other matters (3)

Progress against prior year audit recommendations

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

As part of our final accounts, we will follow up on the implementation of these prior year recommendations and report on progress against the recommendations in full within our Annual Audit Report. The responses at this stage for our plan is management's response.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue (management response)
Ongoing	<p>1. Land valuations, remuneration report and carbon capture receipts</p> <p>Misstatements were identified in minor land and land valuations, which stemmed from an Access database issue.</p> <p>Remuneration report balances were misstated as incorrect reports were used to support figures in the draft annual report and accounts.</p> <p>There was a misstatement relating to the misclassification of carbon capture receipts as grant funding. It should have been treated as deferred income.</p> <p>Risk: the financial statements or remuneration report are misstated and do not comply with the FReM.</p>	<p>A dry run of the land valuation report has been carried out and Forestry and Land Scotland are confident that the misstatement should not recur this year.</p> <p>A dry run of the remuneration report has been carried out and inconsistencies in the figures occurred. Finance and HR have continued to work together to resolve these issues in advance of year end. A second dry run and further work has meant that the data is ready to populate the tables for the year end.</p> <p>Further controls have been put in place to make sure carbon capture funding is correctly accounted for in the current year. Meetings are taking place to ensure everything known about is accounted properly in grants / deferred income.</p>

Other matters (4)

Progress against prior year audit recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue (management response)
Ongoing	<p>2. Accounting for non-current assets</p> <p>The accounting treatment of infrastructure and intangible assets should be reviewed. The calculation of the value of felled timber should be reviewed to confirm that it remains accurately based. Accounting policies should be reviewed to ensure they reflect any changes to practice.</p> <p>Whilst it was recognised that this was not material to the annual report and accounts, this was raised in the 2020/21 Annual Audit Report and note that a review is planned for 2022/23.</p> <p>Risk: There is a risk that the value of non-current assets is not fairly stated.</p>	<p>Forestry and Land Scotland has begun looking at accounting policies around infrastructure assets and once concluded will be presented to the Audit and Risk Committee. Any changes will be implemented in financial year 2023/24. Forestry and Land Scotland is considering whether carbon credits should be treated as an intangible asset and have requested technical advice.</p> <p>Work is currently on-going to ensure the value of felled timber is accurate and in line with financial standards.</p>
Ongoing	<p>3. Mineral Royalties</p> <p>In 2020/21, audit testing identified income of £428,000 relating to 2019/20 that had not been recognised in the previous financial year. This income was accounted for in 2020/21 when received by Forestry and Land Scotland. A planned review in 2021/22 did not take place.</p> <p>Risk: There is a risk that income is not accounted for in the correct financial year</p>	<p>The resources are now in place within the Management Accounting team to enable more thorough investigation into and identification of pre-payments and accruals periodically and at year end.</p>

Other matters (5)

Progress against prior year audit recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue (management response)
Ongoing	<p>4. Longer-term financial planning</p> <p>Work continues to develop sustainable business model, and this will include longer-term financial planning. However, a longer-term financial strategy, has yet to be finalised by Forestry and Land Scotland.</p> <p>Risk: There is a risk that economic pressures and fluctuations in budgeted income and expenditure cannot be effectively managed.</p>	<p>The Five-Year Plan was completed at the start of 2023 which details operational and financial plans. This includes assumptions and sensitivity analysis around economic pressures and fluctuations and while it does point toward financial sustainability in the longer term more work is required to mitigate risks in the short term. A Directors' Review has been established to improve the effectiveness and efficiency of Forestry and Land Scotland and has been tasked to develop and implement plans to mitigate these risks.</p>
Ongoing	<p>5. Strategic Board Meetings</p> <p>No Strategic Board meetings have taken place since December 2021 with the next meeting scheduled for December 2022, 12 months later.</p> <p>Risk: non-executives are not able to provide constructive challenge and support to the Accountable Officer.</p>	<p>A review was undertaken, and the Board now meets regularly as per the recommendations.</p>

Other matters (6)

Progress against prior year audit recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue (management response)
Ongoing	<p>6. Strategic Board Minutes Minutes of Strategic Board meetings are not available since April 2021.</p> <p>Risk: transparency is undermined because the nature and extent of consideration at Strategic Board meetings has not been documented.</p>	Additional secretariat support has been introduced alongside standby procedure to ensure all meetings are recorded appropriately.

Wider scope risks identified in planning (1)

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

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

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.

As part of our integrated wider scope work, we consider risks and any improvement areas identified in the seven Best Value themes specified in the Audit Scotland supplementary guidance and carry out annual work on service performance and reporting arrangements as specified in the guidance

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.

Financial sustainability Significant risk work area – future financial plans for 2023/24 and beyond

For 2022/23, the original budget, as set out within the Scottish Budget was £27.2m. For 2023/24, the Scottish Budget was laid before the Scottish Parliament in December 2022 and indicated that the budget for Forestry and Land Scotland would be £23.8m.

Wider scope risks identified in planning (2)

Financial sustainability - continued

Forestry and Land Scotland have implemented improvements to scenario planning due to the volatility in timber prices and inflationary pressures and have developed a five-year business plan. As part of this plan, various scenarios have been considered including the impact on the organisation to 2027/28 to changes in government grant funding and investments. It was noted as part of this plan, the cash reserves fall to as low as £0.8m in 2026/27 and further work is required to move to a more sustainable model as trading deficits remain at the end of the five-year plan.

We will seek to understand the future financial forecasts and plans for Forestry and Land Scotland for 2023/24 and beyond, including key assumptions used, scenario planning, sensitivity analysis, risk analysis and the extent of any budget pressures any impact upon reserves.. Our work will also include following-up on the prior year recommendation in respect of longer-term financial planning made by your predecessor auditor (as reported on page 21).

Financial management

We have not identified a risk in relation Forestry and Land Scotland's financial management from our initial planning work. In January 2022, the Management Board approved an expenditure budget of £130.4m with a net deficit of £8.8m. As at December 2022, Forestry and Land Scotland is currently forecasting a deficit of £29.7m which is largely due to the fluctuation in timber prices, with the forecast for timber supply income reduced by £19.6m from the original budget. Alongside this, Forestry and Land Scotland have seen increased salary costs of £2.7m to account for the 5% pay award negotiated in year.

The forecast reserve balance is £97.9m of which £21.6m is allocated to be spent in 2022/23. The balance of £82.6m will be transferred to 2023/24 to meet existing and emerging priorities. We will gain an understanding about the use of the Annual Subsidy Limit for 2023/24, and any impact on the planned use of reserves. Any impact on the organisation's earmarked reserves will need to be carefully managed going forward.

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

Wider scope risks identified in planning (3)

Vision, Leadership and Governance

Significant risk work area – implementation of future governance arrangements

In December 2022, a review of Forestry and Land Scotland's governance arrangements was discussed at the Strategic Board meeting. This Strategic Board meeting was the only one held during the 2022 year. This proposed changes to the current governance mechanisms delivering decision making and advisory capabilities across the organisation. This included replacing the existing Strategic Board with a Strategic Advisory Review Panel and replacing the current Executive Team with a Management Board.

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 Forestry and Land Scotland's use of resources to improve outcomes from our initial planning work.

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

Other wider scope areas

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

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

Audit Fees

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

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

Audit fees were shared by Audit Scotland with Forestry and Land Scotland in December 2022. Our audit fee was agreed with the Director of Corporate Services at the Audit and Risk Committee on 23 March 2023, and is set out on page 27 of this Audit Plan. Audit fees are paid to Audit Scotland who in turn pay us. We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

Relevant professional standards

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

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

The baseline fee of £101,980 has been set by Audit Scotland. In accordance with Audit Scotland guidance, we are able to discuss a variation to the audit fee where additional work is required. If an auditor's expert is engaged and any additional challenge is required above the expected norms, then we would seek to recover any additional cost through the audit fee. This would be subject to an agreement with Forestry and Land Scotland and Audit Scotland.

Audit Fees (continued)

Audit fees for 2022/23

Service	Fees £
External Auditor Remuneration	£112,480
Pooled Costs	£7,470
Contribution to Audit Scotland support costs	£3,960
Contribution to Performance Audit and Best Value	Nil
Sectoral cap adjustment	-£21,930
2022/23 Fee	£101,980

Additional Fees (Non-Audit Services)

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

Fee assumptions

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

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

Adding value through the audit

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

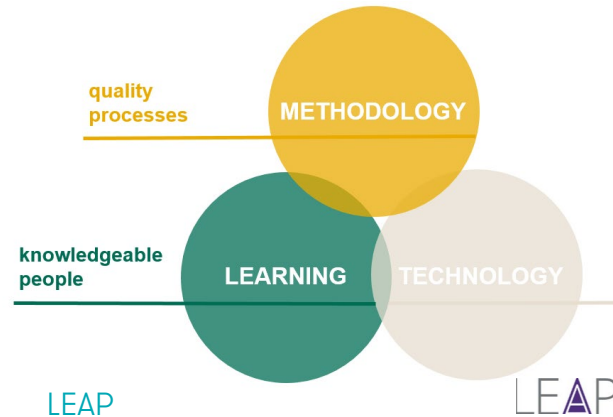
Our audit methodology is risk based and includes developing a good understanding of Forestry and Land Scotland. The diagram opposite summarises how our methodology and use of data adds value to our audit.

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

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

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

Use of audit, data interrogation and analytics software



LEAP

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

Info



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



REQUEST AND SHARE

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



ASSESS AND SCOPE

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



VERIFY AND REVIEW

- Automate sampling; Download automated work papers



INTERROGATE AND EVALUATE

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



FOCUS AND ASSURE

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



INSIGHTS

- Detailed visualisations to add value to meetings and reports

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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 Forestry and Land Scotland 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 Forestry and Land Scotland.

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 Forestry and Land Scotland 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.

Forestry and Land Scotland

Your responsibilities include:

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

External Audit

Our responsibilities include:

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



Communication

ISA (UK) 260 'Communication with Those Charged With Governance', as well as other ISAs set out prescribed matters which we are required to report to those charged with governance (the Audit and Risk 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 Risk Committee.

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

Fraud responsibilities

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

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

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 Forestry and Land Scotland's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

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

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

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

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

Fraud responsibilities (continued)

During our audit work we will:

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

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

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

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

Anti-Money Laundering Arrangements

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

IT audit strategy

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

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

Key changes

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

During our audit we will complete an assessment of the design and implementation of relevant ITGCs.

IT audit strategy (continued)

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

IT system	Audit area	Planned level IT audit assessment
E-Financials	Financial reporting	<ul style="list-style-type: none"> ITGC Assessment
Sales Recording Package	Timber Sales Income	<ul style="list-style-type: none"> ITGC Assessment
Land Valuation Database	Biological Assets, Forest Estate and Land	<ul style="list-style-type: none"> ITGC Assessment
Sub Compartment Database	Biological Assets, Forest Estate and Land	<ul style="list-style-type: none"> ITGC Assessment

Our work will also include a review of Forestry and Land Scotland's cyber security controls.

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

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

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

Right of Use Assets - IFRS 16 implementation

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

Introduction

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

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

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

Key points that Forestry and Land Scotland will need to consider in their financial statements in 2022/23 include:

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

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

Forestry and Land Scotland's systems and processes

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

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

Planning enquiries

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

Future auditing developments

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

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

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

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

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

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

