

Annual Audit Report for Forestry and Land Scotland

Financial year ended 31 March 2023

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

6 December 2023



Contents



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

Executive Summary (1)

This table summarises the key findings and other matters arising from the external audit of Forestry and Land Scotland and the preparation of the financial statements for the year ended 31 March 2023 for those charged with governance (Audit and Risk Committee) and the Auditor General for Scotland.

Financial Statements

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

- Forestry and Land Scotland's financial statements give a true and fair view of the financial position of the organisation at the 31 March 2023
- Forestry and Land Scotland's financial statements have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Government Financial Reporting Manual (FRoM)
- Forestry and Land Scotland's financial statements and the audited parts of the Remuneration Report and Staff Report have been prepared in accordance with the requirements of the 2022/23 Financial Reporting Manual (FRoM) and directions made thereunder by the Scottish Ministers
- In all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers; and
- the Performance Report and Governance Statement is prepared in accordance with the FRoM and is consistent with the financial statements.

We are required to report whether other information published together with the audited financial statements in the Annual Report and Accounts is consistent with the financial statements and has been prepared in accordance with the requirements. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of Forestry and Land Scotland.

We issued an unmodified opinion on 6 December 2023.

Draft financial statements

The draft financial statements were presented for audit on the 19 June 2023. We have been supported by Forestry and Land Scotland's officers during the audit process with effective working relationships and commitment to the audit process.

Improvement to working papers can be made as there were occasions where they didn't reconcile to the financial statement line item resulting in increased work by the audit team and additional lines of enquiry being required with the finance team.

Target completion dates

The target completion dates for the 2022/23 audit moved back to pre-Covid timetables, with 30 August 2023 as the target dates set. The target timeline has not been achieved, with this Auditor's Annual Report planned to be presented to the Audit and Risk Committee on 5 December 2023.

This was due to numerous reasons including:

- the audit being a first-year resulting in the audit and finance teams working together to meet audit requirements and ensure sufficient and appropriate evidence was provided
- there were delays in receiving key information as the format required was different to requests received by the finance team in previous years
- there were delays in receiving responses in full to the disclosure and accounts review queries.

Executive Summary (2)

Financial Statements (continued)

During 2022/23, there were some new areas of work required that added to the complexity of the accounting process for the organisation including:

- the financial statements being subject to a detailed technical review and many adjustments to the primary statements and disclosure notes were identified
- the use of an auditor's expert in relation to the revaluation of biological assets and forest estate and land and
- the first-year implementation of IFRS 16 and changes in accounting for right of use assets.

Misstatements and recommendations

Our audit work was substantially completed during August, September and October 2023. Our findings are summarised on pages 7 to 43. There were four adjusted misstatements required to the primary financial statements processed during the course of the audit.

One of these adjustments was a re-classification with no impact on the primary statements. The other adjustments increased balance sheet liabilities by £0.437 million, increased balance sheet assets by £0.142 million and reduced the net income for the year by £0.289 million. The adjustments decreased usable reserves by £0.289 million and unusable reserves by £0.006 million.

Further detail is set out within **Appendix 1** including disclosure adjustments.

The significant adjustments from the draft financial statements in the primary statements are summarised below and have all been adjusted by management:

- unreconciled bank transactions not recorded within cash and cash equivalents at year-end totalling £0.538 million which was a classification adjustment
- the journal to originally move an asset from buildings to non-current assets held for sale had not been input and, therefore, only the disposal journal had been processed. This related to an asset totalling £0.190 million with £0.006 million impacting on unusable reserves
- The disposal of an asset was duplicated in the system as it had originally been manually journalled, but then duplicated via an automatic disposal journal that had been run. As this was entered twice, £0.148 million had been incorrectly removed from non-current assets held for sale and adjustment impacting usable reserves, and
- an expenditure cut-off error, and where haulier and contractor payments made on the Sales Recording Package system and had a dispatch date before year-end had not been accrued for totalling £0.437 million with adjustment impacting the usable reserves balance.

Executive Summary (3)

Financial Statements (continued)

Misstatements and recommendations (continued)

We identified potential misstatements during the audit from our testing. Management have decided not to adjust the financial statements as they are not material and did not impact usable reserves. Further detail is in **Appendix 1** and will be added as an appendix to the Letter of Representation.

The significant unadjusted misstatements are summarised below:

- the prior year land areas were used in the valuation of other minor land resulting in an understatement of £0.830 million
- a transposition error in the valuer's calculation which resulted in an overstatement of £26.910 million and
- a variance of £0.181 million in relation to the aging analysis on the IFRS 16 lease liability.

We have raised eleven financial statements recommendations for management as a result of our audit work on the financial statements. These are set out in **Appendix 2** and management have provided a comprehensive response to each recommendation.

Our follow up of the recommendations made by the predecessor auditor last year are detailed in **Appendix 4**. Of the six recommendations raised by the previous auditor, two have been closed, two have been superseded and two are ongoing.

Journals authorisation processes

Our work on journals identified that Forestry and Land Scotland does not have journal authorisation processes within the general ledger, and processes are more informal. There is a reliance upon reactive controls, whereas proactive controls would enhance the ability to reduce the risk of fraud or error from the opportunity to override management controls. Our work on journals therefore had a higher risk category resulting in a larger number of journals being tested. A recommendation on journal authorisation processes is noted at **Appendix 2**. If authorisation processes are the same in future years, we will be required to perform testing in a higher risk category that will lead to some additional cost in the future also

Audit fee

Due to the issues outlined including additional audit responses and assurances required from valuation experts, this led to extra time required by the organisation to work through the revised set of financial statements, and further time for the audit team in identifying all the issues, and to audit the amended version of the financial statements.

We are charging an additional audit fee for the new issues during 2022/23 as well as for the extra work required due to the number of errors encountered and the higher risk category of journals. This has been set at £11,450. This is further set out in **Appendix 5**.

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff in completing the external audit.

Executive Summary (4)

Wider Scope

Wider Scope

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

In our External Audit Plan for the year ended 31 March 2023, we documented our assessment of the wider scope risks and planned audit work. At the planning stage, we identified two risks in respect of financial sustainability and vision, leadership and governance.

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

Further details of the work undertaken are outlined on pages 28 to 42.

We have raised five recommendations for management as a result of our audit work on wider scope. These are set out in [Appendix 3](#) and a comprehensive management response has been added to each recommendation.

There remains a significant risk in respect of financial sustainability given the financial challenges that Forestry and Land Scotland faces over the long-term and around the governance arrangements in place given these have only recently been implemented and not fully embedded.

Introduction (1)

Scope of our audit work

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

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

This Annual Audit Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be presented to the Audit and Risk Committee in November 2023.

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

Responsibilities

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

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

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

Audit approach

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

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

Adding value through our audit work

We aim to add value to Forestry and Land Scotland throughout our audit work by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our wider scope work and
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Introduction (2)

Receipt of the draft financial statements

The draft financial statements were presented for audit on 19 June 2023. We have been supported by Forestry and Land Scotland's officers during the audit process with effective working relationships and commitment to the audit process.

Improvement to working papers can be made and audit records should be available with underlying working papers to support balances in the accounts. These should tie-back to the trial balance, which in turn ties to the unaudited accounts and that changes in versions of accounts and the trial balance should be suitably tracked, to support the accounts process. Significant work was required by the audit team to complete reconciliations to the financial statements.

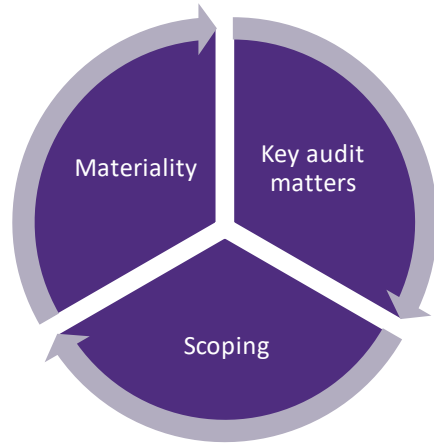
Target audit deadlines

The target completion dates for the 2022/23 audit moved back to pre-Covid timetables, with 30 August 2023 as the target dates set. The target timeline has not been achieved, with this Auditor's Annual Report planned to be presented to the Audit and Risk Committee on 5 December 2023. The number of new issues during 2022/23 as well as the impact of the technical review of the accounts combined with year 1 of the audit have all contributed to the later date of completion compared to the target deadline. Additionally, there were delays in receiving key information, responses to disclosures issues and reconciling variances within our completeness check resulting in additional work being required to allow sampling to commence.

The Audit Scotland guidance notes the targets dates should not be to the detriment of audit quality or to wellbeing.

Audit of the annual report and accounts

Our approach to the audit of the financial statements



Overall materiality

£71.306 million which represents 1.2% of the organisation's total assets.

This has increased from the Audit Plan value by £10.453 million due to the update of the materiality based upon the actual values within the 2022/23 draft financial statements.

A lower materiality of £2.885 million which represents 1.5% of gross expenditure was set for the revenue accounts, debtors, creditors and cash.

Key audit matters

The key audit matters were identified as:

- valuation of biological assets
- valuation of forest estate and land

The significant risks were identified as:

- management override of controls (ISA (UK) 240)
- risk of fraud in revenue recognition (ISA (UK) 240)

We identified the following other risks:

- implementation of IFRS16

Internal control environment

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

However, where substantive testing was undertaken, we do not place reliance on the design of controls (with the exception of the area highlighted above). We identified no material weaknesses from this work.

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

We have identified one change in our approach since our Audit Plan was presented to you on 23 March 2023. This change was in our approach to the testing of sales of fixed timber income where we relied upon controls, as detailed above. The risks identified remain the same.

Status of Audit Work

As an audit team we have focused on concluding our work on the key audit matters, the significant audit risks and the significant classes of transactions we have identified in our scoping. These are the areas of the accounts that are, in our view, at greater risk of material misstatements, with a potential to impact our auditor's opinion.

We have completed our audit work, and we issued an unmodified opinion on 6 December 2023.

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

Our application of materiality

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

Our audit approach was set out in our Audit Plan.

- We reviewed and updated our assessment of materiality from planning based upon your 2022/23 draft financial statements and concluded that materiality is £71.306 million representing 1.2% of Forestry and Land Scotland's total assets.
- Performance materiality was set at £41.784 million, representing 60% of our calculated materiality.
- We report to Officers (Management) any differences identified over £0.250 million.
- We applied a lower materiality threshold for the following areas:
 - **Revenue account, debtors, creditors and cash**: we have set a lower materiality of £2.885 million which is 1.5% of gross expenditure based on the 2022/23 financial statements. Performance materiality of £1.731 million is based on 60% of the lower materiality. For these areas, we report to officers for any differences over £0.144 million.
 - **Remuneration and Staff Report**: disclosures within the Remuneration Report to Senior Officer and Board Member Remuneration Tables due to the sensitive nature of this disclosure, the lower materiality applied to this area was £0.025 million.

Detecting irregularities, including fraud

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to Forestry and Land Scotland and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks; International Financial Reporting Standards and the 2022/23 Code of Audit Practice.
- We enquired of Senior Officers and the Audit and Risk Committee, concerning Forestry and Land Scotland's policies and procedures relating to the identification, evaluation and compliance with laws and regulations; the detection and response to the risks of fraud; and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of Senior Officers and the Audit and Risk Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of Forestry and Land Scotland's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We have reviewed the principal risks to journal entries that could alter Forestry and Land Scotland's financial performance for the year and potential management bias in determining accounting estimates in relation to the valuation of biological assets and forest estate and land. Our audit procedures in relation are documented within our response to the significant risk of management override of controls below.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in certain account balances and significant accounting estimates.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - Forestry and Land Scotland's operations, including the nature of its operating revenue and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - Forestry and Land Scotland's control environment, including the policies and procedures implemented by Forestry and Land Scotland to ensure compliance with the requirements of the financial reporting framework.

We have been receiving regular updates during the course of the audit from Forestry and Land Scotland and there are no issues that impact our opinion.

Overview of audit risks

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

Risk title	Risk level	Change in risk since Audit Plan	Fraud risk	Key audit matter	Level of judgement or estimation uncertainty	Testing approach	Status of work to date
Valuation of biological assets	Significant	↔	x	✓	High	Substantive	● Green
Valuation of forest estate and land	Significant	↔	x	✓	High	Substantive	● Green
Management override of controls	Significant	↔	✓	x	Low	Substantive	● Green
Risk of fraud in revenue	Significant	↔	✓	x	Medium	Substantive	● Green
Implementation of IFRS 16	Other	↔	x	x	Low	Substantive	● Green

↑ Assessed risk increase since Audit Plan
 ↔ Assessed risk consistent with Audit Plan
 ↓ Assessed risk decrease since Audit Plan

Green - Not considered likely to result in material adjustment or change to disclosures within the financial statements
Amber - Potential to result in material adjustment or significant change to disclosures within the financial statements
Red - Likely to result in material adjustment or significant change to disclosures within the financial statements

Significant risks and Key Audit Matters (1)

Responding to significant financial statement risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. This section provides commentary on the significant audit risks communicated in the External Audit Plan.

Key audit matters

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

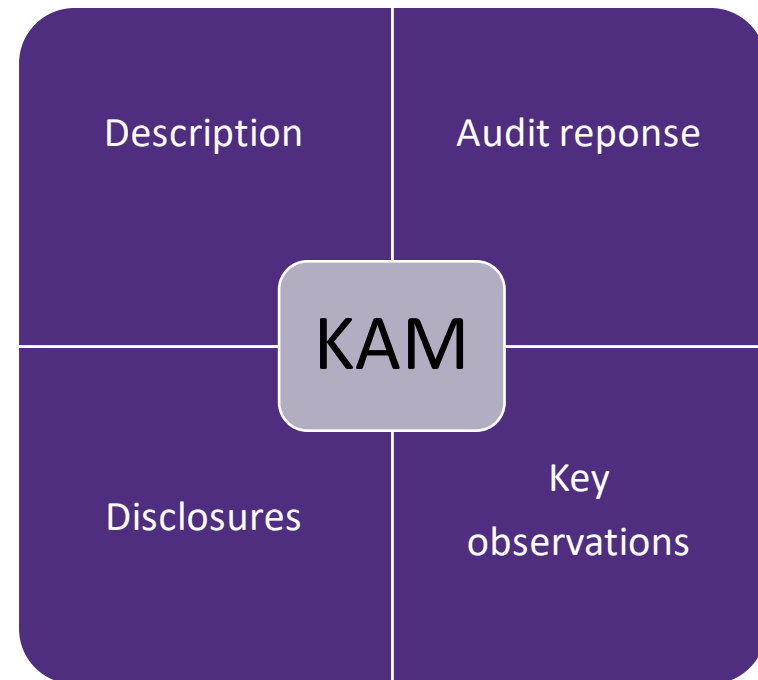
These matters included those that had the greatest effect on:

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

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

Other risks

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



Significant risks and Key Audit Matters (2)

Key Audit Matter identified in our Audit Plan

Risk 1: Valuation of biological assets

In accordance with the HM Treasury Financial Reporting Manual (FRM), 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 and seed. As at 31 March 2022, Forestry and Land Scotland held biological assets of £2.826 billion and at 31 March 2023, this has increased to 3.303 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 therefore focussed 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 and a key audit matter.

How our scope addressed the matter –

In responding to the key audit matter, we performed the following audit procedures:

- evaluated management's processes and controls for the calculation of the valuation estimates, the instructions issued to their valuer and the scope of their work
- evaluated the valuer's report to identify assets that had large and unusual changes and/or approaches to the valuation and tested these valuations substantively for reasonableness
- challenged the key data and assumptions used by management's experts in the valuation process for these assets;
- assessed and recalculated the biological assets split
- evaluated the assumptions made by management for any assets not revalued during the year and how management had satisfied themselves that these valuers were not materially different to fair value
- reviewed your impairment assessment as to whether there are indicators of impairment and
- engaged our own valuations expert to assess the instructions issued by Forestry and Land Scotland to their valuers, the final valuers' report and the assumptions used that underpin the final valuations.

Our results

We do not have any issues to raise with you in our work undertaken on biological assets.

Significant risks and Key Audit Matters (3)

Key Audit Matter identified in our Audit Plan

How our scope addressed the matter –

Risk 2: Valuation of forest estate and land

In accordance with the HM Treasury Financial Reporting Manual (FRM), 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 and forest estate, land and buildings, such as offices, are held at current 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. As at 31 March 2023, this had increased to £2.503 billion including forest estate and land of £2.452 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 therefore focused 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 and a key audit matter.

In responding to the key audit matter, we performed the following audit procedures:

- evaluated management's processes and controls for the calculation of the valuation estimates, the instructions issued to their valuer and the scope of their work
- evaluated the valuer's report to identify assets that had large and unusual changes and/or approaches to the valuation and tested these valuations substantively for reasonableness
- challenged the key data and assumptions used by management's experts in the valuation process for these assets
- tested a selection of other land revaluations made during the year to ensure they had been input accurately into the Council's asset register, and the revaluations had been correctly reflected in the financial statements;
- evaluated the assumptions made by management for any assets not revalued during the year and how management had satisfied themselves that these valuers were not materially different to current value
- reviewed your impairment assessment as to whether there are indicators of impairment and
- engaged our own valuations expert to assess the instructions issued by Forestry and Land Scotland to their valuers, the final valuers' report and the assumptions used that underpin the final valuations.

Our results

Our work on the valuation of forest estate and land identified two issues:

- The prior year land areas were used in the valuation of other minor land resulting in an understatement of £0.830 million
- A transposition error in the valuer's calculation which resulted in an overstatement of £26.910 million.

Forestry and Land Scotland has opted not to adjust for the issues identified as they are not material and we have recorded these as unadjusted misstatements in **Appendix 1**.

A recommendation on review of valuers' report is noted at **Appendix 2**.

Significant risks and Key Audit Matters (4)

Other significant risks identified in our Audit Plan

Commentary

Risk 3: Management override of controls

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

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

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

Our results

Our work on journals identified that Forestry and Land Scotland does not have journal authorisation processes within the general ledger, and processes are more informal. There is a reliance upon reactive controls, whereas proactive controls would enhance the ability to reduce the risk of fraud or error from the opportunity to override management controls. To mitigate the risks identified to the control environment being assessed as higher risk, our work on journals has required additional testing to be undertaken which has required extra time during the audit.

From our testing, we noted several occasions whereby the journal name has not been updated and did not relate to the journal being posted as the journal form name had not been updated. Additionally, from review of journals posted in year, it was noted that Forestry and Land Scotland have 383 users who have the ability to post journals.

A recommendation on journal authorisation and users is noted at [Appendix 2](#).

From our testing completed, we haven't found any evidence of management override of controls and have no further issues to report.

Significant risks and Key Audit Matters (5)

Other significant risks identified in our Audit Plan

Risk 4: The revenue cycle includes fraudulent transactions

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.

Commentary

Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Forestry and Land Scotland, we have carried out the following work:

- Evaluated your accounting policy for recognition of expenditure for appropriateness and compliance with the FReM
- Performed detailed testing of revenue 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
- Reviewed post year end receipt and verified the accounting period these transactions related to and confirmed they have been correctly accounted for in the correct period and
- Reviewed the judgements and estimates made by management when recognising prepayments and accrued income at year end within the financial statements and where appropriate challenged management accordingly.

Our results

Our work has identified one issue:

- Income was receipted in the bank account for several transaction at the end of March however, these were not allocated within the ledger resulting in an error of £0.538 million.

Forestry and Land Scotland has opted to adjust for the issue identified and we have recorded as adjusted misstatements in **Appendix 1**.

A recommendation on the review of transactions around year-end to ensure correct cut-off has been noted at **Appendix 2**.

Significant risks and Key Audit Matters (6)

Other significant risks identified in our Audit Plan

Risk of fraud in expenditure recognition (Practice Note 10) – Rebutted

As set out in practice note 10 (Revised 2022) ‘The Audit of Public sector Financial Statements’, issued by the Public Audit Forum, which applies to all public sector entities, we consider there to be an inherent risk of fraud in expenditure recognition.

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.

Commentary

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

- Evaluated your accounting policy for recognition of expenditure for appropriateness and compliance with the FReM
- Performed detail testing of expenditure transactions at and around year-end to verify the accounting period transactions relate to and confirm that transactions have been recognised in the correct accounting period
- Reviewed the judgements and estimates made by management when recognising accruals and provisions at year end within the financial statements and where appropriate challenge management accordingly and
- Our testing included a specific focus on year-end cut-off arrangements, including consideration of the existence of accruals in relation to non-payroll expenditure.

Our results

Our work noted on error in relation to expenditure cut-off where an invoice dated 31 March 2023, and received post year-end, had not been accrued for. On further investigation, it was noted that this was not an isolated error, and where haulier and contractor payments were made on the Sales Recording Package system and had a dispatch date before year-end, no accrual was made. The total resulting error was £0.437 million.

Forestry and Land Scotland has opted to adjust for the error identified and we have recorded these as an adjusted misstatements in **Appendix 1**.

A recommendation on the review of transactions around year-end to ensure correct cut-off has been noted at **Appendix 2**.

Other risks

Other risks identified in our Audit Plan

Risk 5: Implementation of IFRS16 – the revised accounting standard for leases

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.

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 the exemptions below), a major departure from the requirements of IAS 17 in respect of operating leases. IFRS 16 requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There is a single accounting model for all leases (similar to that of finance leases under IAS 17), with the following exceptions:

- leases of low value assets
- short-term leases (less than 12 months).

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating).

Commentary

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

- evaluated the reasonableness and appropriateness of the inputs and assumptions used, especially the discount rate applied in determining the lease liability
- agreed on a sample basis, the accuracy of the data used by tracing them to the original contracts
- checked the mathematical accuracy of the calculations undertaken by management to determine the amounts to be recognised in the Statement of Financial Position; and
- assessed the completeness of disclosures within the financial statements in accordance with the applicable standards.

Our results

Right of use assets of £4.086 million and £3.552 million in relation to the lease liability were added to the Statement of Financial Position. As part of our audit work, we have reviewed the leases in place at the organisation. This included considering the arrangements used by management to identify potential lease arrangements. Our audit work has not identified any weaknesses in the processes used by management to identify contracts containing a lease.

Substantive audit procedures have also been performed to confirm the accuracy of the lease calculations and disclosures in the financial statements including lease start and dates, annual payments and application of an appropriate discount rate.

Our audit work identified several minor issues on the addition of right of use assets and liability to the Statement of Financial. We reviewed the disclosures made within the accounting policies and Note 6 and noted enhancements could be made to the information provided on the impact of implementation of IFRS 16 to meet the requirements of the FReM and these have been included within **Appendix 1**. Additionally, we identified a variance of £0.179 million in relation to the aging analysis and this has been carried as an unadjusted misstatement within **Appendix 1**.

A recommendation on IFRS 16 disclosures has been noted at **Appendix 2**.

Financial Statements – key judgements and estimates (1)

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

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

Assessment

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

Financial Statements – key judgements and estimates (2)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Property, Plant and Equipment: depreciation including useful economic lives (UELs). £2.503 billion</p> <p>Note 6 Property, Plant and Equipment</p>	<p>As reported in Note 1.9 the organisation's approach to depreciation is:</p> <p>Land (Forest Estate and Non-forest land) is not depreciated.</p> <p>Assets under construction are not depreciated until the asset is capable of operating in the manner intended by management.</p> <p>Depreciation is provided on all other property, plant and equipment at rates calculated to write off the cost or valuation, less estimated residual values, of each asset evenly over its expected useful life.</p> <p>An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.</p> <p>Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the Statement of Comprehensive Net Expenditure.</p> <p>When revalued assets are sold, the amounts included in the revaluation reserve are transferred to the general fund.</p> <p>No depreciation is charged on non-current assets held for resale.</p>	<p>We examined the estimate, considering the:</p> <ul style="list-style-type: none"> appropriateness of the underlying information, consistency of the estimate and the adequacy of the disclosure of the estimate. <p>Conclusion We were satisfied with the methodology for the calculation of the depreciation charge.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious.</p>

Financial Statements – key judgements and estimates (3)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Accruals and Deferred Income Current - £33.799 million Non-Current - £1.125 million Note 17 Trade and Other Payables</p>	<p>Forestry and Land Scotland accrues for expenditure to ensure that all expenditure that is incurred during the financial year, but has not yet been billed, invoiced or paid for, is recorded in the year to which it relates. Forestry and Land Scotland has two main types of accruals:</p> <p>Manual accruals</p> <p>These largely consist of non-purchase order-based accruals. Examples include the holiday and flexi pay accruals and amounts arising from contractor payments via the Sales Recoding Package system. These are often created on best available information.</p> <p>PO accruals</p> <p>These are purchase order-based accruals which are automatically made.</p> <p>Forestry and Land Scotland also defers income whereby the money has been received for goods or services, which has not yet been earned. This typical relates to grant funding received by the organisation.</p>	<p>We have performed over a sample of accruals including the holiday and flexi pay accrual and deferred income.</p> <p>Conclusion</p> <p>Our work is ongoing in this area.</p> <p>As part of our expenditure completeness testing, we have identified one item which should have been manually accrued for, however, this did not occur. Please refer to Appendix 1.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious.</p>

Financial Statements – key judgements and estimates (4)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Prepayments and Accrued Income</p> <p>Current - £11.782 million</p> <p>Note 14 Trade and Other Receivables</p>	<p>Forestry and Land Scotland also accrues for income whereby the money has been earned but has not yet been received. There are two main types:</p> <p>Manual accruals</p> <p>These are largely based on non-purchase order-based accruals with examples including the wind and hydro accruals. The amount receivable comprises a base rent, together with a share of the revenue arising from the sale of generated electricity (revenue rent).</p> <p>While there is certainty over the value of the base rent, the remaining income is linked to the electricity generated, and the price at which it was sold to the market. Revenue rents are received in arrears and as a result of the variable factors, the amount due to be received is not certain until after the financial year end. In calculating any accrual for revenue rent, it is necessary to estimate both the quantity and price of power generated.</p> <p>Invoice accruals</p> <p>These are accruals which are based on invoices which have yet to be dispatched from the Sales Recording Package which have limited estimation as based upon actuals.</p> <p>Forestry and Land Scotland also records prepayments with regards to amounts paid for by a business in advance of the goods or services being received. These are based on actuals and there is limited estimation.</p>	<p>We have performed testing over a sample of prepayments and accrued income including manual accruals such as wind and hydro accruals and invoice accruals including uninvoiced dispatches from the Sales Recording Package and accrued income from the sales ledger.</p> <p>Conclusion</p> <p>No significant issues have been identified from the testing completed.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious.</p>

Other key elements of the financial statements (1)

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

Issue	Commentary
Matters in relation to fraud and irregularity	<p>It is Forestry and Land Scotland's responsibility to establish arrangements to prevent and detect fraud and other irregularity. As auditors, we obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We obtain annual representation from officers and those charged with governance regarding Forestry and Land Scotland's assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We have also made inquiries of internal audit around internal control, fraud risk and any known or suspected frauds in year.</p> <p>We have been receiving regular updates and Forestry and Land Scotland are currently reviewing an issue, and an update with the most up to date position will be provided to us in due course. Once we have received this update, we will be able to assess if there are any further reporting implications.</p>
Accounting practices	<p>We have evaluated the appropriateness of Forestry and Land Scotland's accounting policies, accounting estimates and financial statement disclosures. We have identified disclosure adjustments required to the financial statements which have been detailed in Appendix 1.</p>
Matters in relation to related parties	<p>We are not aware of any related parties or related party transactions which have not been disclosed in the final version of the accounts.</p>
Matters in relation to laws and regulations	<p>We have been receiving regular updates and Forestry and Land Scotland during the course of the audit and there are no issues arising that impact our audit opinion.</p>
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>We have identified a number of minor amendments required to be made to the annual report to ensure it is consistent with the financial statements. These have been amended by management and therefore, post amendments we are satisfied that other information is consistent with the financial statements and our knowledge obtained in the audit.</p>

Other key elements of the financial statements (2)

















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

Other key elements of the financial statements (3)

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2022). The Financial Reporting Board recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Company meets this criteria, and so we have applied the continued provision of service approach.</p> <p>In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered management’s (senior officer’s) assessment of the appropriateness of the going concern basis of accounting and conclude that:</p> <ul style="list-style-type: none"> • a material uncertainty related to going concern has not been identified • management’s (senior officer’s) use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
National Fraud Initiative	<p>The National Fraud Initiative (NFI) in Scotland is a biennial counter-fraud exercise led by Audit Scotland and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems that might suggest the existence of fraud or error. Participating bodies, including Forestry and Land Scotland, receive matches for investigation. No issues were identified to highlight to the Committee and the organisation continue to be committed to the NFI exercise.</p>
WGA return	<p>For Forestry and Land Scotland, we are required to complete Whole of Government Accounts (WGA) work and provide an assurance statement on the organisation’s WGA return as mandated by National Audit Office. We will complete the relevant specified procedures and prepare and submit a partial assurance statement once Forestry and Land Scotland send in their WGA return.</p>
Other returns to Audit Scotland	<p>In accordance with the Audit Scotland Planning Guidance, as appointed auditors, we have prepared and submitted Fraud Returns and have contributed to shared intelligence for sector meetings and Technical Guidance Notes. There is nothing we need to bring to your attention in this respect.</p>





Other findings – Information Technology

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

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Related significant risks/other risks
			Security management	Technology acquisition, development and maintenance	Technology infrastructure	
E-Financials	ITGC assessment (design and implementation effectiveness only)	 Green	 Green	 Green	 Green	All significant risks
Sales Recording Package	ITGC assessment (design and implementation effectiveness only)	 Green	 Green	 Green	 Green	Fraud in Revenue Recognition
Land Valuation Database	ITGC assessment (design and implementation effectiveness only)	 Green	 Green	 Green	 Green	Valuation of Biological Assets and Forest Estate & Land
Sub Compartment Database	ITGC assessment (design and implementation effectiveness only)	 Green	 Green	 Green	 Green	Valuation of Biological Assets and Forest Estate & Land

In our Audit Plan, we reported that 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. In response to this risk, we made inquiries to ascertain whether Forestry and Land Scotland was affected by the events. Our inquiries confirmed that Forestry and Land Scotland was not affected by this attack.

Assessment

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

Other findings – other matters

Other matter	Commentary	Conclusion
Revenue Generating Land Assets	<p>On review of the valuation report, it was identified that the entity's land consists of a number of land assets which are revenue generating. We have challenged management over the classification of property, plant and equipment in the financial statements:</p> <p>Investment property is property (land or building – or part of a building - or both) held (by the owner or by the lessee as a right of use asset) to earn rentals or for capital appreciation or both rather than for</p> <p>(a) Use in the production or supply of goods or services or for administrative purposes; or</p> <p>(b) Sale in the ordinary course of business</p> <p>Management have noted that land is not held for long term capital appreciation, and this is reflected in the comments below i.e. the land acquired that has no useful purpose is disposed of (point 1) and the organisation are changing the use of the land where there is a more profitable alternative use (point 2) therefore, these other land assets should be classified as property, plant and equipment.</p> <p>1. Schemes are built on land already owned by Forestry and Land Scotland and if land is not acquired with the intent of setting up a renewables scheme. The land would have been acquired for forestry or peatland restoration purposes or it was attached to other land that the organisation wanted and had no useful purpose for at the time. If the land had no useful purpose, it would normally be sold as soon as possible.</p> <p>2. Sites for wind farms are most often on sites used for commercial forestry (or just peatland) and a decision has been taken that the organisation can make more income from a change of use.</p>	<ul style="list-style-type: none"> • Additional disclosure has been added to Note 2 – Critical Accounting Estimates and Judgement to detail the critical judgement applied in relation to revenue generating land assets. • A recommendation on annual review of this classification has been raised at Appendix 2. • We are satisfied with management's assessment that these land assets are classified as property, plant and equipment within the financial statements.

Other Findings – other matters (2)

Other matter	Commentary	Conclusion
Infrastructure Assets	<p>Infrastructure assets are inalienable assets, expenditure on which is only recoverable by continued use of the asset created. For Forestry and Land Scotland, infrastructure assets include roads, forest tracks and other similar type assets. We have challenged management over their accounting treatment for infrastructure assets.</p> <p>Management have noted that to maximise the environmental, social and economic benefits of the National Forests and Land, Other Land, Biological Asset, Timber and Other Timber, Forestry and Land Scotland improves and develops access and services by adding to the infrastructure on its sites. Infrastructure includes new roads however, these usually amount to rubble and not typical tarmac roads which are created to allow Forestry and Land Scotland to deforest, fell and remove the timber. As such, any expenditure on temporary forest tracks are charged to revenue expenditure as they occur. The existence of these temporary/short life forest tracks does not enhance the value of the estate.</p>	<ul style="list-style-type: none"> • A recommendation on infrastructure assets has been raised at Appendix 2. • We have challenged management over their accounting treatment of infrastructure assets. • Additional disclosure has been added to Note 2 – Critical Accounting Estimates and Judgement to detail the critical judgement applied. • We are satisfied with management’s assessment of infrastructure assets within the financial statements.

Wider scope conclusions

Wider scope audit (1)

This section of our report sets out our conclusions from our audit work on the wider scope audit dimensions. We take a risk-based audit approach to wider scope. Within our audit plan we identified two wider scope risks in relation to financial sustainability and vision, leadership and governance.

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

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusio
<p>Financial Management</p> <p>Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p>No significant risks identified</p>	<p>Forestry and Land Scotland's Financial Management Arrangements</p> <p>The financial performance monitoring process is reported to Forestry and Land Scotland's Management Board at each monthly meeting as an integral part of the budget monitoring process.</p> <p>Variances from budget are clearly explained within the finance reports, with actions identified to resolve any adverse variances. This provides senior management and members with the opportunity to review, challenge and scrutinise financial performance. All budgetary and financial information submitted to board members is produced by the Finance Team within Forestry and Land Scotland and reviewed by the Chief Finance Officer for technical accuracy. The finance team within Forestry and Land Scotland have access to real time information through the finance ledger systems to provide accurate and timely financial monitoring reports.</p> <p>Forestry and Land Scotland has a range of policies and procedures designed to ensure compliance with laws and regulations including for example the Framework Document, Delegated Limits of Financial Authority and Whistleblowing strategy. The Framework Document was revised alongside the Scottish Government in July 2023.</p>	<p>Our review of financial reports during the year did not identify any significant issues.</p> <p>Financial policies and procedures have been reviewed and we are satisfied the financial regulations are comprehensive, current and promoted within the body.</p>

Wider scope audit (2)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
Financial Management (continued)		<p>Finance Team Individuals involved in the preparation and reporting of financial information are qualified and experienced and held finance positions at the organisation for a number of years. However, the finance team is relatively small, and if staff shortages or sickness arise, the organisation could face significant capacity issues.</p> <p>Financial Performance Forestry and Land Scotland are required to deliver a balanced budget each year and fall under the remit of the Scottish Government budget, which was laid before Parliament in December 2021. For 2022/23, Forestry and Land Scotland's budget was £27.2m of which £16.7m was fiscal resource and £10.5m in capital. In the Autumn budget revision, released in November 2022, there was a proposed change to propose an additional £0.9m under the fiscal resource increasing the total budget to £28.1m.</p> <p>The 2022/23 managed expenditure budget set by the Management Board in January 2022 was £130.4 million, income of £121.6 million with a net deficit of £8.8 million. The 2022/23 managed expenditure outturn was £135.7 million, however, income was only £111.1 million resulting in a net deficit of £24.5 million. A significant portion of this variance in the deficit (£18.2 million) was due to timber supply, with timber income being £76.5 million against a budget of £94.7 million. This was the lowest timber income and volume harvest since the inception of Forestry and Land Scotland.</p> <p>After consideration of the Strategic Acquisitions Programme in 2022/23, Forestry and Land Scotland has reported a deficit of £37.1 million against a budgeted deficit of £12.3 million. When taking into account the Annual Subsidy Limit, woodland creation and return of funds to the Scottish Government, the deficit reduces to £17.9m, of which £14.5m was funded through the SAF/LCIF balance brought forward, resulting in an overall deficit of £3.4 million for the 2022/23 financial year. The remaining deficit is to be funded through unrestricted reserves.</p>	<p>We have not identified any issues regarding the skills and capability of finance staff within the organisation. Given the size of the organisation, should staff shortages arise, the finance team may face capacity issues.</p> <p>Overall, we are satisfied that Forestry and Land Scotland have appropriate financial management arrangements in place.</p>
			<p>We have not identified a significant risk in relation to the financial management area.</p>

Wider scope audit (3)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
<p>Financial Sustainability</p> <p>Financial sustainability looks forward to the medium to longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered</p>	<p>Significant risk identified in relation to future financial plans for 2023/24 and beyond</p>	<p>Budgeting</p> <p>Forestry and Land Scotland is funded primarily through the income which it generates from its operating activities however, the organisation also receive annual funding from the Scottish Government.</p> <p>Forestry and Land Scotland undertake an annual budget process which forms part of the wider annual business plan process. This includes discussions taking place between the leadership team and Scottish Government regarding funding requirements.</p> <p>As the Forestry and Land Scotland budget is set within the Scottish Budget which sets out the Scottish Government’s proposed spending and tax plans, this is laid before the Scottish Parliament on an annual basis in December. 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 £23.8 million.</p> <p>Medium Term Financial Planning</p> <p>Forestry and Land Scotland prepared a five-year financial plan in December 2022 however, only 2023/24 was signed off. The organisation have plans to commence planning for the next five years and as part of this, to produce a sustainable financial plan.</p>	<p>We have not identified any issues regarding the budgeting arrangements in place at Forestry and Land Scotland. We consider these arrangements to be effective and appropriate.</p>

Wider scope audit (4)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion																								
Financial Sustainability (continued)		<p>Medium Term Financial Planning (continued)</p> <p>With a challenging financial climate and an uncertain economic future, there is a risk that funding for bodies such as Forestry and Land Scotland reduces as the government prioritises other areas of public spend which highlights the importance that Forestry and Land Scotland considers and implements a medium-term financial plan. Our discussions with executive team members has highlighted that management do understand the risk that it faces.</p> <p>This is summarised as in 2023/24, Forestry and Land Scotland are faced with £6.0 million of their Annual Subsidy Limit being removed, with the agreement that this will be added to Limit received in future years.</p> <p>Reserves</p> <p>In order to manage financial uncertainty and service long-term needs, Forestry and Land Scotland use their cash reserves with plans for the use of reserves regularly reported to the Management Board.</p> <p>In the financial plan prepared in December, it was noted that without investment, and assuming unrestricted reserves can be used, the cash reserves fall significantly by 2025/2026 to £3.0m before an assumption has been made from 2026/27 that the organisation will be in a break-even position.</p>	<p>It is important that Forestry and Land Scotland seeks to embed elements of financial uncertainties within continuous financial planning and reviews including risk and sensitivity analyses to assess and mitigate against the impact of any future risks on delivery of the financial position.</p> <p>A recommendation was raised in the prior year annual audit report around developing a medium-term financial plan and we conclude that this recommendation remains relevant to Forestry and Land Scotland (see Appendix 4).</p>																								
		<table border="1"> <thead> <tr> <th>Without Investment</th> <th>2023/24</th> <th>2024/25</th> <th>2025/26</th> <th>2026/27</th> <th>2027/28</th> </tr> </thead> <tbody> <tr> <td>Unrestricted reserves at start of year</td> <td>53.0</td> <td>30.0</td> <td>16.0</td> <td>3.0</td> <td>3.0</td> </tr> <tr> <td>In year surplus/ (deficit)</td> <td>(23.0)</td> <td>(14.0)</td> <td>(13.0)</td> <td>(0)</td> <td>6.0</td> </tr> <tr> <td>Remaining reserves</td> <td>30.0</td> <td>16.0</td> <td>3.0</td> <td>3.0</td> <td>9.0</td> </tr> </tbody> </table>		Without Investment	2023/24	2024/25	2025/26	2026/27	2027/28	Unrestricted reserves at start of year	53.0	30.0	16.0	3.0	3.0	In year surplus/ (deficit)	(23.0)	(14.0)	(13.0)	(0)	6.0	Remaining reserves	30.0	16.0	3.0	3.0	9.0
		Without Investment		2023/24	2024/25	2025/26	2026/27	2027/28																			
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In year surplus/ (deficit)	(23.0)	(14.0)	(13.0)	(0)	6.0																						
Remaining reserves	30.0	16.0	3.0	3.0	9.0																						

Wider scope audit (5)

Wider scope dimension

Plan risk

Wider scope audit response and findings

Conclusion

Financial sustainability (continued)

Reserves (continued):

If investment is undertaken, and with the current budgeted level of income and expenditure, and assuming all further Strategic Asset Purchases are funded elsewhere, Forestry and Land Scotland will come to within £0.800 million of zero cash in 2026/27.

With Investment	2023/24	2024/25	2025/26	2026/27	2027/28
Unrestricted reserves at start of year	53.0	22.0	9.0	3.0	1.0
In year surplus/ (deficit)	(31.0)	(13.0)	(6.0)	(2.0)	8.0
Remaining reserves	22.0	9.0	3.0	1.0	9.0

Any future funding assumes a low level of savings will be achieved each year and assumes that the existing financial pressure will be addressed using recurring investment provided by the Scottish Government being reinstated from 2024/25 and through income received from operating activities. Additionally, the limit spend on earmarked and unfunded investments have been set to the level of asset disposals over the five years to leave a net spend of zero.

Risks such as potential reduction in future funding, pay negotiations, rising inflation, cost of living crises and supply chain pressures are embedded however, given the economic uncertainty of these factors, this could result in a growth of the in-year deficits.

Reducing the underlying overspend in future years will be challenging and use of reserves is being relied on however, this does not address the fundamental challenge Forestry and Land Scotland has in delivering future balanced budgets.

The continued reliance on reserves is not sustainable. To achieve financial sustainability and reduce reliance on useable reserves to bridge funding gaps, Forestry and Land Scotland will need to identify and deliver significant savings and transformation to reduce funding gaps and continue to deliver key services. There is a risk that where savings and transformation plans are not delivered, in the short to medium term this could provide financial sustainability challenges for the organisation.

An action plan recommendation has been raised in Appendix 3.

Wider scope audit (6)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
Financial sustainability (continued)		<p>Transformation Plans</p> <p>The reduction in the reserves position in the next five years is significant and outlines that a major transformation programme will need to be undertaken to ensure the future financial sustainability of the organisation. This creates a risk, as Forestry and Land Scotland will have to balance ensuring that it maintains financial sustainability with ensuring that it continues its service delivery to meet its priorities.</p> <p>Forestry and Land Scotland has recognised the fact that it will require transformational redesign to reduce future funding gaps, use of reserves and to reshape the organisation to ensure efficient service delivery.</p> <p>Substantial transformation is required to bring about financial sustainability. The size and scale of transformation required to deliver the savings and efficiencies required is unprecedented. It is important that Forestry and Land Scotland members have oversight of the transformation programme to ensure the savings and efficiencies required to reduce future funding gaps can be delivered.</p>	<p>To ensure financial sustainability for the medium to longer term, Forestry and Land Scotland will need to ensure that it is able to deliver increased income and efficiency initiatives to reduce costs and deliver financial benefits. Forestry and Land Scotland will need to upscale the pace and delivery of transformation to achieve and mitigate the risk of becoming financially unsustainable.</p> <p>An action plan recommendation has been raised in Appendix 3.</p>

Wider scope audit (7)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
<p>Vision, Leadership and Governance</p> <p>Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>Significant risk identified in relation to future governance arrangements</p>	<p>Committee Structure</p> <p>Forestry and Land Scotland as an executive agency of the Scottish Government is accountable to the Scottish Parliament and Scottish Ministers. Forestry and Land Scotland’s Framework Document sets out the relationship with the Scottish Government alongside the accountability structures, administrative and financial arrangements. The revised Framework Document was published in August 2023 following agreement with the Scottish Government.</p> <p>The Strategic Advisory Board comprises of the executive directors, non-executive advisers and where appropriate, other temporary external experts. The Board’s role is to provide a scrutiny and challenge function on strategic development, organisational performance and progress made across identified agreed strategic thematic areas. During the year, the Board only met on one occasion and discussed the new governance model which was changing to enable the organisation to grow to maximise opportunities and strategic delivery.</p> <p>The Forestry and Land Scotland Management Board, supports the Chief Executive with the day-to-day running of the organisation, providing advice and knowledge on professional, technical and regional matters. During the 2022/23 financial year, the Management Board met on a monthly basis, discussing a wide range of issues.</p> <p>The Audit and Risk Committee comprises the non-executive advisers and provides advice and constructive challenge to the CEO, in particular in relation to their responsibilities for issues of risk management, governance, and associated assurance to support year-end accountability and reporting. The Audit and Risk Committee met four times during the year.</p>	<p>Our review of attendance of members at Committee meetings has not flagged any issues.</p> <p>We are satisfied that the governance arrangements are appropriate with members of the Management Board are responsible for supporting the Chief Executive in order to make robust and well-informed decisions.</p> <p>We noted in 2022/23, the Strategic Advisory Board only met on one occasion. A recommendation was raised in the prior year annual audit report around the frequency of Board meetings, and we conclude that this recommendation remains relevant to Forestry and Land Scotland given the new governance arrangements are in the early phases of implementation (see Appendix 4).</p> <p>We conclude that the Audit and Risk Committee effectively challenge and scrutinise reports presented and ensure effective decision making.</p> <p>Forestry and Land Scotland published minutes of each Committee online, to ensure transparency of decision making.</p>

Wider scope audit (8)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
<p>Vision, Leadership and Governance</p>		<p>Committee Structure (continued) The Chief Executive is retiring at the 31 March 2024 and a recruitment exercise has commenced which is being managed by the FLS HR Team and the Scottish Government. This has a closing date of 3 December 2023.</p> <p>Committee Self-Evaluation However, self-evaluation is something that could be improved upon within the organisation. There are examples of best practice in other central government bodies that undertake an annual self evaluation questionnaire considered by committees such as Audit and Risk Committees using various frameworks and tools such as the Scottish Government Handbook checklist on Committee effectiveness.</p> <p>This allows the organisation the opportunity to evaluate on strengths and weaknesses and draw any themes arising from results of self evaluations. This will allow the implementation of any necessary action plans to support continuous improvement in priority areas.</p> <p>Governance Statement The Governance Statement details the composition and governance structure of Forestry and Land Scotland and how that supports the achievement of the organisation's priority themes. From review of the Statement, we are satisfied that it reflects the findings from audit, scrutiny and inspection.</p>	<p>We recommend that Forestry and Land Scotland look to implement an annual self evaluation and consider the results of this evaluation on an annual basis to identify strengths as well as areas for improvement and be able to succession plan.</p> <p>An action plan recommendation has been raised in Appendix 3.</p> <p>From review of the Corporate Governance Statement, we are satisfied that it reflects the key findings from audit, scrutiny and inspection. Minor changes were made to the statement to provide clarification around significant risks and this has been carried to Appendix 1.</p>

Wider scope audit (9)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
Vision, Leadership and Governance (continued)		<p>Risk Management</p> <p>Forestry and Land Scotland maintains a corporate risk register which is derived from the high-level risks of the organisation, along with corporate risks within the organisation. Risks are evaluated by considering their probability of occurring along with their potential to impact on the outcomes expected of Forestry and Land Scotland, the organisation's operations and its stakeholders. The risks and management's mitigating actions are reviewed by the Audit and Risk Committee and Management Board at every meeting.</p> <p>At September 2023, of the eighteen risks on the register, fifteen were rated as red, two were amber and one yellow, with the highest rated risk around the failure to manage long-term financial sustainability leading to potential delivery failure and excessive programme backlogs.</p> <p>Internal controls</p> <p>Internal audit activity is undertaken by the Scottish Government's Internal Audit Directorate. Internal audit undertook four internal audits reviews during the financial year covering Asset Management (Limited Assurance), Financial Governance and Management (Substantial Assurance), Contract Management (Limited Assurance) and Data Governance and Management (Limited Assurance).</p> <p>This resulted in an overall assurance opinion for the 2022/23 financial year of limited assurance. The internal audit opinion notes that <i>"there are weaknesses in the current risk, governance and/or control procedures that either do, or could, affect the delivery of any related objectives. Exposure to the weakness identified is moderate and being mitigated"</i>.</p> <p>Of the twenty-five public bodies under the Internal Audit Directorate, Forestry and Land Scotland was one of only two receiving a limited assurance opinion, with nine receiving a substantial assurance opinion and fourteen receiving a reasonable assurance rating.</p>	<p>We are satisfied that the key risks have been identified and that the pace of improvement is appropriate to the risks and challenges facing Forestry and Land Scotland.</p> <p>Forestry and Land Scotland have an effective internal audit function in place to assist with assurance over governance framework, risk and internal controls.</p>

Wider scope audit (10)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
Vision, Leadership and Governance (continued)		<p>Internal controls (continued)</p> <p>The Audit and Risk Committee receive quarterly audit progress reports from internal audit which outline the work undertaken in each quarter alongside any follow up audits and the results of the audits. Alongside this, management prepare an Audit Recommendations and Actions Progress Update which includes the relevant director assessment of action progress against recommendations and overall RAG rating. This provides Audit and Risk Committee members the opportunity to gain assurance that internal controls are operating as expected.</p> <p>From our review of internal audit reports and Audit and Risk Committee reports, we have not identified any evidence of significant gaps in the assurance obtained by the Committee in relation to the work programme undertaken.</p> <p>We noted from the follow up reports provided, audit recommendations are actioned with only three prior year reports with open actions, which have been partially implemented.</p>	<p>Our review of internal audit reporting noted that the Audit and Risk Committee are regularly updated on internal audit activity and recommendations are actioned on a timely basis.</p>

Wider scope audit (11)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
<p>Use of Resources to Improve Outcomes</p> <p>Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.</p>	<p>No significant risks identified</p>	<p>Corporate plan and performance reporting</p> <p>Forestry and Land Scotland's corporate plan covers the period 2022 to 2025 and is supported by an annual business plan which provides more detail on the steps Forestry and Land Scotland will be taking to make progress towards their strategic objectives annually.</p> <p>A performance report is published quarterly which outlines Forestry and Land Scotland's performance against its KPIs which allows the organisation to track, measure and manage performance and progress against their Corporate Outcomes. This allows management to identify areas of concern and where action plans require implementation. Forestry and Land Scotland also help deliver across all eleven National Outcomes as set out in the National Performance Framework.</p> <p>On review of the 2022/23 Q4 performance report, which is the latest version published, of the sixteen KPIs, nine were showing as green, six were showing as red (target will not be met) and one could not be tracked due to the implementation of a new system. The six KPIs rated red were:</p> <ol style="list-style-type: none"> 1. Volume of timber brought to the market 2. Area of land awaiting restocking 3. Area of woodland creation 4. Percentage of notified features on designated sites in favourable (or unfavourable recovering) condition 5. Percentage of women in senior roles 6. Staff engagement – percentage of employees who would recommend Forestry and Land Scotland as a great place to work <p>As part of the performance reports, a detailed action plan is developed and monitored on a quarterly basis to ensure progression and to identify areas/opportunities for improvement.</p>	<p>From review of the corporate plan, and subsequent monitoring we conclude the plan is clear and the focus on defining and measuring outcomes is defined.</p> <p>We have obtained assurance that appropriate performance monitoring and reporting arrangements are in place at the organisation, and where indicators are worsening, Forestry and Land Scotland then agree upon actions that need to be taken to improve performance.</p>

Wider scope audit (12)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
Use of Resources (continued)		<p>Staff Engagement</p> <p>As noted above, the staff engagement KPI is showing that the target of 70% will not be met. The percentage of employees who would recommend Forestry and Land Scotland as a great place to work has decreased from the previous survey by three percentage points to 51%. This survey runs annually however, the result has seen a downward trajectory over the last three years.</p> <p>In the narrative in the front end of the annual report and accounts notes that in 2022/23, Forestry and Land Scotland staff turnover was circa 12.5% and like other public sector organisations, the organisation continues to face workforce challenges. At the September 2023 Management Board meeting, the approach to workforce planning was considered and feedback sought on the recommended approach.</p> <p>Stakeholder Engagement</p> <p>Forestry and Land Scotland are committed to ensuring the people of Scotland are at the heart of the services being delivered. In October 2023, Forestry and Land Scotland launched their Communities Strategy, which details their priorities under three key principles which will guide the organisation in how they inform, engage and support sustainable and thriving rural communities;</p> <ul style="list-style-type: none"> • Principle 1 – Supporting the transition to a fairer, greener Scotland • Principle 2 – Supporting sustainable and thriving rural communities • Principle 3 – Engaging and involving communities in decision making <p>The strategy is an open invitation for groups to come forward with ideas on how Scotland’s national forests and land can benefit the wider communities they’re part of.</p> <p>On the Forestry and Land Scotland website, there is a specific section for current engagements whereby members of the public and staff can convey their views on specific items such as land management plans to ensure their views are represented in change. Consultations can involve open days, online surveys, virtual meetings and local events, thus, catering for all ages to maximise responses.</p>	<p>To ensure in the longer-term Forestry and Land Scotland have adequate resources and capacity in place to deliver on its objectives, an overarching workforce plan should be developed.</p> <p>An action plan recommendation has been raised in Appendix 3.</p> <p>We have noted good practice in relation to the community stakeholder engagement whereby Forestry and Land Scotland ensure stakeholders are engaged in helping form new strategies, which has helped drive the organisations priorities for the future.</p> <p>We have not identified a significant risk in relation to the use of resources to improve outcomes area.</p>

Wider scope audit (13)

Wider scope dimension	Plan risk	Wider scope audit response and findings
<p>Other wider scope areas</p> <p>In addition to the wider scope risks set out above, Audit Scotland's Planning Guidance 2022/23 requires us to consider the following national risks as part of our wider scope work:</p> <ul style="list-style-type: none"> - Climate change 	<p>We did not identify any specific risks in relation to climate change at Forestry and Land Scotland.</p>	<p>Climate Change</p> <p>Taking into account the long-term trends of climate emergency, digitalisation and demographic change, Forestry and Land Scotland have workstream activities which sets out how the company intends to achieve its targets as well as measuring and monitoring progress in its commitment to achieving net-zero greenhouse gas emissions by 2045.</p> <p>Forestry and Land Scotland have considered the impact of climate change on its financial statements. Climate change has had an impact on numerous areas and is expected that this will continue in the upcoming years. This includes financial impacts on areas such as income, expenditure and the valuation of biological assets. Additionally, many forestry activities are also seasonal, and activities can be affected by weather events including flooding, erosion and landslips, prolonged snow/ice can impact on planting and the forests can also be impacted by disease.</p> <p>Forestry and Land Scotland have some 'PIUs' (pending issuance units i.e. tradable units that are essentially promises to deliver future carbon credits) from projects already delivered and as yet uncommitted to any partner. These are likely to increase going forward and there may be revenue streams arising from the change in power from fossil fuels to wind and hydro in the future.</p> <p>Additionally, in future years, there will be an asset associated with carbon units as the trees currently planted under the new woodland schemes mature.</p> <p>Forestry and Land Scotland includes references to climate change within its narrative reporting which accompanies the financial statements however, this is at a high level and enhancements can be made on climate change and environmental matters. The Financial Reporting Council completed a thematic review of climate change-related considerations explaining the general requirements of IFRS providing a clear framework for incorporating the risks of climate change into financial reporting and although this review focused on companies, the principles can be applied to public sector bodies. We have raised this recommendation within Appendix 3.</p>

Wider scope audit (14)

Wider scope dimension	Plan risk	Wider scope audit response and findings
<p>Other wider scope areas</p> <p>In addition to the wider scope risks set out above, Audit Scotland's Planning Guidance 2022/23 requires us to consider the following national risks as part of our wider scope work:</p> <ul style="list-style-type: none"> - Cyber security. 	<p>We did not identify any specific risks in relation to cyber security at Forestry and Land Scotland.</p>	<p>Cyber Security</p> <p>We have considered risks related to cyber security at Forestry and Land Scotland as part during our audit of company's financial statements, in line with the guidance issued by Audit Scotland's Digital Audit team. We have not identified any significant issues in relation to cyber security or the arrangements in place at the company in relation to cyber security.</p> <p>In our Audit Plan, we reported that 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. In response to this risk, we made inquiries to ascertain whether Forestry and Land Scotland was affected by the events. Our inquiries confirmed that Forestry and Land Scotland was not affected by this attack.</p>

Best Value

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

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

Audit Scotland require us as auditors to undertake work on the Fairness and Equality characteristic at least once during our audit appointment, we have not undertaken that work during 2022/23.

Best Value work under the new Code of Audit Practice is fully integrated within the annual audit work performed by appointed auditors and their teams. As part of our integrated wider-scope annual audit work, we as appointed auditors use a risk-based approach to assess and report whether the company has made proper arrangements for securing Best Value.

Appendices

1. Audit Adjustments (1)

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

Impact of adjusted misstatements

All adjusted misstatements made during the course of the audit are set out in the table below, together with their impact on the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, and Statement of Changes in Taxpayers' Equity of the organisation for the year ending 31 March 2023. The adjustments set out were identified by Officers within the organisation and were not identified from audit procedures.

Detail	Statement of Comprehensive Net Expenditure £'000	Statement of Financial Position £'000	Statement of Changes in Taxpayers' Equity £'000
Unreconciled Bank Transactions:			
Dr Cash and Cash Equivalents		538	
Cr Trade and Other Receivables	-	(538)	-
<i>Being the recognition of unreconciled bank transactions, which were not recorded within the cash and cash equivalents balance.</i>			
Expenditure Cut-Off:			
Dr Expenditure	437		437
Cr Trade and Other Payables – Accruals		(437)	
<i>Being the adjustment to record contractor and haulier payments not accrued for.</i>			

1. Audit Adjustments (2)

Impact of adjusted misstatements

Detail	Statement of Comprehensive Net Expenditure £'000	Statement of Financial Position £'000	Statement of Changes in Taxpayers' Equity £'000
Non-Current Assets Held for Sale			
Dr NCAHFS	-	190	
Dr Revaluation Reserve			6
Cr PPE		(196)	
<i>Being the journal to move an asset from buildings to non-current assets held for sale</i>			
Non-Current Assets Held for Sale Disposal			
Dr NCAHFS		148	
CR – (Gain)/Loss on Sale of PPE	(148)		(148)
<i>Being the journal to correctly record the disposal of an asset</i>			

1. Audit Adjustments (3)

Impact of unadjusted misstatements

The table below provides details of all non-trivial errors which we identified during the course of our 2022/23 audit which management decided not to amend within the final set of financial statements. The unadjusted misstatements will be included in the Letter of Representation.

Detail	Statement of Comprehensive Net Expenditure £'000	Statement of Financial Position £'000	Statement of Changes in Taxpayers' Equity £'000
Revaluation of Forest Estate and Land			
Dr Revaluation Reserve	-		26,910
Cr Forest Estate and Land		26,910	
<i>Being the recognition of the error in forest estate and land arising from the transpositional error within the valuer's report.</i>			
Revaluation of Other Minor Land			
Dr Revaluation Reserve	-		830
Cr Other Minor Land		830	
<i>Being the recognition of the error in other minor land arising from the utilisation of prior year land areas.</i>			

1. Audit Adjustments (4)

Impact of unadjusted misstatements (continued)

Detail	Statement of Comprehensive Net Expenditure £'000	Statement of Financial Position £'000	Statement of Changes in Taxpayers' Equity £'000
Lease Liabilities			
Dr Right of Use Asset	-	181	-
Cr Trade and Other Payables – Lease Liability		(181)	
<i>Being the increase in the lease liability arising due to error in the aging analysis.</i>			
Overall impact	-	27,740	27,740

The impact on unusable reserves is £27.740 million and no impact on usable reserves.

1. Audit Adjustments (5)

Impact of unadjusted misstatements in the prior year

There were misstatements, totalling £2.62 million which were identified in the prior year and were not adjusted by management in the 2021/22 accounts:

- Renewables income: This would have increased operating income by £1.15 million in the Statement of Comprehensive Net Expenditure and increased net assets in the Statement of Financial Position by the same amount.
- Deferred income: This would have decreased grant funding and net income by £1.47 million in the Statement of Comprehensive Net Expenditure and increased net liabilities in the Statement of Financial Position by the same amount.

These items have been recognised within the 2022/23 financial year and arisen due to timing differences.

1. Audit Adjustments (6)

Misclassification and disclosure changes

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

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

Disclosure	Auditor findings	Adjusted?
Review of Annual Report and Accounts (General)	We identified a number of minor casting errors and formatting issues as part of our review of the Annual Report and Accounts. These were raised and processed by management where necessary and do not require separate reporting.	Yes
Other Information	We have identified a number of minor amendments required to be made to the annual report to ensure it is consistent with the financial statements. These have been amended by management and do not require any separate reporting.	Yes
Annual Accounts and Report Lay Out	The FReM requires the annual report and accounts to comprise the following three elements: financial statements, Performance Report and Accountability Report and the accounts contents was not fully updated to reflect this requirement. Additionally, the Performance Report and Accountability Reports were updated to ensure sign off by the Accountable Officer.	Partly
Governance Statement	<p>The following amendment was made to the Governance Statement:</p> <ul style="list-style-type: none"> Changes to external audit section to Grant Thornton UK LLP as new external auditors. <p>The Governance Statement was not updated to reflect the following change:</p> <ul style="list-style-type: none"> changes to the review of effectiveness paragraph to provide clarity to the user of the accounts around if any significant issues have been identified. 	Partly

1. Audit Adjustments (7)

Misclassification and disclosure changes (continued)

Disclosure	Auditor findings	Adjusted?
Remuneration and Staff Report	<p>We identified the following issues within the Remuneration and Staff Report which has been subsequently updated:</p> <p>Trade Union Disclosure:</p> <p>% of total pay bill spent on facility time updated from 0.12% in the initial draft annual report and accounts to 0.07%.</p> <p>Staff and Pension Information Table for Management Board:</p> <p>The disclosure table's format was updated for ease of users to the accounts.</p> <p>Fair Pay Disclosures:</p> <p>The % movements in salaries of the highest paid director and staff salaries note was updated and prior year statement was removed.</p> <p>Exit Packages:</p> <p>In the original draft financial statements provided for audit, there were no exit packages disclosed. From discussions and challenge with management, it was noted that there were exit packages in year, and the disclosure has been subsequently updated. A prior year comparative figure for 20/21 was also added.</p> <p>Consultancy Costs:</p> <p>Due to changes in the 2022/23 FReM, the prior year consultancy costs disclosure was updated to ensure consistency across financial years.</p>	Yes
Statement of Comprehensive Net Expenditure and Statement of Cash Flows	<p>The signage in the Statement of Comprehensive Net Expenditure and Statement of Cash Flows is not consistent (e.g income in Statement of Comprehensive Net Expenditure is in brackets but not in the Statement of Cash Flows). An additional narrative disclosure has been included to explain the parenthesis under each Statement.</p>	Yes

1. Audit Adjustments (8)

Misclassification and disclosure changes (continued)

Disclosure	Auditor findings	Adjusted?
Note 1.7 - Employee Benefits Accounting Policy	<p>The following issues were identified within the accounting policy which have been subsequently updated:</p> <ul style="list-style-type: none"> The pensions policy was updated to confirm the scheme was contributory and to disclose how the benefits are funded. The performance pay policy was updated to confirm arrangements and to link to disclosure within the Remuneration and Staff Report. 	Yes
Note 1.8 – Property, Plant and Equipment Accounting Policy	<p>The following issues were identified within the accounting policy which have been subsequently updated:</p> <ul style="list-style-type: none"> The forest estate policy was updated to reflect changes to the valuer from the 2023/24 following the completion of the tender exercise. The non forest land policy was updated to detail the valuers and valuation methodology adopted for each element. The vehicles, machinery & equipment and office, machinery & equipment policies were updated to remove the reference to being revalued using a revaluation model – this was an old policy not used in the current or prior year. The forest estate and non-forest estate disclosures have been updated to reflect the basis of valuation being current value and to align with narrative from the valuers' report. 	Yes
Note 1.9 – Depreciation	<p>The following issues were identified within the accounting policy which have been subsequently updated:</p> <ul style="list-style-type: none"> Asset lives reference to finance leases has been update to right of use assets, in line with requirements under IFRS 16. 	Yes
Note 1.21 – Effective in these Financial Statements Accounting Policy	<p>The following issue was identified within the accounting policy which has been subsequently updated:</p> <ul style="list-style-type: none"> Additional disclosure added to confirm the discount rates applied to the lease liabilities calculation. 	Yes

1. Audit Adjustments (9)

Misclassification and disclosure changes (continued)

Disclosure	Auditor findings	Adjusted?
Note 2 – Critical Accounting Estimates and Judgements	<p>International Financial Reporting standards prescribe the required disclosures in relation to critical judgements. It also requires separate consideration of accounting estimates.</p> <p>Significant estimates relate to assumptions and estimate at 31 March that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Judgements relates to areas that aren't significant estimates.</p> <p>The critical judgements disclosed are not judgements within the requirements of IFRS 1. The judgements required to be disclosed are those apart from judgements involving estimations and additional disclosures are required. T</p> <p>Management have updated the critical judgements around land revenue generating assets classified as property, plant and equipment and infrastructure assets. Additionally, the valuation of the forest estate and biological assets narrative to illustrate the current valuation methodology, as the initial disclosure was outdated.</p> <p>The disclosures of estimation uncertainty included in note 2.2 do not meet the disclosure requirements of IAS 1 and have not been updated. An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:</p> <ul style="list-style-type: none"> (a) their nature, and (b) their carrying amount as at the end of the reporting period. <p>Examples of other disclosures helpful to the user of the accounts include</p> <ul style="list-style-type: none"> - the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity; - the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and - an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved. 	Partly

1. Audit Adjustments (10)

Misclassification and disclosure changes (continued)

Disclosure	Auditor findings	Adjusted?
Note 3 – Net Operating Expenditure	<p>The following issues were identified within the note which have been subsequently updated:</p> <ul style="list-style-type: none"> The depreciation of property, plant and equipment was updated from £4.086 million to £4.064 million to align with Note 7 – Property, Plant and Equipment. Consultancy costs currently included within the ‘auditors’ remuneration – audit work’ line of £0.030 million was removed from the disclosure. 	Yes
Note 4 – Contract Revenue	<p>The following issues were identified within the note which have been subsequently updated:</p> <ul style="list-style-type: none"> The format of Note 4a Contract Revenue was updated to aid the users of the accounts as initial draft was difficult to reconcile to the figures within the Statement of Comprehensive Net Expenditure. The compensation figures were updated from £0.374 million to £0.291 million and other sales figures updated from £0.325 million to £0.374 million, due to typos within the initial disclosure. 	Yes

1. Audit Adjustments (11)

Misclassification and disclosure changes (continued)

Disclosure	Auditor findings	Adjusted?
Note 5 – Segmental Reporting	<p>The following issues were identified within the note which have been subsequently updated:</p> <ul style="list-style-type: none"> Additional disclosures were included to detail the reclassification in the Statement of Comprehensive Net Expenditure of prior year figures due to the change in internal reporting <p>As per IFRS 8, Forestry and Land Scotland’s segmental reporting note does not detail:</p> <ul style="list-style-type: none"> The factors used to identify the entity’s reportable segment. If the necessary information about the geographical areas is not available and the cost to develop it would be excessive, that fact shall be disclosed. 	Partly
Note 6 – Gain/(Loss) on Sale of PPE	<p>The following issue was identified within the note which has been subsequently updated:</p> <ul style="list-style-type: none"> The 2021/22 comparative for sales proceeds was updated from m 4,544k to £4,459k. 	Yes
Note 7 – Property, Plant and Equipment	<p>The following issue was identified within the note which has been subsequently updated:</p> <ul style="list-style-type: none"> Additional disclosures were provided to detail the composition of the land balance. <p>The following change was not made to the financial statements:</p> <ul style="list-style-type: none"> Right of use assets should be classified as its own separate category to clearly identify amounts brought forward, any additions, depreciation and amounts carried forward. <p>We have raised a recommendation within Appendix 2 for consideration in future years.</p>	Partly
Note 8 – Biological Assets	<p>The following issue was identified within the note which has been subsequently updated:</p> <ul style="list-style-type: none"> The biological assets transferred to non-current assets held for sale revalued down disclosure was updated from nil to £0.064 million to align with the disclosure within the Statement of Comprehensive Net Expenditure. 	Yes

1. Audit Adjustments (12)

Misclassification and disclosure changes (continued)

Disclosure	Auditor findings	Adjusted?
Note 10 – Financial Assets	<p>The following issue was identified within the note which has been subsequently updated:</p> <ul style="list-style-type: none"> In the original version of the financial statement, the disclosure had not been fully updated and the movement in 2022/23 of £2.950 million was noted in full against revaluations however, this was subsequently updated to reflect the disposal of £2.875 million and exercise of option of £0.075 million. 	Yes
Note 11 – Financial Instruments	<p>The following issues were identified within the note which has been subsequently updated:</p> <ul style="list-style-type: none"> The Trade and Other Payables balance was updated from £15.050 million to £12.138 million in line with Note 17. The Exposure to Risk Table was updated as initial draft of the financial statements included 2020/21 figures in the table under 2021/22. The disclosure was updated to include terminology in line with IFRS 9, such as measured at amortised cost and old terminology was removed, such as loans and receivables. Accrued income of £10.744 million was originally removed from the financial assets disclosed within Trade and Other Receivables – this has subsequently been included and the balance of Trade and Other Receivables totals £27.818 million. The prior year Trade and Other Receivables figure for 2021/22 was updated to also add back in accrued income of £14.085 million – this resulted in the Trade and Other Receivables totalling £31.642 million. The note has been updated to confirm what other financial liabilities has been measured at. 	Yes

1. Audit Adjustments (13)

Misclassification and disclosure changes (continued)

Disclosure	Auditor findings	Adjusted?
Note 12 – Non-Current Assets Held for Sale	<p>The following issues were identified within the note which have been subsequently updated:</p> <ul style="list-style-type: none"> The narrative on biological assets revaluation loss was updated from £0.009 million to £0.064 million to align with the disclosure within the Statement of Comprehensive Net Expenditure. The prior year figures for the building revaluation loss was changed from £0.0595 million to £0.142 million to align with prior year figures. 	Yes
Note 13 – Inventories	<p>The following issue was identified within the note which has been subsequently updated:</p> <ul style="list-style-type: none"> The 2021/22 figures was updated from £12.650 million to £16.362 million in line with prior year – the initial draft financial statements had rolled forward to 2020/21 balance. 	Yes
Note 14 – Trade and Other Receivables	<p>The following issue was identified within the note which has been subsequently updated:</p> <ul style="list-style-type: none"> A reconciliation was added to the foot of the note to reconcile with the balances disclosed with Note 11 – Financial Instruments. 	Yes

1. Audit Adjustments (14)

Misclassification and disclosure changes (continued)

Disclosure	Auditor findings	Adjusted?
Note 15 – Leases	Within the workings to the operating leases note (Note 15b), it was noted that the formula feeding into the overall calculation did not include all underlying leases, resulting in the operating lease note being understated by £1.930 million. This has not been amended within the financial statements.	No
Note 17 – Trade and Other Payables	The following issue was identified within the note which has been subsequently updated: <ul style="list-style-type: none"> A reconciliation was added to the foot of the note to reconcile with the balances disclosed with Note 11 – Financial Instruments. 	Yes
Note 19 – Provisions for Liabilities	The following issues were identified within the note which have been subsequently updated: <ul style="list-style-type: none"> Additional disclosures were included to breakdown the provision balance into subcategories. The descriptions on the analysis of expected discounted cash flows table were updated to reflect the correct periods 	Yes

1. Audit Adjustments (15)

Misclassification and disclosure changes (continued)

Disclosure	Auditor findings	Adjusted?
Note 20 – Capital Commitments	The capital commitments figure has been updated from £9.375 million in the original draft of the financial statements to £4.943 million.	Yes
Note 22 – Related Party Transactions	The value of the purchases from Forestry and Land Scotland table includes the 2021/22 figures as restated however, this has been incorrectly classified and this reference was removed.	Yes
Note 25 – Events after the Reporting Period	The note was updated as expected to bring it up to date to the signing of the financial statements. The following change was not made to the financial statements: <ul style="list-style-type: none"> Accounting policy for post balance sheet events was not included within the Note 1 – Accounting Policies 	Partly
Material Items of Income and Expenditure	Under IAS 1, when items of income or expense are material, an entity shall disclose the nature and amount aggregated. Forestry and Land Scotland do not currently have a disclosure for separate categories of income and expenditure that are material.	No

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

We have identified eleven recommendations for Forestry and Land Scotland during our audit of the financial statements for the year ended 31 March 2023. We have agreed our recommendations with management and will report on progress on these recommendations during our 2023/24 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	<p>1. Review of FReM Accounting Policies</p> <p>The financial statements do not contain all necessary disclosures set out per the FReM and as such, are not fully compliant. Details have been highlighted within the disclosure misstatements within Appendix 1. This includes numerous outlined areas such as critical estimates and judgements, segmental reporting and leases.</p>	<p>Management should complete the FReM Financial Statement Disclosure Checklist and FReM Annual Report Disclosure Checklist to ensure all required accounting policies are met and appropriate disclosures are included within the financial statements and to ensure the annual report and accounts are aligned.</p> <p>Management Response: Agreed.</p> <p>Responsible Officer: Iain Gray</p> <p>Implementation Date: 31/3/24</p>
Medium	<p>2. Audit Evidence and Working Papers to support the Annual Accounts Process</p> <p>Audit records should be available with underlying working papers to support balances in the accounts. These should tie-back to the trial balance, which in turn ties to the unaudited accounts and that changes in versions of accounts and the trial balance should be suitably tracked, to support the accounts process. Significant work was required by the audit team to complete reconciliation to the financial statements.</p>	<p>Management should ensure that sufficient supporting audit evidence is available to support the balances disclosed in the accounts.</p> <p>Management Response: We agree that some of the working papers can be improved, particularly around IFRS16. These will be discussed in the Lessons Learnt with the team and reviewed prior to next year end. It would be useful if GT could give up a list of areas for improvement.</p> <p>Responsible Officer: Iain Gray</p> <p>Implementation Date: 31/3/24 (with lessons learnt sessions to be held this calendar year)</p>

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

Assessment	Issue and risk	Recommendations
<p>High</p>	<p>3. Journals – Users, Dates, Names and Authorisation</p> <p>There is no automated reviewing/authorisation of journals posted in the ledger, with the system not being set up to facilitate this. There are 383 users who are able to post journals within the system.</p> <p>Consequently, reliance is placed on offline reviews, which Forestry and Land undertake to help identify any unusual journals being posted. From our journal testing completed, we noted various journals that were posted incorrectly which required subsequent corrections and cases where the journal name had not been updated within the journal template. As such, as the reviewer/approver is not easily identifiable, management should review the current system processes and update to ensure that the individuals preparing, reviewing, posting and authorising journals can be easily seen and to ensure sufficient review of journals being posted are undertaken to reduce the risk of fraud or error from the opportunity to override management controls.</p>	<p>Review the processes in place for the authorisation of journals and consider introducing a formalised method of journal authorisation. The listing of journal users with the ability to post journals should be reviewed and updated as appropriate.</p> <p>Management Response: The current financial system does not support segregation of duties with regards to authorisation of journals. A manual process was put in place which improves the controls in 2021-22, but it is accepted that it is not perfect. We will review the list of people with access to post journals and remind approvers of their responsibility. Until which time the new finance system is implemented this will continue to be a tolerated risk.</p> <p>Responsible Officer: Rabu Khanam</p> <p>Implementation Date: 30/11/23</p>

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

Assessment	Issue and risk	Recommendations
High	<p>4. Year-End Transactions</p> <p>Our testing identified issues in relation to cut-off transactions (income being receipted in the bank account but not being assigned and invoices not being appropriately accrued for). Therefore, there is a risk that transactions are not recorded in the correct financial year.</p>	<p>A review of transactions around year-end should be undertaken by management as part of the annual reports and accounts process to ensure transactions are reported within the appropriate financial year.</p> <p>Management Response: We will review all cut off processes to ensure they are capturing the correct information at the right time. In relation to the specific items:</p> <p>The cut off issue with the bank account has been a historic practice and it was identified within a reconciliation, however this is accepted and will be included in the cut off processes for next financial year. It was recognised in the ledger.</p> <p>The invoices processed through SRP had a 31st March date and we accept they should have been accrued in 2022-23. This has now been adjusted for.</p> <p>Responsible Officer: Rachel Hart and Dieter Jonentz</p> <p>Implementation Date: 31/3/24</p>

2. Action plan and recommendations – Financial statements audit (4)

Assessment	Issue and risk	Recommendations
Medium	<p>5. Review of Valuers Reports for Reasonableness</p> <p>Our testing identified a transposition error on the valuers report which was found after the completion of year-on-year analytical procedures which found a 849% movement on an asset. There is a risk if valuers reports are not sufficiently reviewed by management on receipt, errors could be contained which are then transferred into the financial statements.</p>	<p>Management should ensure that all external expert outputs are properly reviewed, and procedures implemented to identify any significant errors arising.</p> <p>Management Response: Whilst the percentage of error looks large it was not material due to the scale of Biological Assets and did not warrant adjustment. We accept the recommendations and will ensure that more thorough review is undertaken going forward.</p> <p>Responsible Officer: Iain Gray</p> <p>Implementation Date: 30/5/24</p>
Medium	<p>6. Revenue Generating Land Assets</p> <p>From review of the valuation reports, we identified a number of assets which are revenue generating and challenged management over the classification. It was determined that these are not held solely for capital appreciation or to earn rentals however, there is a risk that these are not classified correctly.</p>	<p>On an annual basis, management should review the classification of land assets to ensure correct disclosure is being made and accounted for correctly within the financial statements.</p> <p>Management Response: Accepted</p> <p>Responsible Officer: Iain Gray</p> <p>Implementation Date: 31/3/24</p>

2. Action plan and recommendations – Financial statements audit (5)

Assessment	Issue and risk	Recommendations
Medium	<p>7. IFRS 16 – Right of Use Assets</p> <p>The right of use assets were included within Note 7 – Property, Plant and Equipment however, these were not included as a separate stand-alone category and were split across existing categories of Property, Plant and Equipment (e.g. land, dwellings & other buildings).</p> <p>This is the first year of implementation however, a separate category will be necessary going forward so amounts brought forward, additions, depreciation and amounts carried forward can be clearly identifiable.</p>	<p>Management should review the layout of the right of use disclosure and update accordingly to meet FReM requirements.</p> <p>Management Response: Accepted</p> <p>Responsible Officer: Iain Gray</p> <p>Implementation Date: 31/3/24</p>
Medium	<p>8. Accounts Review Comments</p> <p>Accounts review comments were shared with management on the 27 July 2023 and collated comments and issues arising from the engagement manager and leader review of the accounts, disclosure checklist points, casting issues and issues raised from the annual accounts hot review.</p> <p>These were not responded to on a timely basis despite following up and discussion with management on at least three occasions by the audit team, resulting in issues being identified at a late stage of the audit.</p>	<p>Management should ensure accounts review comments are reviewed and actioned at the earliest opportunity, with responses being provided in full for all items as partial and late responses lead to difficulties in closing the audit.</p> <p>Management Response: The audit of the annual accounts was a new process for all, and the collation of so much information from different areas of the business was difficult. There have already been discussions internally on how we manage this better.</p> <p>It must also be recognised that the Inflo System did not always send out emails to individuals when new requests/updates occurred. This system was, we believed the primary source not the collated comments spreadsheet. In addition there were periods when updates were made and we waited for a few weeks for responses/updates. This will all be picked up in the Lessons Learnt. Lessons Learnt Sessions will be scheduled for November 2023</p> <p>Responsible Officer: Jennie Smith with help from Rhondda Salmond and Isla McCaskie</p> <p>Implementation Date: 31/3/24</p>

2. Action plan and recommendations – Financial statements audit (6)

Assessment	Issue and risk	Recommendations
<p>Medium</p>	<p>9. Infrastructure Assets</p> <p>Infrastructure assets are inalienable assets, expenditure on which is only recoverable by continued use of the asset created. For Forestry and Land Scotland, infrastructure assets include roads, forest tracks and other similar type assets.</p> <p>There is an increased focus around infrastructure assets and there is a risk that these are not fairly stated within the financial statements.</p>	<p>Forestry and Land Scotland should review its arrangements for recording infrastructure assets and the level of detail, to support additions, disposals and derecognition and complete an assessment to determine if any elements are capital in nature.</p> <p>Alongside this, we would recommend a full review of the Useful Economic Lives (UEL) and ensuring that management can justify the UEL determined, and how this is evidenced.</p> <p>Management Response: We have received this challenge previously and have undertaken work to confirm the correct treatment. We will continue to look at this however Forestry roads and infrastructure have been treated this way due to the fact that they are created with a single harvest in mind and their useful economic life is therefore short.</p> <p>Responsible Officer: Iain Gray Implementation Date: 31/3/24</p>
<p>Medium</p>	<p>10. Holiday and Flexi Pay Accrual</p> <p>The holiday and flexi pay balances are collated by each cost centre manager who will record on a spreadsheet at year-end and share with the Senior HR Manager, and an accrual is then calculated from these reports. Across each cost centre it was noted that there was an inconsistent approach on leave being carried forward.</p> <p>There is an increased risk that being reliant on cost centre managers will result in human errors arising within the year-end balances and subsequent accrual.</p>	<p>Forestry and Land Scotland should review their holiday and flexi pay policies to ensure consistency across the organisation. We would recommend the payroll system be utilised to record the holiday and flexi pay balances.</p> <p>Management Response: Instructions are given throughout the year, on annual leave to be carried forward. However, there are always occasions where managers use their discretion to approve a greater level of leave than 10 days to be carried forward such as when it has built up through sick leave or maternity leave. Annual leave is managed on i-Trent whereas flexi leave is calculated on spreadsheets. Plans are being developed to move flexi to an e-system.</p> <p>Responsible Officer: Julie Fitzpatrick Implementation Date: 31/3/24</p>

2. Action plan and recommendations – Financial statements audit (7)

Assessment	Issue and risk	Recommendations
<p>Low</p>	<p>11. NFI</p> <p>The matches for the NFI exercise were released in January 2023. Processes and arrangements are in place for investigating the matches. All matches should be followed up on and the results recorded on the NFI system.</p>	<p>Report NFI progress updates the Audit and Risk Committee.</p> <p>Consider completing the self-appraisal checklist referred to in the 2021 NFI Report.</p> <p>Management Response: An update will be provided to the next ARC</p> <p>Responsible Officer: Jennie Smith</p> <p>Implementation Date: 14th December 2023</p>

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

We have set out below, based on our audit work undertaken in 2022/23, the key recommendations arising from our wider scope and Best Value audit work:

Recommendation

1. Financial Sustainability – Transformation Plans

Forestry and Land Scotland are heavily reliant on cash reserves in future years in order to eliminate deficits predicted for 2023/24 and beyond.

Recommendation: A depth of pace will need to be undertaken on the transformation programme to ensure the Forestry and Land Scotland can bridge the significant deficits in a short space of time, to ensure that not only efficiencies can be delivered but that financial sustainability can be achieved. To ensure financial sustainability for the medium to longer term, difficult decisions will be required and these may be dependent on the level of grant funding received in future years. Forestry and Land Scotland will need to ensure its cost base is fully understood so it is able to deliver increased productivity and efficiency initiatives to reduce costs and deliver financial benefits. The organisation will need to upscale the pace and delivery of transformation to achieve and mitigate the risk of becoming financially unsustainable.

Agreed management response

Management Response: A Business Review is being undertaken which will look at specific areas of the business that need to be more efficient and effective. The value of this work will not be instant and is likely to improve our financial position over the next two years. Further financial sustainability measures are also being discussed to establish the future state for FLS alongside a roadmap for implementation. It is still early in the discussion phase and to ensure that we have the time needed to establish this we will be looking to sell some plantations that do not meet the future needs of the business. These funds will be used to fund specific areas of investment already embarked upon, freeing up reserves for operational use.

Responsible Officer: Donna Mortimer

Implementation Date: Throughout 23/24 and beyond

3. Action plan and recommendations – Wider scope and Best Value (2)

Recommendation

2. Financial Sustainability - Reserves

There is a risk that continued reliance on reserves to bridge funding gaps will create financial sustainability issues for Forestry and Land Scotland.

Recommendation: The organisation will need to continue to monitor the percentage level of adequate reserves as funding gaps continue to grow and as Forestry and Land Scotland looks to transformation in future years to ensure reserves do not dip to an unsustainable level.

We appreciate management's response and understand the reserves position forms part of the annual budget and longer-term financial planning process.

Agreed management response

Management Response: Agreed. Reserves are monitored on a monthly basis every month as part of the BMR process. Forestry and Land Scotland is aware of the need to improve its financial sustainability, hence the setting up of the transformation measures and Business Review Project.

Responsible Officer: Jennie Smith

Implementation Date: This is already implemented and will continue for at least two years

3. Vision, Leadership and Governance – ARC Self-Evaluation

There is a risk that the Audit and Risk Committee is not complying with good practice and cannot evidence its effectiveness.

Recommendation: In line with good practice and governance arrangements, Forestry and Land Scotland's Audit and Risk Committee should look to implement an annual self-evaluation and consider the results on an annual basis to identify strengths, areas for improvement and be able to succession plan.

Management Response: Accepted. The chair will receive guidance on self evaluation in line with the Scottish Government Audit and Risk Committee Handbook

Responsible Officer: Rhondda Salmond

Implementation Date: February 2024

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

Recommendation

4. Use of Resources - Workforce Planning

There is a risk that with the workforce challenges facing Forestry and Land Scotland, the organisation have inadequate resources and capacity in place to deliver its objectives.

Recommendation

An overarching longer-term workforce plan should be developed and embedded across the organisation.

Agreed management response

Management Response: There is a current approach to workforce planning within the five Regional Teams, involving analysing limited workforce data and discussions with Regional Managers. Activities are also ongoing to create a system for vacancy management, including tight management of RRA, TRA, fixed term contracts, sickness absence, maternity leave, career breaks, etc.

The wider approach to workforce planning has been reviewed and proposals were taken to the FLS Management Board in September. Although the long term plan has been agreed in principle, it was the view of the Management Board that they would also like a shorter term approach in the first instance. A paper for this has been drafted and will be presented to the Management Board in November 2023.

Responsible Officer: Julie Fitzpatrick

Implementation Date: Dates to be presented in the November 2023 report

3. Action plan and recommendations – Wider scope and Best Value (4)

Recommendation

5. Climate Change Reporting

There are currently no specific disclosure requirements on climate change and environmental matters. However, public bodies should be including climate change in their consideration of principal risks and making disclosures accordingly. Narrative reporting requirements and expectations should relate to both the body's impact on the environment, and the impact climate change may have on the body's future. The Financial Reporting Council completed a thematic review of climate change-related considerations explaining the general requirements of IFRS providing a clear framework for incorporating the risks of climate change into financial reporting and although this review focused on companies, the principles can be applied to public sector bodies.

Recommendation

Forestry and Land Scotland should review their current disclosures to ensure that their narrative reporting adequately reflects their exposure to climate-related issues and how they are monitoring and managing these risks.

Agreed management response

Management Response: Accepted. We will review for the 2023-24 accounts

Responsible Officer: Gemma Stenhouse

Implementation Date: April 2024

4. Follow up of prior year recommendations (1)

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 and their wider scope work. This resulted in six recommendations being reported in their 2021/22 Annual Audit Report.

See below the follow up on the implementation of these prior year recommendations and an assessment of the progress and whether any are not yet implemented.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue (management response)
Closed	<p>1. Management land valuations, remuneration report and carbon capture receipts</p> <p>We identified misstatements in minor land and land valuations, which stemmed from an Access database issue. Remuneration report balances were misstated as incorrect reports were used to support figures in the draft annual report and accounts. 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> <p>Year-End Update: The controls that had been put in place worked and this error did not re occur.</p>

4. Follow up of prior year recommendations (2)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue (management response)
<p>Superseded – new recommendations have been raised around the treatment of non-current assets including investment properties and infrastructure assets.</p>	<p>2. Accounting for non-current assets</p> <p>The accounting treatment of infrastructure and intangible assets should be reviewed. The calculation of the value of felled timber should be reviewed to confirm that it remains accurately based. Accounting policies should be reviewed to ensure they reflect any changes to practice.</p> <p>Whilst we recognise that this is not material to the annual report and accounts, this was raised in our 2020/21 Annual Audit Report and note that a review is planned for 2022/23.</p> <p>Risk: There is a risk that the value of non-current assets is not fairly stated.</p>	<p>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> <p>Year-End Update: Value of felled timber has been reviewed and is in line with the standards. We will look again at roads which has been accepted above.</p>
<p>Superseded – a new recommendation has been raised around cut-off.</p>	<p>3. Mineral Royalties</p> <p>In 2020/21 audit testing identified income of £428,000 relating to 2019/20 that had not been recognised in the previous financial year. This income was accounted for in 2020/21 when received by Forestry and Land Scotland. A planned review in 2021/22 did not take place.</p> <p>Risk: There is a risk that income is not accounted for in the correct financial year</p>	<p>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> <p>Year-End Update: Forestry and Land Scotland now has more management accountants who work with the regions to ensure that income is recognised appropriately</p>

4. Follow up of prior year recommendations (3)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue (Management Response)
<p>Ongoing – work is ongoing around the development of longer term financial planning.</p>	<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. Further transformation plans are at any early phase that seek to address our long term position.</p> <p>Year-End Update: The long term sustainability of the organisation is not a quick fix and work will be required for the next two years and beyond. The organisation is facing major transformation ahead and this needs to be considered and delivered appropriately.</p>
<p>Ongoing – in 2022/23, the Strategic Board only met once, once meetings are fully implemented, recommendation will be closed.</p>	<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>

4. Follow up of prior year recommendations (4)

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

5. Audit fees, ethics and independence (1)

Independence and ethics

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

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

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

5. Audit fees, ethics and independence (2)

Fees and non-audit services

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

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

External Audit Fee			Fees for other services	
Service	Audit Plan £	Annual Audit Report £	Service	Fees £
External Auditor Remuneration	£112,480	£126,930	We confirm that for 2022/23, we did not receive any fees for non-audit services	Nil
Pooled Costs	£7,470	£7,470		
Contribution to Audit Scotland support costs	£3,960	£3,960	* Please refer to comments on page 80 regarding the final position still to be agreed.	
Sectoral Cap Adjustment	-£21,930	-£21,930		
2022/23 Audit Fee	£101,980	£116,430*		

The reason for the fee variation is due to the new risk areas / and additional work required in the following areas that is additional during 2022/23:

- Journals – additional work due to the higher risk environment because of the lack of authorisation controls;
- Biological assets and forest estate and land valuation – the use of a specialist valuer was required;
- Technical review – a detailed technical review of the accounts was undertaken and the numerous issues arising has added time into the audit process and;
- Working papers – significant work required as numerous working papers did not tie to the financial statement line item resulting in additional work.

5. Audit fees, ethics and independence (3)

The fees do not reconcile directly to the financial statements. We have provided a reconciliation below to reconcile. The figures are in round thousands as per the disclosure in Note 3, auditors' remuneration – audit work.

Fees per financial statements	£102
• Additional audit fee	£14*
- Total fees per above	£116

* Final additional audit fee confirmed as £14,450 upon conclusion of all outstanding matters on the audit.

Client service

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

Transparency

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

6. Communication of audit matters

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

Our communication plan	Audit Plan	Annual Report (our ISA 260 Report)
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Views about the qualitative aspects of 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.		•

