

Annual Audit Report for Scottish Forestry

Financial year ended 31 March 2023

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

5 September 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 Scottish Forestry or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2021). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Executive Summary

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

Financial Statements

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

- Scottish Forestry's financial statements give a true and fair view of the financial position of the organisation at the 31 March 2023;
- Scottish Forestry'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);
- Scottish Forestry's financial statements and the audited parts of the Remuneration Report and Staff Report have been prepared in accordance with the requirements of the 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 Scottish Forestry.

We received the first draft of the financial statements on 2 June 2023. The target submission dates have moved back to pre-Covid timetables with 31 August 2023 as the target date. Scottish Forestry have convened a meeting to authorise a final version of the financial statements on 5 September 2023, therefore, the target deadline will not be met.

Our audit work was substantially completed during June to July 2023 with completion processes in August 2023. Our findings are summarised on pages 7 to 23. We have identified six adjustments to the primary financial statements which were identified and raised by the finance team. Further detail is set out in [Appendix 1](#) including disclosure adjustments.

We have raised 6 financial statements recommendations for management as a result of our audit work on the financial statements. These are set out in [Appendix 2](#). Our wider scope audit has raised 4 recommendations, and these are outlined within [Appendix 3](#).

We issued an unqualified audit opinion on 5 September 2023.

Executive Summary

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

Financial Statements

Our work is now complete and any outstanding items as part of the usual closing processes have now been received.

We issued our unqualified audit opinion on 5 September 2023 after the Audit and Assurance Committee considered our report. Any items outstanding in the version of our Annual Audit Report to the Committee were completed by or received on 5 September 2023.

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

Introduction (1)

Scope of our audit work

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

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

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

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

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

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

Audit approach

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

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

Adding value through our audit work

We aim to add value to Scottish Forestry throughout our audit work by

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

Introduction (2)

Wider scope

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

In our External Audit Plan for the year ended 31 March 2023, we documented our assessment of the wider scope risks and planned audit work. At the planning stage, we identified one significant risk:

- **Financial sustainability** – future financial plans for 2023/24 and beyond

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

Further details of the work undertaken are outlined on pages 25 to 33.

We have raised four recommendations for management as a result of our audit work on wider scope. These are set out in **Appendix 3**.

Audit of the annual report and accounts

Our approach to the audit of the financial statements



Overall materiality

£1.050 million which represents 1.5% of the company's gross expenditure.

This has decreased from the Audit Plan value of £1.081 million due to the update of the materiality based upon the actual values within the 2022/23 draft financial statements.

Key audit matters

The key audit matters were identified as:

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

We identified the following other risk:

- Implementation of IFRS16.

Internal control environment

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

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

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

We have identified one change in our approach since our Audit Plan was presented to you on 29 March 2023. This change was in our approach to the testing of grant accruals where we relied upon controls, as detailed above. The risks identified remain the same.

Status of Audit Work

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

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 unqualified opinion on 5 September 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 £1.050 million representing 1.5% of Scottish Forestry's gross expenditure.
- Performance materiality was set at £0.630 million, representing 60% of our calculated materiality.
- We report to Officers (Management) any differences identified over £0.052 million.
- We applied a lower materiality threshold for disclosures within the Remuneration Report to Senior Officer and Board Member Remuneration Tables due to the sensitive nature of this disclosure, the lower materiality applied to this area was £0.005 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 Scottish Forestry and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks; International Financial Reporting Standards and the 2022/23 Code of Audit Practice.
- We enquired of Senior Officers and the Audit and Assurance Committee, concerning Scottish Forestry's policies and procedures relating to the identification, evaluation and compliance with laws and regulations; the detection and response to the risks of fraud; and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of Senior Officers and the Audit and Assurance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of Scottish Forestry's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We have reviewed the principal risks to journal entries that could alter Scottish Forestry's financial performance for the year and the risk of fraud in expenditure recognition. Our audit procedures in relation are documented within our response to the significant risk of management override of controls below.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in certain account balances and significant accounting estimates.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - Scottish Forestry's operations, including the nature of its operating revenue and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - Scottish Forestry's control environment, including the policies and procedures implemented by Scottish Forestry to ensure compliance with the requirements of the financial reporting framework.

Overview of audit risks

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

Risk title	Risk level	Change in risk since Audit Plan	Fraud risk	Key audit matter	Level of judgement or estimation uncertainty	Testing approach	Status of work to date
Management override of controls	Significant	↔	✓	✓	Low	Substantive	● Green
Risk of fraud in expenditure	Significant	↔	✓	✓	Medium	Substantive	● Green
Implementation of IFRS 16	Other	↔	✗	✗	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.

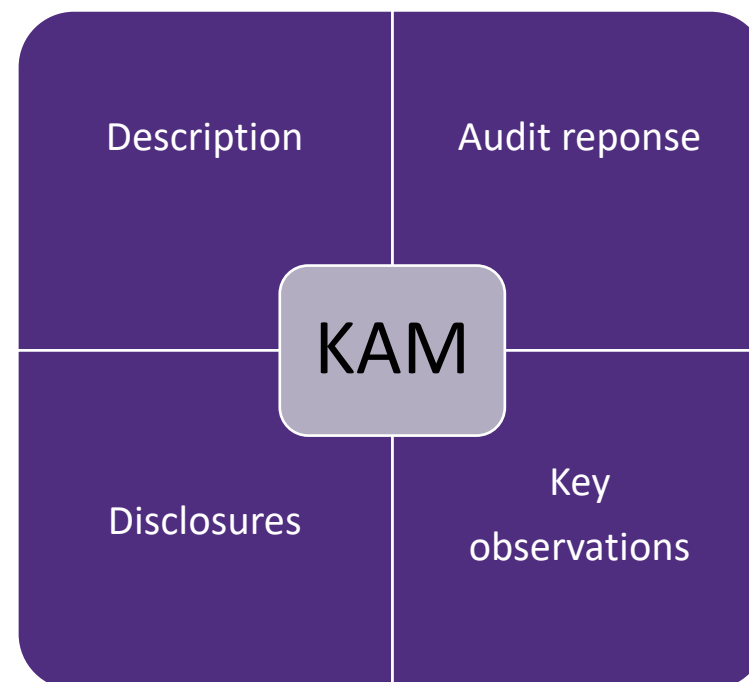
These matters included those that had the greatest effect on:

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

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

Other risks

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



Significant risks and Key Audit Matters (2)

Other significant risks identified in our Audit Plan

Commentary

Management override of controls

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

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

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

Our results

Our work to date has not identified any issues to bring to your attention and at present, we have not identified any control weaknesses or any indication of management override of controls.

Each journal has sufficient supporting documentation to support its business rationale and is appropriately reviewed and authorised.

Our results will be updated on completion and final review of the work in relation to journals.

Significant risks and Key Audit Matters (3)

Other significant risks identified in our Audit Plan

The revenue cycle includes fraudulent transactions

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

(rebutted)

Commentary

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

- there is little incentive to manipulate revenue recognition;
- opportunities to manipulate revenue recognition are very limited due to the majority of revenue received being grant funding from the Scottish Government.

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

Our results

Our work has not identified any issues in relation to revenue recognition.

Significant risks and Key Audit Matters (4)

Other significant risks identified in our Audit Plan

Commentary

Risk of fraud in expenditure recognition (Practice Note 10)

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

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

We therefore focussed our risk on the non-payroll expenditure streams. Our testing included a specific focus on year-end cut-off arrangements, including consideration of the existence of accruals in relation to non-payroll expenditure.

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

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

Our results

Our work carried out has not identified any issues in relation to this risk.

Other risks

Other risks identified in our Audit Plan

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 £1.770 million and £1.770 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 however, it was noted that the organisation does not maintain a lease register and we have raised a control recommendation within Appendix 2.

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 no 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.

Financial Statements – key judgements and estimates (1)

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

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

Assessment

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

Financial Statements – key judgements and estimates (2)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Assessment of leases – £1.770 million</p> <p>Net book value of right of use assets (Note 6)</p>	<p>Scottish Forestry determines the amounts to be recognised as the lease liability as the present value of the payments for the remaining lease term, net of irrecoverable value added tax, discounted either by the rate implicit in the lease, or, where this cannot be determined, the rate advised by HM Treasury for that calendar year. T</p> <p>The right-of-use asset is measured at the value of the liability, adjusted for any payments made or amounts accrued before the commencement date; lease incentives received; incremental costs of obtaining the lease; and any disposal costs at the end of the lease.</p> <p>Where leases are ongoing with no end date, Scottish Forestry have assumed a ten-year lease period.</p>	<p>We reviewed Scottish Forestry's assessment of the estimate considering the requirements of ISA (UK) 540 requirements. Further detail of our audit procedures is included on page 20.</p> <p>Conclusion</p> <p>Our work is concluded in this area, and we have no matters to raise.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious.</p>

Financial Statements – key judgements and estimates (3)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Accruals - £1.956 million</p> <p>Grant Accruals – £25.958 million</p> <p>Note 10 Trade and Other Payables</p>	<p>Scottish Forestry accrues for expenditure to ensure that all expenditure that is incurred during the financial year, but has not yet been billed, invoiced or paid for, is recording in the year to which it relates. Scottish Forestry has two main types of accruals:</p> <p>Manual accruals</p> <p>These are largely based on non-purchase order-based accruals. Examples include the holiday and flexi pay accruals and amounts due from other government bodies. These are often based on best available information.</p> <p>Grant accruals</p> <p>Given the planting season is during the latter part of the financial year, the majority of claims are submitted around March 2023 for which the required checks and inspection are undertaken after the year-end, resulting in a large accrual at the 31 March 2023.</p>	<p>We have performed substantive testing on a sample of manual accruals, Forestry Grant Scheme accruals, recurrent accruals and rural payment accruals. Our work has not identified any errors.</p> <p>Conclusion</p> <p>Our work is concluded in this area, and we have no matters to raise.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>

Other key elements of the financial statements (1)

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

Issue	Commentary
Matters in relation to fraud and irregularity	It is Scottish Forestry's responsibility to establish arrangements to prevent and detect fraud and other irregularity. As auditors, we obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We obtain annual representation from officers and those charged with governance regarding Scottish Forestry's assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We have also made inquiries of internal audit around internal control, fraud risk and any known or suspected frauds in year. We have not been made aware of any incidents in the period and no issues in relation to these areas have been identified during the course of our audit procedures.
Accounting practices	We have evaluated the appropriateness of Scottish Forestry's accounting policies, accounting estimates and financial statement disclosures. We have identified disclosure adjustments required to the financial statements which have been detailed in Appendix 1.
Matters in relation to related parties	We have identified two related parties that was omitted from the draft financial statements that has been added in the final version. We are not aware of any related parties or related party transactions which have not been disclosed in the final version of the accounts.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. We have not identified any cases of money laundering or fraud at Scottish Forestry.
Other information	<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 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 outlining the review of effectiveness and conclusions and updates have been made. 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 Scottish Forestry as required by auditing standards. This can be found as a separate item to this report. We have not requested any specific representations in this letter.

Other key elements of the financial statements (3)

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2022). The Financial Reporting Board recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Company meets this criteria, and so we have applied the continued provision of service approach.</p> <p>In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered management’s (senior officer’s) assessment of the appropriateness of the going concern basis of accounting and conclude that:</p> <ul style="list-style-type: none"> • a material uncertainty related to going concern has not been identified • management’s (senior officer’s) use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
National Fraud Initiative	<p>The National Fraud Initiative (NFI) in Scotland is a biennial counter-fraud exercise led by Audit Scotland, and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems that might suggest the existence of fraud or error. Participating bodies, including Scottish Forestry, receive matches for investigation. No issues were identified to highlight to the Committee and the organisation continue to be committed to the NFI exercise.</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	
Casebook	ITGC assessment (design and implementation effectiveness only)	 Green	 Green	 Green	 Green	Fraud in Expenditure Recognition	
RPID	ITGC assessment (design and implementation effectiveness only)	 Green	 Green	 Green	 Green	Fraud in Expenditure Recognition	

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 Scottish Forestry was affected by the events. Our inquiries confirmed that Scottish Forestry 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

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 one wider scope risk in relation to financial sustainability.

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

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
<p>Financial Management</p> <p>Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	No significant risks identified	<p>Scottish Forestry's Financial Management Arrangements</p> <p>The financial performance monitoring process is reported to Scottish Forestry Strategic Advisory Group and Audit and Assurance Committee at each meeting as an integral part of the budget monitoring process.</p> <p>Variations from budget are clearly explained within the finance reports, with actions identified to resolve any adverse variances. This provides senior management and members with the opportunity to review, challenge and scrutinise financial performance. All budgetary and financial information submitted to board members is produced by the Finance Team within Scottish Forestry and reviewed by the Head of Finance and Business Support for technical accuracy. The finance team within Scottish Forestry have access to real time information through the finance ledger systems to provide accurate and timely financial monitoring reports.</p> <p>Finance Team</p> <p>The narrative in the front end of the annual report and accounts notes that in 2022/23, Scottish Forestry staff turnover was circa 10% and like other public sector organisations, the organisation continues to face workforce challenges and a workforce plan has been developed.</p> <p>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>Our review of financial reports during the year did not identify any significant issues.</p> <p>Financial policies and procedures have been reviewed and we are satisfied the financial regulations are comprehensive, current and promoted within the body.</p> <p>We have not identified any issues regarding the skills and capability of finance staff within the organisation. Given the size of the organisation, should staff shortages arise, the finance team may face capacity issues.</p>

Wider scope audit (2)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
Financial Management (continued)		<p data-bbox="602 360 898 389">Financial Performance</p> <p data-bbox="602 440 1682 624">Scottish Forestry are required to deliver a balanced budget each year. Scottish Forestry were provided with funding from Scottish Government of £30.0 million for 2022/23 and during the year, drew down funding as required. In 2022/23, Scottish Forestry has reported an outturn of £60.414 million against its overall revised budget of £84.764 million, which is an underspend of £24.350 million.</p> <p data-bbox="602 671 1682 775">Scottish Forestry's budget was revised downwards as part of the autumn and spring budget revision progress which resulted in the net budgeted expenditure position to be reduced by £6.1 million.</p> <p data-bbox="602 823 1682 1086">Scottish Forestry has continued to participate in various savings exercises undertaken across the Scottish Government including savings identified as part of the Path to Balance project where the organisations' Woodland Grants resource budget allocation has been reduced by £3.0m from £23.0m to £20.0m. The challenges faced in achieving planting targets means Scottish Forestry's Woodland Grants budget will come under extreme scrutiny and there is a risk that this is reduced in future years.</p>	<p data-bbox="1704 360 2157 584">Our review of financial reports during the year noted a significant underspend with financial forecasting/budgeting challenges due to the planting season arising around year-end.</p> <p data-bbox="1704 632 2157 855">We have not identified a significant risk in relation to the financial management dimension. We have raised a recommendation around Financial Management within Appendix 3.</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>Scottish Forestry is funded by grant income from the Scottish Government with additional co-financing income received from the European Union. The main streams of expenditure for Scottish Forestry is grant expenditure (circa 68% of total expenditure) and staff costs (17% of total expenditure).</p> <p>Scottish Forestry undertake an annual budget process which forms part of the wider annual business plan process. This includes discussions taking place between the leadership team and Scottish Government regarding funding requirements.</p> <p>As the Scottish Forestry 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, this has been set at £102.4 million including £77.2 million for Woodland Grants, £20.3 million for programme and running costs, £4.5 million for Forest Research and £0.4m for depreciation. Scottish Forestry have set a balanced budget.</p> <p>Medium Term Financial Planning</p> <p>Scottish Forestry do not perform any medium to long term financial planning due to the impact of one year funding settlements provided by the Scottish Government. Programmes are undertaken based on the budget agreed as opposed to services/programmes being delivered and funding then having to be identified.</p>	<p>We have not identified any issues regarding the budgeting arrangements in place at Scottish Forestry. 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 Scottish Forestry reduces as the government prioritises other areas of public spend which highlights the importance that Scottish Forestry considers and implements a medium-term financial plan.</p> <p>Our discussions with executive team members has highlighted that management do understand the risk that it faces. The Senior Executive Team have formulated a list of actions to address the ongoing deficit. A submission is due to go to the Cabinet Secretary in outlining Scottish Forestry's suggested actions and priorities to find a suitable solution whilst still working within portfolio budget envelopes.</p> <p>Additionally, as a result of the EU exit, grants approved after 31 December 2020 are not eligible for co-financing. Whilst the Scottish Government assigned additional funding to cover the co-financing shortfall in 2022/23 and 2023/24, there still remains a shortfall in funding if Scottish Forestry achieve their planting target. With pressure on the Scottish Government's resource and capital budget. there is the possibility that it will not be full funded in the future years and as a result, Scottish Forestry will not be able to achieve the planting targets set. To minimise the potential of underfunding, Scottish Forestry are continuing to engage with the Scottish Government and the organisation are looking at ways of redeploying existing funding allocations which may facilitate actions that help resolve woodland creation issues. As such, plans should be formed in preparation for next years budgeting looking at scenario analysis should funding be cut.</p>	<p>It is important that Scottish Forestry 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>Scottish Forestry are unique in their service delivery and require the support of Scottish Government funding in order to finance the grants that it invests in. The partnership between Scottish Government and Scottish Forestry is key to Scottish Forestry's programme delivery and will require continued detailed discussions on the body's funding requirements.</p> <p>We have raised an action plan recommendation for the need for Scottish Forestry to look to develop medium to longer term financial plans which links to the new corporate plan.</p> <p>Action Plan recommendation raised see Appendix 3.</p>

Wider scope audit (5)

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>No significant risks identified</p>	<p>The Strategic Advisory Group (SAG) comprises all function heads, the Chief Forester and three non-executive advisers. The SAG's role is to support and provide advice to the CEO to help them reach robust and well-informed decisions. During the year, the SAG met on four occasions and discussed a wide range of topics including horizon scanning, updating governance arrangements, future working projects and the results of the People Survey.</p> <p>The Senior Executive Team (SET), which comprises the heads of the five functions, leads Scottish Forestry and oversees the day-to-day management and direction of the agency. SET deliver against agreed programmes of work, and provide information, advice, and guidance to the CEO on key corporate matters and decisions. During the year, they met on seven occasions, discussing a wide range of issues.</p> <p>The Audit and Assurance Committee (AAC) comprises the non-executive advisers. The AAC provides advice and constructive challenge to the CEO, in particular in relation to their responsibilities for issues of risk management, governance, and associated assurance to support year-end accountability and reporting. The AAC operates in accordance with the principles contained in SG's Audit Committee Handbook and met three times during the year. During the year, the Chair initiated a 360 degree effectiveness review of the committee and its members via the Scottish Government Handbook checklist on Committee effectiveness, seeking views from each of the non-executives but also of Management, Internal Audit and External Audit.</p> <p>All responsibilities of delegated authorities in relation to internal control are clearly documented within the Framework Document as agreed with the Scottish Government.</p>	<p>Our review of attendance of members at SAG meetings and has not flagged any issues. We conclude that the SAG effectively challenge and scrutinize reports presented and ensure effective decision making.</p> <p>We note the annual review of performance undertaken by the AAC as an area of good practice of governance where the board continually looks to evaluate its effectiveness on a regular basis and plan for succession.</p> <p>We are satisfied that the governance arrangements are appropriate and operate effectively. Members of the SAG are responsible for supporting the Chief Executive in order to make robust and well-informed decisions.</p> <p>Scottish Forestry publishes minutes of each Committee online, to ensure transparency of decision making. However, there have been no minutes uploaded for 2023 for the SAG and SET meetings. We have raised this as a recommendation within Appendix 3.</p>

Wider scope audit (6)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
Vision, Leadership and Governance (continued)		<p>Governance Statement The governance statement details the composition and governance structure of Scottish Forestry and how that supports the achievement of the organisation's priority themes. In May 2023, Dr. David Signorini (Chief Executive and Accountable Officer) was seconded to the Scottish Government, and Paul Lowe was appointed as interim Accountable Officer on 3 July 2023 and will sign the accounts. This has been reported within the Corporate Governance Statement.</p> <p>Risk Management Scottish Forestry maintains a strategic risk register which is derived from the high-level risks of the organisation, along with corporate risks within the Group. Risks are evaluated by considering their probability of occurring along with their potential to impact on the outcomes expected of Scottish Forestry, the organisation's operations and its stakeholders. The risks and management's mitigating actions are reviewed by the Audit and Assurance Committee at every meeting.</p> <p>Internal controls Internal audit activity is undertaken by the Scottish Government's Internal Audit Directorate. Internal audit undertook five internal audits reviews during the financial year, covering the Forestry Grant Scheme (reasonable assurance), Strategic Timber Transport Fund (limited assurance), Certificate of Assurance (reasonable assurance), Data Protection (reasonable assurance) and Key Performance Indicators (limited assurance). This resulted in an overall assurance opinion for the 2022/23 financial year as reasonable assurance.</p>	<p>From review of the corporate governance statement, we are satisfied that it reflects the key findings from audit, scrutiny and inspection. Minor changes were made to the statement to provide clarification around significant risks and this has been carried to Appendix 1.</p> <p>We are satisfied that the key risks have been identified and that the pace of improvement is appropriate to the risks and challenges facing Scottish Forestry.</p> <p>Our review of internal audit reports did not highlight any significant weaknesses in controls within the organisation for the 2022/23 financial year.</p> <p>We have not identified a significant risk in relation to the vision, leadership and governance area. Based on our work performed, we consider the governance arrangements in place at Scottish Forestry to be effective and appropriate.</p>

Wider scope audit (7)

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>Scottish Forestry’s corporate plan covers the period 2020 to 2023 and is supported by an annual business plan which provides more detail on the steps Scottish Forestry will be taking to make progress towards their strategic objectives annually. An updated corporate plan is being developed which will reflect on past achievements and lessons learned. The plans include how Scottish Forestry supports the Scottish Government’s National Performance Framework. This means that the organisations’ corporate objectives are aligned to the larger national framework to demonstrate how Scottish Forestry deliver on the objectives.</p> <p>The current suite of KPIs are being reviewed and updated as part of the current work to produce the new Corporate Plan to ensure they are aligned to SMART principles. Additionally, internal audit completed a review of KPIs and provided a limited assurance rating due to the lack of a formal documented KPI policy/strategy and annual reporting does not include all KPIs.</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 not identified a significant risk in relation to the use of resources to improve outcomes area. There is an ongoing recommendation around performance reporting which has been outlined within Appendix 4.</p>

Wider scope audit (8)

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 - Cyber security. 	<p>We did not identify any specific risks in relation to climate change at Scottish Forestry.</p> <p>We did not identify any specific risks in relation to cyber security at Scottish Forestry.</p>	<p>Climate Change</p> <p>Taking into account the long-term trends of climate emergency, digitalisation and demographic change, Scottish Forestry 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>Scottish Forestry 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> <p>Cyber Security</p> <p>We have considered risks related to cyber security at Scottish Forestry 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 Scottish Forestry was affected by the events. Our inquiries confirmed that Scottish Forestry 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. We have not identified any significant risks in relation to the arrangements in place to secure best value from our work performed over wider scope areas as outlined in this report.

Appendices

1. Audit Adjustments (1)

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

Impact of adjusted misstatements

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

Detail	Comprehensive Income and Expenditure Statement £	Statement of Financial Position £	Impact on total net expenditure £
Income Classification			
Dr Other Income	323	-	-
Cr Co-Finance Receipts	(323)		
<i>Being reclassification of income</i>			
Accrued Income			
Dr Co-Financing Accrued Income			
Cr Co-Financing Receipts	(13)	13	(13)
<i>Being increase to the accrued income balance</i>			
IFRS Creditor Classification			
Dr IFRS 16 Lease Creditor (Current)	-	1,425	-
Cr IFRS 16 Lease Creditor (Non-Current)		(1,425)	
<i>Being reclassification of IFRS 16 lease creditor</i>			

1. Audit Adjustments (2)

Impact of adjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £	Statement of Financial Position £	Impact on total net expenditure £
Back Dated Pay Award			
Dr Staff Costs	96		96
Cr Accruals			
<i>Being the accrual for the back dated pay award</i>		(96)	
Income Reclassification			
Dr Co-Financing Receipts	10	-	-
Cr Other Income	(10)		
<i>Being the adjustment and reclassification of income</i>			
Back Dated Pay Award			
Dr Other Administration Expenditure	100		100
Cr Accruals			
<i>Being the increase in dilapidation costs</i>		(100)	
Funding			
Dr Accrued Income	-	174	-
Cr Funding			
<i>Being the increase in funding received</i>		(174)	

1. Audit Adjustments (3)

Impact of unadjusted misstatements

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

Impact of unadjusted misstatements in the prior year

There were no unadjusted misstatements brought forward from the 2021/22 audit carried out by your predecessor auditor.

1. Audit Adjustments (3)

Misclassification and disclosure changes

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

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

Disclosure	Auditor recommendations	Adjusted?
Review of Annual Report and Accounts (General)	We identified a number of minor casting errors, figures which had not yet been included and formatting issues as part of our review of the Annual Report and Accounts. These were raised and processed by management where necessary.	Yes
Remuneration and staff report	<p>We identified the following issues within the Remuneration and Staff Report:</p> <p>Subject to Audit:</p> <p>The disclosures which are subject to audit where not clearly identifiable in line the FReM and disclosures have been updated to make this clear.</p> <p>Pension Benefits:</p> <p>The accrued pension at pension age and related lump sum, CETV at 31 March 2023 and real increase in CETV have been updated for Alan Hampson.</p> <p>The pension benefits have been recorded as a negative figures however, where this arises, pension benefits should be recorded as nil.</p> <p>Off Payroll Appointments:</p> <p>Scottish Forestry have added a disclosure to confirm there were no off-payroll appointments.</p>	Yes

1. Audit Adjustments (4)

Misclassification and disclosure changes (continued)

Disclosure	Auditor recommendations	Adjusted?
Governance Statement	<p>The following amendments were made to the lease disclosure:</p> <ul style="list-style-type: none"> • Updates to provide the user of the accounts information around the appointment of the Interim Chief Executive and Accountable Officer. • Changes to the review of effectiveness paragraph to provide clarity to the user of the accounts around if any significant issues have been identified. • Changes to external audit section to new Grant Thornton UK LLP as external auditors and Audit Scotland as predecessor auditors. • Signature for Accountable Officers' sign off. 	Yes
Note 1i Leasing	<p>We also identified the following which has not been adjusted for within note 1i, Statement of Cash Flows or in Note 5:</p> <ul style="list-style-type: none"> • A description of how the entity manages the liquidity risk inherent in the maturity analysis. • A disclosure to confirm if the entity uses the cost model as a proxy for current value • Inclusion of lease liability and interest paid within the Statement of Cash Flows <p>The following points were updated for in the draft financial statements:</p> <ul style="list-style-type: none"> • Nature of the organisations' leasing activities including disclosures around the valuation, accounting methods, variable lease payments, or extension options • Reconciliation between operating lease commitments disclosed applying IAS 17 at the 31 March 2022 and lease liabilities recognised within the Statement of Financial Position at 31 March 2023. • The right-of-use asset being disclosed separately from other assets • A disclosure to confirm that the short term/low value exemption has been applied 	Partly

1. Audit Adjustments (5)

Misclassification and disclosure changes (continued)

Disclosure	Auditor recommendations	Adjusted?
Note 1a and 1b Key sources of judgement, estimation and uncertainty	<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. In the draft accounts, management have combined critical estimate and judgements. These have been updated and separated into separate disclosures.</p> <p>We have identified that there is an opportunity to enhance the disclosure to focus on those key areas of estimation that may have a significant risk of material misstatement in the next 12 months. This should focus on those key areas of assumptions, include a sensitivity analysis and detail of what the carrying balance of the area is subject to the uncertainty.</p>	Yes
Note 7 – Financial Instruments	<p>The disclosure has not been amended for the issues we identified including:</p> <ul style="list-style-type: none"> • The current disclosure does not use updated terminology in line with IFRS 9 and old terminology is still being used. • Removal of statutory obligations including income tax and social security from the financial assets and liabilities disclosed as these do not meet the definition of a financial instrument, including updates to prior year comparatives • Disclosure of the fair value of financial assets and financial liabilities compared to the carry valuing including reference to the valuation technique and assumptions used. 	Yes

1. Audit Adjustments (6)

Misclassification and disclosure changes (continued)

Disclosure	Auditor recommendations	Adjusted?
Note 17 – Related Parties	<p>There were two related parties identified from testing which resulted in additional disclosure being made to include within the financial statements:</p> <ul style="list-style-type: none"> • The Scottish Forestry Trust: Helen McKay is a Trustee and the organisation received £0.022 million for research. • Loch Lomond and Trossachs Countryside Trust: Richard Morris' wife is a Director and the organisation received £0.005 million for small scale tree planting projects. <p>We also identified the following which has not been adjusted for within Note 17:</p> <ul style="list-style-type: none"> • For certain bodies disclosed within the note, full details of the transactions including the transaction amount and total amount outstanding or due by Scottish Forestry at year-end is not detailed. 	Partly
Note 18 – Losses and Special Payments	The Losses and Special Payments, have been updated, increasing the balance disclosed from £0.004 million to £0.006 million.	Yes
Other Information	We have identified a number of amendments required to be made to the annual report to ensure it is consistent with the financial statements. These have been amended by management.	Yes
Segmental Reporting	<p>As per IFRS 8, Scottish Forestry do not have a segmental reporting note detailing:</p> <ul style="list-style-type: none"> • the factors used to identify the entity's reportable segment. • a note detailing each segments profit or loss. • 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. 	Yes

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

We have identified four recommendations for Forestry 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
High	<p>Review of FReM Accounting Policies</p> <p>The financial statements do not contain all necessary disclosures set out per the FReM and as such, are not fully compliant. Details have been highlighted within the disclosure misstatements within Appendix 1. This includes numerous areas including critical estimates and judgements, segmental reporting, related parties and leases.</p>	<p>Management should complete the FReM Financial Statement Disclosure Checklist and FReM Annual Report Disclosure Checklist to ensure all required accounting policies are met and appropriate disclosures are included within the financial statements.</p> <p>Management response</p> <p>Scottish Forestry will use the FReM checklists referenced above going forward and to aid future audits. We will also liaise with the audit team to discuss inclusion of specific disclosures which were previously removed with the agreement of former auditors.</p>
Medium	<p>Lease Register</p> <p>During 2022/23, IFRS 16 was implemented by Scottish Forestry. The audit team verified, on a sample basis, the list of leases identified by Scottish Forestry including reviewing the lease payments. It was noted that the organisation does not maintain a lease register.</p>	<p>Management should develop a lease register to ensure a list of all leases are maintained including lease details such as start and end date which given the implementation of IFRS 16 in 2022/23 will enable the organisation to easily identify leases which fall under this standard and ensure correct treatment.</p> <p>Management response</p> <p>Scottish Forestry will use existing lease data to create a formal lease register and add any further required info.</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

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

Assessment	Issue and risk	Recommendations
Low	<p>Late timeline of Audit and Assurance Committee</p> <p>The target date specified by Audit Scotland for submission audited accounts and the Annual Audit Report were brought forward in the 2021 Code to 31 August 2023. The AAC is convening to sign the final Annual Report and Accounts on 6 September 2023. This is after the target submission date of 31 August 2023.</p>	<p>Review the date which the Audit and Assurance Committee meets the date for signing the final Annual Report and Accounts in 2023/34 to meet the target submission date.</p> <p>Management response</p> <p>Scottish Forestry are happy to discuss and agree future timeline for End of Year accounts sign off and corresponding Audit and Assurance Committee during audit planning session.</p>
Low	<p>NFI</p> <p>The matches for the NFI exercise were released in January 2023. Processes and arrangements are in place for investigating the matches. All matches are required to be investigated by 30 September 2023 and the results recorded on the NFI system.</p>	<p>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</p> <p>Scottish Forestry are happy to review the self-appraisal checklist referred to above for inclusion in future NFI updates</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

Financial Management

A large underspend against budget of £24.350 million was recorded in 2022/23 and as a result, Scottish Forestry will face scrutiny around their annual budget given the current pressures faced across the public sector. Scottish Forestry's outturn is highly dependent on grant expenditure and given the planting season is in the latter part of the financial year, can be difficult to forecast.

Recommendation

Scottish Forestry should seek to develop more accurate financial forecasting/budget controls to ensure significant underspends do not arise within the organisation.

Financial Sustainability

With a challenging financial climate and uncertain economic future, there is a risk that funding for bodies such as Scottish Forestry reduces, as the government prioritises other areas of public spend.

Recommendation

Once the new corporate plan is in place, a medium/longer term financial strategy should be developed. The organisation should refresh their forward planning and review the underlying assumptions within their plans to ensure these are realistic and in line with inflationary changes and public sector pay awards and undertake sensitivity analysis. This should be prepared and approved by the relevant Committee and regular updates around the current financial position should be evidenced in reporting to the SAG and AAC. This will help to mitigate against the impact of any future risks on delivery of the financial position before they crystallise.

Agreed management response

Management response:

Management have committed to an action plan addressing the issues and associated risks which include the end of year drop offs.

Management response:

Work is ongoing to improve our medium and longer-term financial strategy, learning lessons from the previous year's out turn position, etc.

In addition, we are undertaking medium term financial budget reviews as part of the Scottish Government budget process, which is assisting us in our longer-term strategy

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

Recommendation

Corporate Publications

Scottish Forestry publish a range of key corporate documentation including business plans and policies. Minutes of Committee meetings including the SAG, SET and AAC are published online. We found that minutes from these meetings are not uploaded onto the public website in a timely manner with no 2023 documents being published for the SAG and SET.

Recommendation

Whilst we recognise that sensitive information may be withheld, we recommend that to ensure openness and transparency in decision making, minutes are published in a timelier manner.

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

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

Agreed management response

Management response:

We aim to get approved minutes up on our website as soon as possible, unfortunately for SAG and AAC there are normally four meetings per year so they would normally be uploaded approximately three months after the meeting once approved. This can be delayed if the next meeting is cancelled or delayed, as was the case for the July meeting.

While there are some SET approved minutes for 2023 that should have been uploaded and will be done shortly. For SAG the minutes for 2023 are drafted but have not been approved, once they are they will be uploaded (expected by the end of August).

Management response:

We welcome the highlighting of this important area and we accept the need to improve communication and understanding of how we will support the SG actions to meet NetZero. Scottish Forestry has specific disclosure requirements as part of its statutory duties. Over the last two years our work on corporate sustainability has focused on developing our understanding of the organisation's data and reporting our emissions via two statutory reports, the Section 76 report (due each June, outlining our buildings costs and emissions) and the Public Bodies Climate Change [Duties report](#) (due each November, outlining our total emissions, governance structure, wider influence and future projects). We are making adjustments to our governance and looking to establish a formal structure to take forward the SG Net Zero ambition; managing the risks from climate change will also feature in the organisation's future Corporate Plan. This reporting and the wider environmental impacts of climate change on forestry are also on the Strategic Risk Register.

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 Scottish Forestry's financial statements, which resulted in 6 recommendations being reported in their 2021/22 Annual Audit Report.

As part of our final accounts we will follow up on the implementation of these prior year recommendations in full. The response at this stage for our Plan, is management's response.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Superseded	<p>1. Management of budget and outturn</p> <p>A large underspend against budget was recorded in 2021/22. Scottish Forestry drew down all cash available from the Scottish Government, which ended up being £16.3 million in excess of requirements.</p> <p>Risk: There is a risk that budget projections are not accurate, leading to challenges for cash management.</p>	<p>Scottish Forestry normally provide for a 10% of grant claims not being claimed in year but this is dependent on weather with the main planting season coming late in the financial year. The issue with 2021/22 was the storms at the end of the financial year which diverted planting workers into felling / clearance workers instead resulting in a 20% reduction in claims. Scottish Forestry experienced a similar scenario for 2022/23 where actual planting achieved was significantly lower than forecast and where the organisation saw the fall off rates from claims approved continue to increase. Management have committed to an action plan addressing the issues and associated risks which include the end of year drop offs.</p> <p>Scottish Forestry have also agreed and implemented a revised process for year-end cash drawdown with Scottish Government finance which minimises excess balances being held by Scottish Forestry.</p>
Closed	<p>2. Grant accruals and Casebook grant reporting system</p> <p>The Casebook reporting on grant accruals did not provide complete listings resulting in the accrual in the draft accounts being understated.</p> <p>Risk: As the year-end grant accrual is based on information from Casebook, there is a risk that the information recorded in the financial statements is inaccurate.</p>	<p>Scottish Forestry has ongoing development for more relevant and accurate grants-based reports from Casebook. Casebook does not capture annual management resource nor manual payments and so Casebook reports will not be able to provide a full understanding without manual intervention. The end of the 2022/23 financial year grant claim administration has been planned and communicated to staff to agree a final capture date for all capital claims into casebook so we can identify the population of capital FGS accruals. However, a risk still exists in the manual reporting of the annual resource spend plus manual payments. The recording of manual payments has been improved following audit comments and recommendations, thus mitigating the risk of inaccuracies and omissions. Woodland Creation management information development is now being formally run in a SF Project as part of I&DP.</p>

4. Follow up of prior year recommendations (2)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Closed	<p>3. Monitoring manual succession contracts</p> <p>These contracts are managed manually and therefore do not have the same workflows as those recorded on Casebook and the system, therefore any errors may not be readily identified.</p> <p>Risk: Payments are not made on a timely manner and transactions are not recorded correctly in the ledger.</p>	<p>The risk associated with manually administering succeeded contracts will not be resolved by either Rural Payments and Inspections Division or Casebook functionality, as the governance of both systems cannot provide the required significant resources needed to deliver this recommendation. This will be raised into the Scottish Forestry corporate risk register just as it appears in the Paying Agency Accreditation & Assurance risk register.</p> <p>Following comments and recommendations received from the last audit, Scottish Forestry's manual spreadsheet recording and processes have been improved and backed up by guidance for the national support team who oversee all successions at a national level – thus, reducing the risk of any inaccuracies and omissions.</p>
Closed	<p>4. Small Woodland Loan Scheme</p> <p>The loan scheme is in its first year and therefore processes for understanding the profile of repayments is still to be developed. In addition, as this scheme grows and becomes significant to the accounts, further reporting is required.</p> <p>Risk: Reporting of the loan scheme in the financial statements is inaccurate.</p>	<p>With 2021/22 being the first year of the loans a prudent view was taken at the year-end. Now, during 2022/23 the first of the loans have now been repaid and therefore a less prudent view can be taken as agreed with Audit Scotland.</p> <p>The loans will not be initially be provided, but a review will take place by the Senior Finance Manager for loans that are beyond 18-24 months old or we are made aware of an issue.</p> <p>After a review of the loan scheme during 2022/23, taking into the account the loans that were repaid, it was decided that no loans required to be provided for. This will be reviewed on an individual basis on a regular basis</p>

4. Follow up of prior year recommendations (3)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Superseded	<p>5. Financial and workforce planning</p> <p>A longer-term financial strategy has not yet been developed. An overarching work force strategy is not yet in place.</p> <p>Risk: In the absence of longer-term strategies, there is a risk that Scottish Forestry does not have adequate resources and capacity in place to deliver on its objectives.</p>	<p>Although a formal financial strategy document has not yet been put in place, Scottish Forestry have continued to actively undertake long term forecasting as part of SG budget related commissions. Most recently (Feb 23) with the SG Path to Balance exercises which contain forecasting from 2023/24 to 2027/28 for both Capital and Resource spending plans and still aim to draft and implement a financial strategy next financial year.</p> <p>A Workforce strategy has now been completed, approved for publish and will be implemented during 2023. Scottish Forestry management will continue to use staffing management information to also inform financial forecasting.</p> <p>Scottish Forestry do not have a formal financial strategy in place but continue to provide long term financial forecasting and data through SG SAB commissions. Short term resource may be utilised in 2023/24 to help strengthen this area.</p>

4. Follow up of prior year recommendations (4)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Ongoing	<p>6. Performance reporting</p> <p>The performance report does not have measurable targets and KPIs beyond planting to demonstrate Scottish Forestry's performance.</p> <p>Risk: There is a risk that Scottish Forestry cannot clearly demonstrate its contribution to the Scottish Government's net-zero aims.</p>	<p>Work is now being undertaken to review the KPIs, being led by the Senior Business Analyst and Corporate Support Manager, with input from members of the Information Governance Group. The Senior Business Analyst has developed a Management Information Vision and Strategy which sits alongside and supports this area of work. Work has commenced on creating an interactive, much more visual beta facility for scrutinising different data sets, which will initially be shared with the Information Governance Group in September. The Corporate Support Manager is reviewing the Definition Sheets which were pulled together in 2020 for the first set of KPIs. The current set of KPIs are being reviewed to identify potential improvements – for example, providing information on our organisation's progress towards Net Zero. Also consideration as to how routine management information currently gathered can be used to monitor progress of the Team Plans and Business Plan.</p> <p>Although this work is progressing, the development of the Corporate Plan has been formally paused by the Senior Executive Team – and the Business Plan/Team Plans for 2023/24. This is due to the change in Chief Executives, and the renewed focus of Scottish Minister's on Woodland Creation. Management Information is being seen as central to meeting Woodland Creation targets. There has been considerable progress on picking apart the different aspects of the woodland creation pipeline, and more sophisticated management information will hopefully be available in the future: particularly tracking areas which Scottish Forestry is responsible for and can deliver on; and the other areas which are delivered by others in the Forestry Sector. Development of the Corporate Plan will restart once there is collective agreement at a senior level on taking action to meet Woodland Creation targets. The time period for this is likely to be 2024/27 and there will be an interim Business Plan for the remainder of 2023/24: TBC by CEO. Scottish Forestry will continue to take action on improving our Performance Reporting systems until our timelines have been confirmed.</p>

5. Audit fees, ethics and independence (1)

Independence and ethics

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

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

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

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

5. Audit fees, ethics and independence (2)

Fees and non-audit services

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

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

External Audit Fee

Service	Audit Plan £	Annual Audit Report £
External Auditor Remuneration	£58,610	£58,610
Pooled Costs	(£3,890)	(£3,890)
Contribution to Audit Scotland support costs	£2,060	£2,060
Sectoral Cap Adjustment	(£12,040)	(£12,040)
2022/23 Audit Fee	£52,520	£52,520

Fees for other services

Service	Fees £
We confirm that for 2022/23, we did not receive any fees for non-audit services	Nil

5. Audit fees, ethics and independence (3)

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

- Fees per financial statements £53,000
- Total fees per previous page £52,520

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 Scottish Forestry's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter.		•

