



Scottish Natural Heritage

2015/16 Annual Audit
Report to Members and
the Auditor General for
Scotland

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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively (www.audit-scotland.gov.uk/about/).

Brian Howarth, Assistant Director, Audit Scotland is the engagement lead for the audit of **Scottish Natural Heritage** for the period 2011/12 to 2015/16.

This report has been prepared for the use of Scottish Natural Heritage and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in it may be used by the Auditor General in support of her wider responsibilities, including reporting to the Scottish Parliament.

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Key messages

Audit of financial statements

- Unqualified independent auditor's report on the 2015/16 financial statements.
- The net expenditure changed from £51.820 million to £52.025 million (an increase of £0.205 million) as a result of audit adjustments. An audit adjustment of £0.595 million was also made between the Revaluation Reserve and the General Reserve.

Financial Position

- Scottish Natural Heritage operated within its Grant in Aid Resource Limits for 2015/16 underspending by £2.4 million. Of this underspend, £1.3 million related to non cash operating costs and £0.750 million to a planned underspend requested by the Scottish Government.
- Total equity decreased by £1.3 million which is largely due to reductions in the valuation of heritage assets.
- The short term financial position remains stable despite a projected overspend in 2016/17. Management are managing this forecast overspend through robust vacancy management and managing activity within the budget envelope.
- The current financial planning horizon is three years and scenario planning is being undertaken to model the impact of reduced Grant in Aid settlements from 2017 onwards.

Governance & accountability

- Effective governance arrangements are in place.
- Overall, there were no material weaknesses of internal control.
- Scottish Natural Heritage is sufficiently open and transparent although we note a single issue where evidence of Board approval could have been clearer.

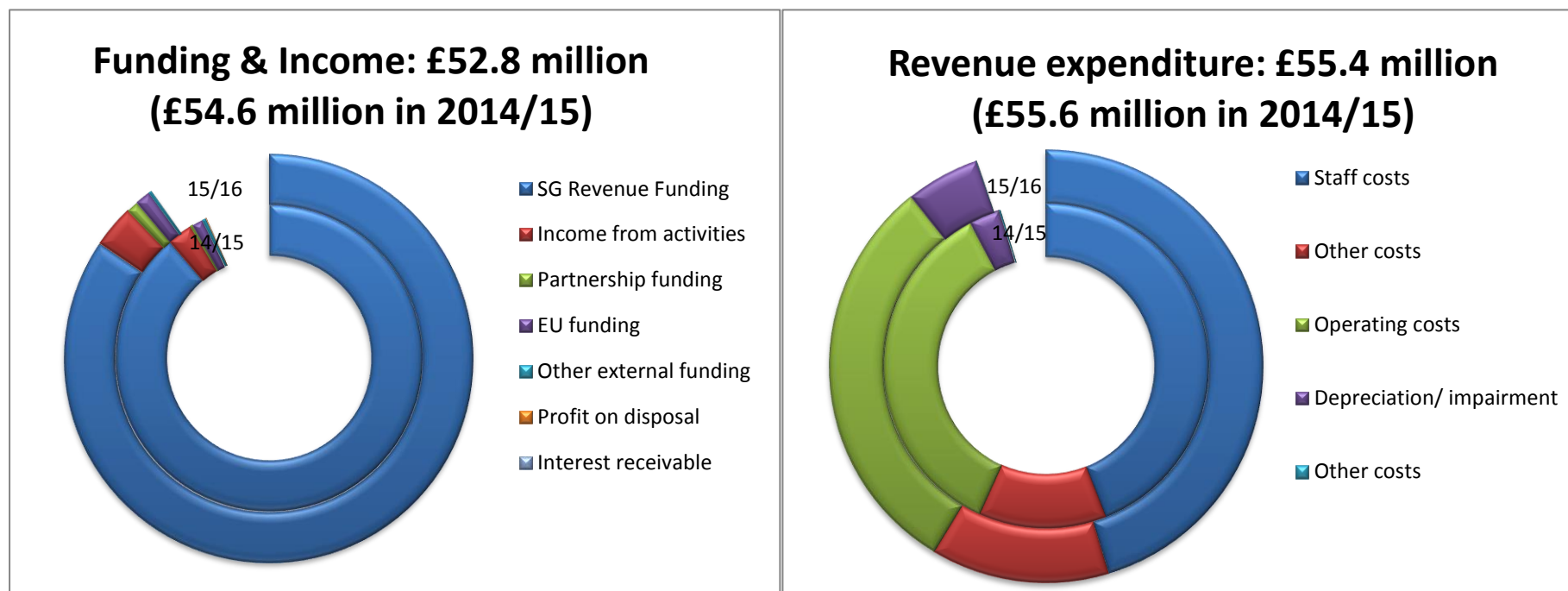
Best Value

- We reviewed workforce planning arrangements. Progress was initially slow but much work has been done in the last few months to advance workforce planning within the organisation.

Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of Scottish Natural Heritage.
2. The management of Scottish Natural Heritage is responsible for:
 - preparing financial statements which give a true and fair view, in accordance with the relevant financial reporting framework
 - ensuring the regularity of transactions, by putting in place systems of internal control
 - maintaining proper accounting records
 - publishing with their financial statements an annual governance statement and a remuneration report.
3. Our responsibility, as the external auditor, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management with the oversight of those charged with governance. This does not relieve management of their responsibility for the preparation of financial statements.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports are summarised at [appendix II](#) and [appendix III](#).
6. [Appendix IV](#) is an action plan setting out our recommendations to address the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that the body understands its risks and has arrangements in place to manage them. The Audit and Risk Management Committee should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.
9. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of Scottish Natural Heritage will remain as Audit Scotland. Maggie Bruce will take over as appointed auditor, with the transition having being managed throughout this year.

2015/16 Financial Statements



Funding and Income has decreased by £1.8m to £52.8 million. Most of the reduction was in Scottish Government revenue funding (£2.5 million), but this was offset by additional income from activities and partnerships (£0.8 million).

Expenditure has decreased too, by £0.2m to £55.4 million. There was a significant reduction in operating costs of £2.8 million and increases in impairment losses on heritage assets (£1.4m) and increases in staff and other costs (£1.1m).

On an accounting basis, total revenue expenditure has exceeded total funding and income in 2015/16 by £2.4 million. However, the accounts include impairments that count to AME budgets (£1.2m) and exclude DEL funding that is not drawn down in cash (£3.7m). These elements reconcile to the DEL outturn position which show an underspend of £2.4 million.

Audit of the 2015/16 Financial Statements

Audit opinions

Financial Statements	<ul style="list-style-type: none">• The financial statements of Scottish Natural Heritage for 2015/16 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.• We confirm that the financial statements have been properly prepared in accordance with the 2015/16 FReM and the requirements of the Natural Heritage (Scotland) Act 1991 and directions.
Regularity	<ul style="list-style-type: none">• In all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance.
Other prescribed matters	<ul style="list-style-type: none">• The part of the Remuneration Report to be audited has been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.• The information given in the Performance Report is consistent with the financial statements.

Submission of financial statements for audit

10. Although we encountered some delays in receiving part of the Performance Report and some supporting information for the financial statements the quality of the working papers provided were of a high standard and staff provided good support to the audit team.

Overview of the scope of the audit of the financial statements

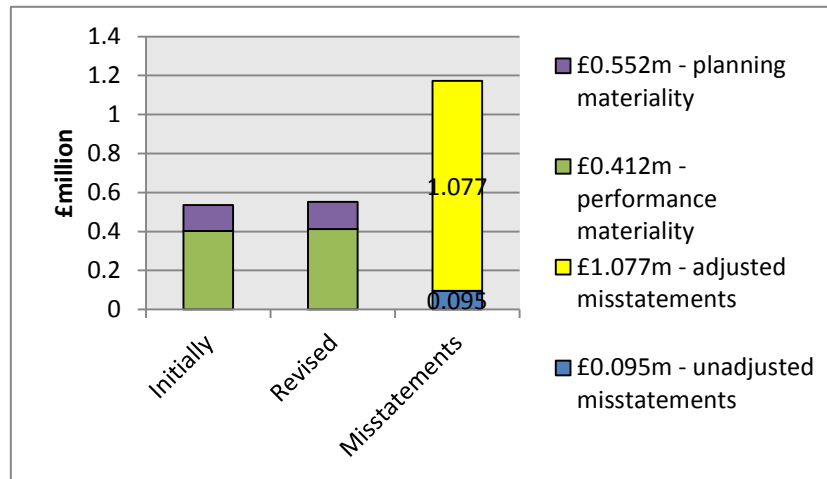
11. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit Risk and Management Committee on 25 February 2016.
12. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken any non-audit related services. The 2015/16 agreed fee for the audit was £48,450.
13. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified those key audit risks which had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance.

14. [Appendix I](#) sets out the audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.
15. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
17. We summarised our approach to materiality in our Annual Audit Plan. We revised our planning materiality for 2015/16 on receipt of the unaudited accounts to £0.55 million (1% of gross expenditure of £55.2 million).
18. We also set a lower level, known as performance materiality, when defining our audit procedures. This is determined to ensure that uncorrected and undetected audit differences do not exceed our materiality level. Performance materiality was set at £0.412 million (i.e. 75% of materiality).
19. We report all misstatements greater than £19,000.

Exhibit 1: Overall materiality misstatements



Evaluation of misstatements

- 20. We identified a number of misstatements in the unaudited financial statements. The total value was £1.172 million.
- 21. The adjusted errors include:
 - error in calculation of the annual leave accrual - £192,000 (paragraph 26)
 - a late valuation of a building £60,000 (paragraph 28)
 - errors in the calculation of the amount to be transferred between the Revaluation Reserve and General Reserve to reflect the additional depreciation charged as a result of assets being revalued - £595,000 (paragraph 34)

- misclassifications within the Statement of Comprehensive Net Expenditure: movement in provisions - £42,000 (paragraph 29) and consultant’s fees - £158,000 (paragraph 27).
 - misclassification within the Statement of Cash Flows: capital additions - £30,000 (paragraph 31).
- 22. Management decided not to amend the audited accounts for two monetary errors totalling £95,000 (paragraphs 32 and 33). If these had been adjusted they would have had the net effect of reducing net expenditure (and creditors) by £58,000. Management explained that these adjustments are not material to the financial statements and we concur with that view.
 - 23. This total value of errors exceeded our overall performance materiality level of £412,000 and we considered the need to revise our audit approach and undertake further audit testing. We concluded that further testing was not required on the basis that we had identified the full extent of error due to miscalculation of the holiday pay accrual; late valuation reporting, movement between the Revaluation and General Reserves and the misclassifications of provisions movements and capital additions. These totalled £919,000 and were not indicative of further systematic errors within the financial statements.

Significant findings from the audit

24. International Standard on Auditing 260 (ISA 260) requires us to communicate to you significant findings from the audit as detailed below:
- the auditor’s views about significant qualitative aspects of the entity’s accounting practices, including accounting policies, accounting estimates and disclosures
 - significant difficulties encountered during the audit
 - significant matters arising from the audit that were discussed or subject to correspondence with management
 - written representations requested by the auditor
 - other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
25. The following table details those issues or audit judgements that, in our view, require to be communicated to those charged with governance in accordance with ISA 260.

Table 1: Significant findings from the audit

Significant findings from the audit in accordance with ISA260

Annual leave accrual

26. The annual leave accrual in the trade payables balance was understated by £192,000 as two fixed public holidays (1 Jan and 4 Jan 2016) were incorrectly included in the accrual calculation. The correct position has been reflected in the audited financial statements.

Consultants’ fees

27. Expenditure relating to research totalling £158,000 was misclassified as consultancy costs within the Statement of Comprehensive Net Expenditure. The audited accounts have been adjusted to reflect the correct classification.

Significant findings from the audit in accordance with ISA260

Creag Meagaidh building valuations

28. Non-current assets were understated in the balance sheet by £60,000 as the valuation provided by the District Valuer for the Creag Meagaidh visitors' centre building was late and so was not reflected in the asset register which was used to prepare the accounts. The correct position has been reflected in the audited financial statements.

Movement in provisions

29. The movement in provisions was incorrectly accounted for in the Statement of Net Expenditure. As a result, other costs and the decrease in provisions were overstated by £42,000 in the unaudited accounts. The audited accounts have been amended to correct this misclassification.

Rubislaw dilapidations

30. Scottish Natural Heritage has included a net estimate of £40,000 for dilapidation costs on a lease property at Rubislaw, within the financial statements. This estimate is based on management's assessment of likely costs and recoveries from a sub-tenant. We note that total exposure may range from £140,000 (based on the landlord's initial claim) to £nil, based on full recovery from the sub-tenant. We have assessed the estimate as reasonable and that the potential range of risk is not material to the financial statements.

Misclassification of capital additions

31. Payments to acquire property, plant and equipment were understated and payments to acquire intangible assets were overstated by £30,000 in the Statement of Cash Flows due to an error in the working papers. The audited accounts have been amended to correct this misclassification.

Pearls in Peril grant adjustment

32. External (Partnership) funding was understated and creditors were overstated by £58,000 due to errors in the Pearls in Peril grant reconciliation. The audited accounts have not been amended to reflect this monetary error.

Significant findings from the audit in accordance with ISA260

Treatment of Oracle licence accruals

33. Income and expenditure are overstated by £37,000 as Oracle licences paid on behalf of Scottish Enterprise were not adjusted for prepayments for licences that extended beyond 31 March. The accounts have not been amended to reflect this monetary error.

Movement between Revaluation Reserve and General Reserve

34. Each year an adjustment is made between the Revaluation Reserve and the General Reserve to reflect the amount of additional depreciation that is charged as a result of assets being carried at current value in the Statement of Financial Position rather than at historic cost. This is necessary so that the unrealised gains relating to the asset are not overstated. We noted that the adjustment made in 2015/16 was increasing the Revaluation Reserve when this adjustment is designed to reduce it. In response to our query, finance staff advised that there had been errors in the calculation of this adjustment dating back to 2013/14. As a result, the Revaluation Reserve was overstated (and the General Reserve understated) by £595,000. The audited accounts have been amended to reflect this monetary error.

Future accounting and auditing developments

Code of Audit Practice

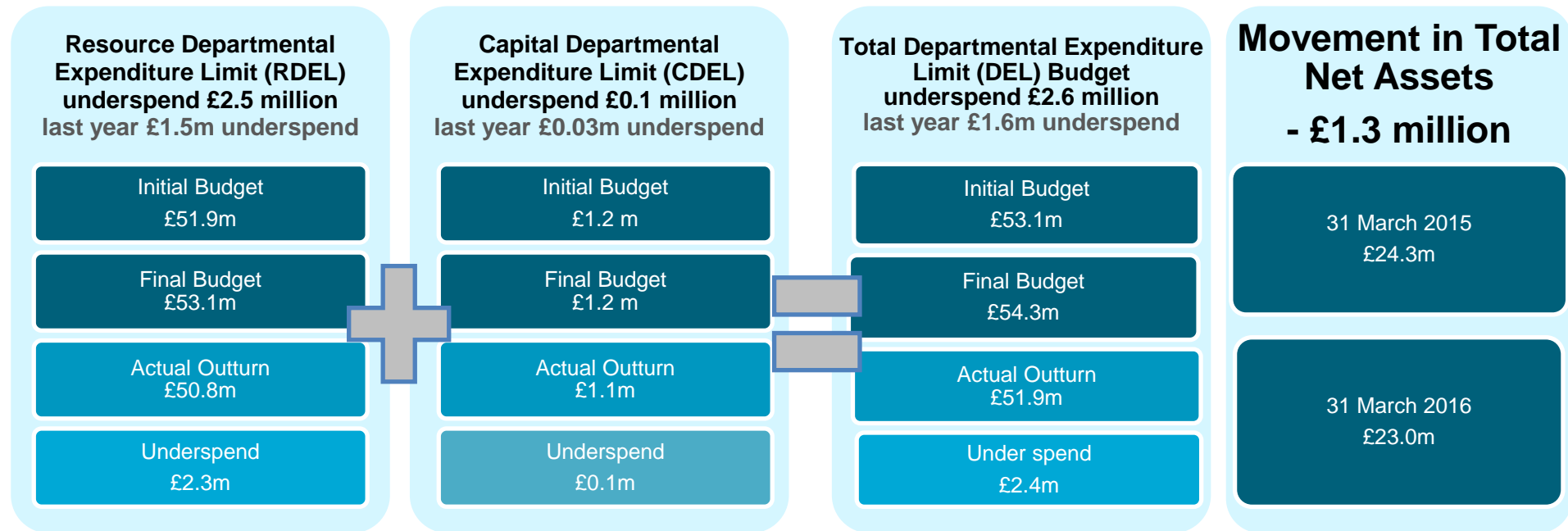
35. A new Code of Audit Practice applies to public sector audits for financial years starting on or after 1 April 2016. It replaces the Code issued in May 2011. It outlines the objectives and principles to be followed by auditors. It is part of the overall framework conduct of public audit in Scotland.
36. The new Code increases the transparency of our work by making more audit reports available on Audit Scotland's website. In addition to publishing all annual audit reports, annual audit plans and other significant audit outputs will be put on the website for all audited bodies. This is irrespective of whether the body meets in public or makes documents such as audit committee papers routinely available on its own website.

37. Also, under the new Code, appointed auditors are required to provide conclusions on the four dimensions of wider-scope public audit: financial sustainability; financial management; governance and transparency; and value for money.

Public Sector Internal Auditing Standard

38. The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued a revised Public Sector Internal Auditing Standard (PSIAS). We will assess Scottish Natural Heritage's Internal Audit service against this revised standard as part of our 2016/17 audit.

Financial management and sustainability



In addition to its resource budget above, Scottish Natural Heritage also had an AME budget of £0.3m, which was overspent by £0.9m with permission from the Scottish Government.

2015/16 Outturn

39. The main financial objective for Scottish Natural Heritage is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers. Scottish Natural Heritage underspent its total DEL by £2.4 million and so met this objective in 2015/16.

Budget underspend requested by the Scottish Government

40. During 2015/16 the Scottish Government asked Scottish Natural Heritage to underspend its budget by £0.750 million. The £2.4 million underspend above includes this authorised underspend as the budget allocation was not adjusted by the Scottish Government.

2015/16 financial position

41. The financial statements show that Scottish Natural Heritage:
- has net assets of £23.0 million. This has decreased since 2014/15 primarily as a result of the downward revaluation of heritage assets
 - operates within its available DEL funding
 - has an excess of current liabilities over current assets.
42. There is no known change in government policy affecting the body and the budget for 2016/17 is agreed with Scottish Natural Heritage as set out in the Budget Act and spending plans.

43. **Going concern.** We concur with management's view that the going concern assumption remains appropriate.

2016/17 financial outlook

44. Scottish Natural Heritage's budget for 2016/17 is £48.4 million. This represents a significant decrease (nearly 10%) on the prior year budget of £53.1 million. However the final budget may be higher due to future approval of £0.4 million of funding for specific schemes. The most recent financial monitoring report forecasts an overspend risk on the Operating Budget of £0.654 million, but this is being managed.

Financial Planning

45. In June 2014, Audit Scotland reported on [Scotland's public finances](#) and identified that public bodies “face increasingly difficult choices in reducing spending while maintaining service standards and meeting rising demand”. The report identified that financial planning improvements were required by public bodies.



46. In the [local government overview](#) report in March 2016, Audit Scotland set out some key questions, which can apply across the Scottish public sector. These questions provide a framework for our assessment of financial planning in Scottish Natural Heritage (see below).

Assessing financial planning

<p>How fully do our financial plans identify estimated differences between income and expenditure (budget shortfall)?</p>
<p>47. Scottish Natural Heritage’s Business Plan 2016-17 includes a financial forecast for 2016/17. The Board approved a balanced budget for 2016/17 at £5.5 million (10%) below the 2015/16 budget level. The most recent financial monitoring report forecasts an overspend risk on the Operating Budget of £0.654 million. The majority of this (£0.367 million) relates to a projected overspend on staff costs which will be managed through robust vacancy management. Projects are currently forecast to overspend by £0.287 million. This reflects the established pattern of over-commitment in the early part of the year in order to manage slippage in the delivery of projects. Management anticipates that the 2016/17 outturn will be within budget. Activity will be managed within its budget envelope.</p>
<p>What options do we have to address this budget shortfall for example redesign services or use reserves? How big is the remaining funding gap after we implement our selected options? What actions are we taking to close any remaining funding gap?</p>
<p>48. As noted above, activity would be managed within the available budget envelope. A recurrent funding gap doesn’t exist, but if it did activity would be reduced in line with budget availability. This becomes increasingly difficult where committed expenditure becomes a relatively larger element of the total budget. In Scottish Natural Heritage staff costs now form over 50% of revenue expenditure due to total budget reductions.</p>
<p>Do we have a long-term financial strategy covering at least five years that accounts for future pressures? Is our five-year strategy supported by detailed financial plans covering a minimum period of three years? How well do our financial plans set out the implications of different levels of income spending and activity? How does our financial strategy link to our vision?</p>
<p>49. Scottish Natural Heritage currently prepares a three-year corporate plan which includes financial forecasts for income and expenditure. 2015/16 was the first of the current Corporate Plan. The Corporate Plan assumes a flat cash Grant-in-Aid (GIA) over the three year period to 31 March 2018. Detailed financial scenario planning was undertaken as part of the preparation of the 2016/17 budget and this is currently being used to model the financial implications of reductions in GIA for 2017 and beyond. Work has also been undertaken on Scottish Natural Heritage’s vision for the future. This work looked at where SNH has corporate passion, commitment and resource, where there are gaps, and how they should respond to them.</p> <p style="text-align: right;">Appendix IV – Action Plan no. 1</p>

Governance and transparency



Corporate governance

50. The Board and Accountable Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of Scottish Natural Heritage and for monitoring the adequacy of these arrangements.

Financial management

51. Scottish Natural Heritage is managed by a board of non-executive directors and is accountable through Scottish Ministers to the Scottish Parliament. The Board's Chair and non-executives are appointed by Scottish Ministers.
52. The Board is an experienced Board and, with the exception of the resignation of a Board member in May 2015, there were no changes to the membership of the Board during 2015/16. Three of the members have recently been reappointed for a second three year term, and the current Depute Chair has been reappointed for a further two year period (making it her third term). Five new members joined the Board from 1 April 2016.
53. The Board is supported by a Scientific Advisory Committee, a Protected Areas Committee and an Audit and Risk Management Committee.
54. We concluded that Scottish Natural Heritage has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.
55. As auditors we need to consider whether bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
 - the Chief Financial Officer has sufficient status to be able to deliver good financial management

- standing financial instructions and standing orders are comprehensive, current and promoted within the body
 - reports monitoring performance against budgets are accurate and provided regularly to budget holders
 - monitoring reports do not just contain financial data but are linked to information about performance
 - Audit Committee members provide a good level of challenge and question significant variances.
56. Based on our accumulated knowledge, our review of Board papers and through our attendance at the Audit and Risk Management Committee, we conclude that Scottish Natural Heritage has strong financial management arrangements in place.

Transparency

57. The Scottish Government's On Board guidance (<http://www.gov.scot/Publications/2015/04/9736/0>) for Board members of public bodies was updated and reissued in April 2015. On Board states that boards should demonstrate high standards of corporate governance at all times including openness and transparency in decision making. It recommends boards should consider:
- holding an annual open meeting
 - holding board meetings in public unless there is a good reason not to

- publishing summary reports and/or minutes of meetings
 - inviting evidence from members of the public in relation to matters of public concern
 - consulting stakeholders and users on a wide range of issues
 - making corporate plans and the annual report widely available.
58. Audit Scotland also believes in transparency of financial reporting within the Annual Report and Accounts including:
- a clear reconciliation between expenditure and the outturn against Scottish Government Resource budgets.
 - identification and explanation of any significant movements in budget during the year.
59. Scottish Natural Heritage makes available a range of information on their website, including the 2015-18 Corporate Plan, and the annual report and accounts. The open session parts of the SNH Board meetings (and those of the Scientific Advisory Committee and Protected Areas Committee) are open to the public to attend as observers. Agendas and reports for these open sessions are available on the SNH website.

Settlement agreement

60. During 2015/16 a member of the Management Team reached a settlement agreement with Scottish Natural Heritage. The agreement is covered by a confidentiality agreement and so the details of the payment made have not been separately disclosed within the audited accounts. Openness and transparency is a

key principle within the public sector and the Director, Corporate Services has confirmed that he will contact the Scottish Government to request that the confidentiality clause is removed from any future settlement agreements involving senior staff.

61. We confirmed that the payment was subject to Scottish Government approval in March 2016 and was supported by an appropriate business case. As part of our 2015/16 audit we looked at Scottish Natural Heritage's workforce planning arrangements and at paragraph 78, we note that progress was initially slow. Work will be undertaken in 2016/17 to improve the forecasting of future staff need to ensure that similar payments are not required in the future.
62. We also requested evidence that this settlement was discussed/approved by the Scottish Natural Heritage Board. We understand from discussion with officers and references in e-mails that the Chair discussed the settlement with Board members but that it was never formally considered at a Board meeting.

Appendix IV – Action Plan no. 2

63. Overall we conclude that Scottish Natural Heritage is sufficiently open and transparent, with the exception of the issue reported in paragraphs 60 to 62 above.

Internal control

64. No material weaknesses in the accounting and internal control systems were identified during the 2015/16 audit which could adversely affect the organisation's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
65. Internal Audit provides the Audit and Risk Management Committee and Accountable Officer with independent assurance on the overall risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of Internal Audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on Internal Audit work where possible.
66. As part of our risk assessment and planning process, we assessed Scottish Natural Heritage's Internal Audit function, concluding that they operate in accordance with the Public Sector Internal Audit Standards (PSIAS). This enabled us to place planned reliance on their work on corporate governance and risk management.

Information Governance

67. In 2015/16 we completed the 'Your Business @ Risk' survey at Scottish Natural Heritage to help monitor staff awareness of information governance issues. This is a web-based survey that helps bodies to quickly assess procedural, cultural and ethical compliance risks that have the potential to undermine the effectiveness of information governance policies.
68. The survey confirmed that SNH staff continue to demonstrate high levels of awareness of information governance issues and know how to respond to potential risk areas. Areas where there was scope to further improve staff awareness include:
 - password security – 55% staff found it necessary to write down some or all of their passwords
 - information and data security – 28% of staff transmit information electronically without any encryption
 - computer access – 15% of staff have used a computer that was logged on with someone else's password.
69. The Audit and Risk Management Committee considered the results of the survey at their meeting on 11 May 2016 and were content with the actions planned by management to address the areas for further improvement.
70. Prior to the survey being run, SNH had already recognised the need to further improve its information management arrangements and reference to this has been made in the

Corporate Governance Statement which forms part of the Annual Report and Accounts.

Arrangements for the prevention and detection of fraud

71. Scottish Natural Heritage is responsible for establishing arrangements to prevent and detect fraud and other irregularity. We reviewed and reported on these arrangements and have concluded that there are effective arrangements in place for the prevention and detection of fraud.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

72. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. We consider whether bodies have adequate arrangements in place.
73. Scottish Natural Heritage has in place a range of measures designed to maintain standards of conduct including separate codes of conduct for board members and employees. There are established procedures for preventing and detecting corruption and these are reviewed regularly by Internal Audit to ensure that they are up-to-date and represent good practice.

Register of Interests

74. Given the nature of its business, Scottish Natural Heritage requires all staff and Board members to complete an annual register of interest's declaration to highlight any circumstances which may pose a conflict of interest. The last request was made in June 2016 and staff are required to respond even if they have no interests to declare. Scottish Natural Heritage have developed a policy on Conflicts of Interest which includes guidance on how to identify conflicts of interest and what line managers should do once a member of staff declares they have a conflict of interest. In our opinion, these arrangements represent good practice.

Correspondence referred to the auditor by Audit Scotland

75. As part of our wider Code responsibilities we are required to consider issues raised and follow these up. There were no issues that required follow-up during the audit year

Best Value

Arrangements for securing Best Value

76. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. Scottish Natural Heritage follows the relevant public sector guidance issued by the Scottish Government in seeking to demonstrate continuous improvement.

Local performance audit reports

Workforce Planning

77. Audit Scotland published a report on *Scotland's Public Sector Workforce* in November 2013. During 2015/16 we carried out a follow-up audit at Scottish Natural Heritage based on the recommendations in the 2013 report.
78. Scottish Natural Heritage produced a workforce plan in April 2015. Progress on taking the plan forward was initially slow, mainly as a result of problems in capturing the information in the corporate theme format of the Corporate Plan. However, having resolved this issue, much work has been done in the last few months to advance workforce planning within the organisation.

79. A Workforce Steering Group has been set up to lead the project and a Workforce Delivery Board to deliver the priorities for 2016/17. These include:
 - analysing the workforce to gain a better understanding of how it is deployed to deliver corporate priorities
 - forecasting needs to improve allocation of available staff to deliver corporate priorities and inform staff development
 - developing an embedded strategic approach to the management of skills requirements which takes account of foreseeable changes including succession planning and talent management.
80. The Management Team acknowledge that this is an ambitious programme of work but recognise that not making the most effective use of its staff is a key risk to the organisation. This is especially true against the backdrop of ever tightening Grant-in-Aid settlements.

National performance audit reports

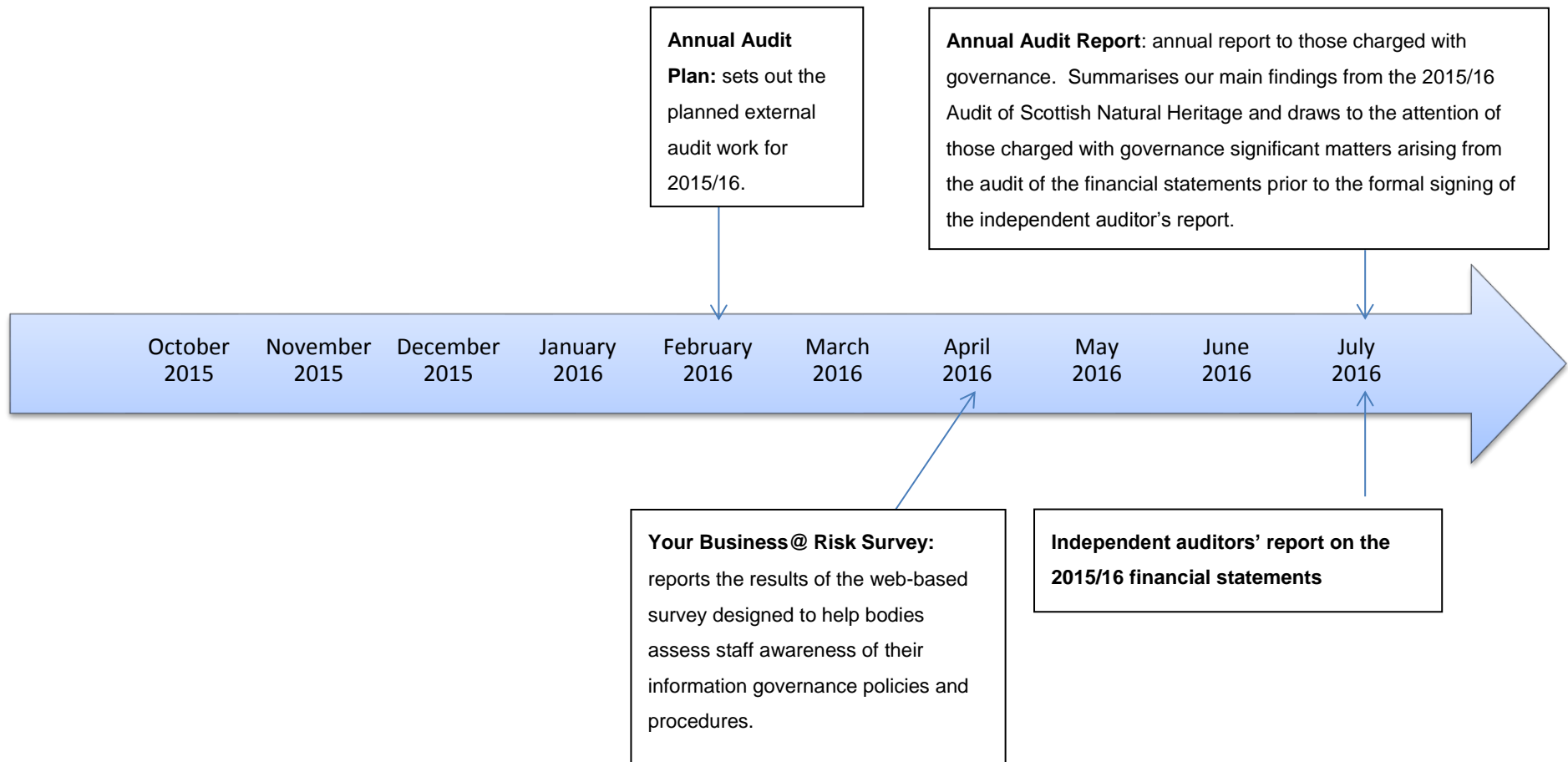
81. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued as outlined in [Appendix III](#).

Appendix I: Significant audit risks

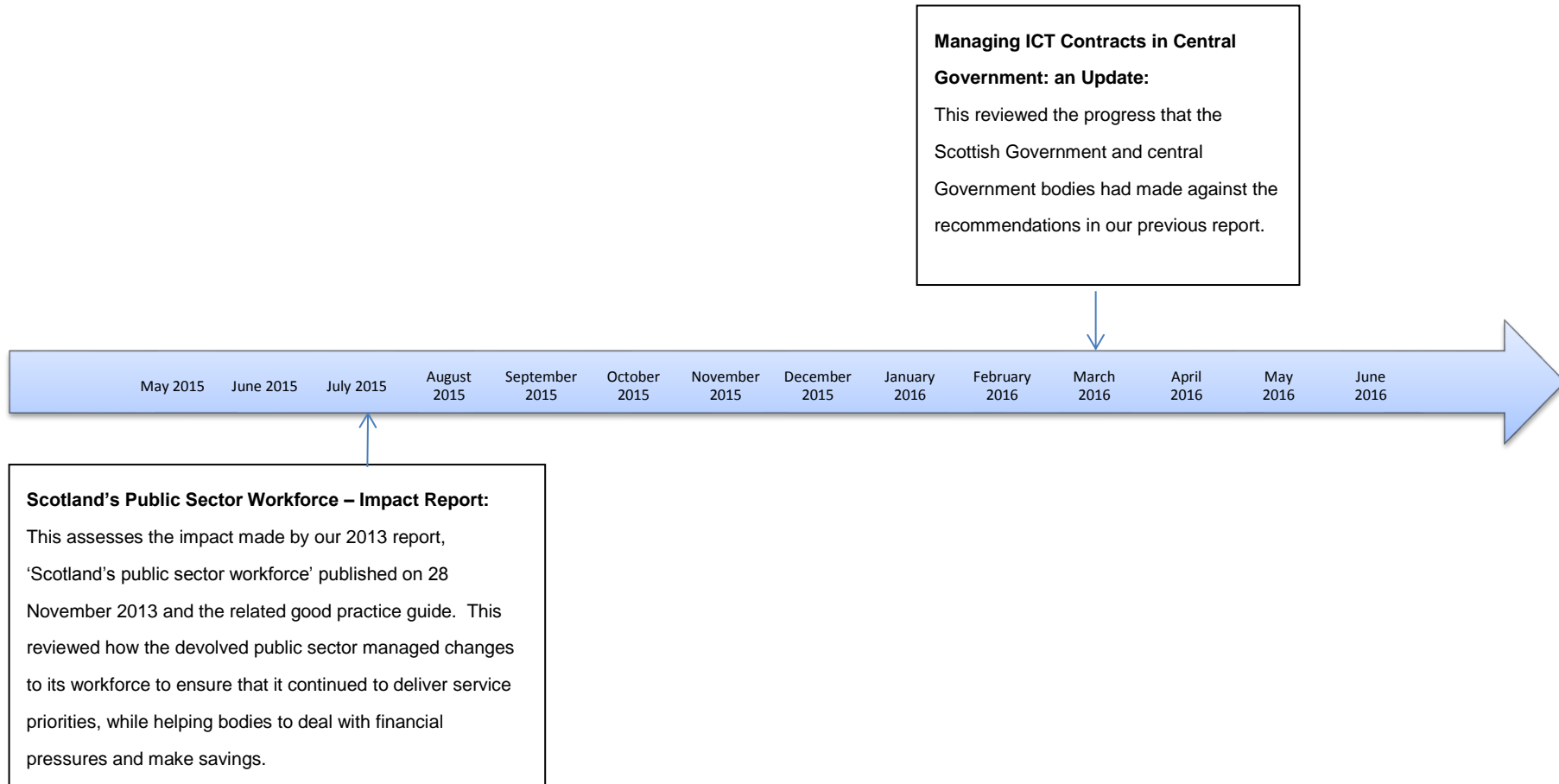
The table below sets out the audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
<p>Management Override of Controls: There is an inherent risk that management could manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • detailed testing of journal entries • review of accounting estimates • evaluation of any significant transactions that are outside the normal course of business 	<p>We did not identify any issues as a result of our audit work that would indicate management override of controls which would affect the year-end position.</p>
<p>Peatland restoration: There is a risk that grant conditions/requirements relating to Peatland grants may not be fully met during the financial year.</p>	<ul style="list-style-type: none"> • establish the grant conditions • review a sample of allocations from the grant to ensure compliance with the required grant conditions 	<p>We reviewed a sample of Peatland grants and confirmed that the required conditions were met before payment was made.</p>
<p>Restructuring of the management commentary: There is a risk that the annual report is not in line with the 2015/16 FReM.</p>	<ul style="list-style-type: none"> • review revised annual report against the FReM requirements 	<p>The annual report is in accordance with the FReM requirements.</p>
<p>Workforce planning: There is a risk that delays in completing the workforce plan at SNH will impact on the organisation's ability to deliver the corporate plan.</p>	<ul style="list-style-type: none"> • review and assessment of SNH's overall arrangements on workforce planning based on completion of a local follow-up questionnaire 	<p>Progress on advancing workforce planning has gathered pace and the project arrangements have been formalised to ensure a structured approach to achieving the benefits of effective use of the workforce.</p>

Appendix II: Summary of local audit reports 2015/16



Appendix III: Summary of Audit Scotland national reports 2015/16



Appendix IV: Action plan

No.	Para ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1	49	<p>Issue: Scottish Natural Heritage currently prepares budgets for its 3 year Corporate Plan. This covers the next two financial years.</p> <p>Risk: plans to address any uncertainty over medium /long term financial position may not be developed in advance</p> <p>Recommendation: a long term financial strategy (5 years +) supported by clear and detailed financial plans (3 years +) should be developed. Plans should set out scenario plans (best, worst, most likely) with a clear assessment of the impact of budget assumptions on activity and any residual risks.</p>	<p>Our current Corporate Plan (approved by Minister) included a financial planning assumption of flat cash for the duration of the Plan. With the 2015 Spending Review (SR) it was clear that this assumption was not sustainable, hence the work we completed for the 2016/17 allocations and the work presently being undertaken in our preparation for the 2016 Spending Review (SR16) to consider response options for a range of potential Grant in Aid settlement figures. This includes work on alternative sources of funding/ income and consideration of emerging risks in respect of EU funding.</p> <p>While the recommendation is noted, the current economic environment introduces an immediate volatility and implied uncertainty that we need SR16 to play-out (year 1 + 2 years indicative anticipated) enabling us thereafter to plan with a better sense of future funding and consider in the context of a revised Corporate Plan. This is the time to consider the impact of the settlement forecast and agree with Scottish Government our approach to risks, those that we own, those that we share and those where controls are vested elsewhere.</p>	<p>Head of Portfolio Planning and Budgeting</p> <p>SR16 input – Q2/3</p> <p>SR16 settlement – Q3/4</p> <p>Revised Corporate Plan – Q4 onwards (subject to Ministerial approval)</p>

No.	Para ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
2	62	<p>Issue: the settlement agreement reached with a member of the Management Team was not formally considered at a Board meeting.</p> <p>Risk: Scottish Natural Heritage may not be able to demonstrate that Board members were able to appropriately scrutinise any arrangements of this nature</p> <p>Recommendation: any future settlement agreements involving the Management Team should be formally considered at a Board meeting so that there is a formal record of this scrutiny even if this is in a restricted minute.</p>	Accepted	<p>Director, Corporate Services</p> <p>With immediate effect</p>