

# Scottish Natural Heritage

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for Scottish Natural Heritage  
February 2017

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Audit risks

2. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Scottish Natural Heritage. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

Audit Risk	Management assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p>1 <b>Risk of management override of controls</b></p> <p>ISA240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Substantive testing of transactions to confirm that income and expenditure has been accounted for in the correct financial year.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>

Audit Risk	Management assurance	Planned audit work
<p><b>2 Risk of fraud over income</b></p> <p>ISA240 requires auditors to presume a risk of fraud where income streams are significant (excluding Scottish Government funding). Scottish Natural Heritage receives a significant amount of income (£3.4 m) from third parties. The extent and complexity of income means that there is an inherent risk of fraud.</p>	<p>A Budget Management Policy and Delegated Financial Authority (DFA) Policy underpins how expenditure/income is incurred and how this is monitored.</p> <p>EU funding is subject to detailed monitoring to allow allocation of income to relevant projects.</p> <p>Processes are in place to issue invoices and receipt of income.</p> <p>Income is received either directly by BACs, cheque or via credit/debit card.</p> <p>Segregation of duties between individual project managers and the treasury management function is in place.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed substantive testing of revenue transactions focusing on the areas of greatest risk.</p>
<p><b>3 Risk of fraud over expenditure</b></p> <p>ISA240 and the Code of Audit Practice require auditors to consider the risk of fraud over certain types of public sector expenditure. This includes grants and other claims made by individuals and organisations on the public purse. Scottish Natural Heritage incurs significant expenditure on grants and research.</p>	<p>A Budget Management Policy and Delegated Financial Authority (DFA) Policy is in place and DFA is only granted on completion of an in-house finance training package.</p> <p>Grant payments are receipted on i-buy and confirmed by the Funding Team. The Funding Team monitors claims and this is further monitored within weekly, monthly and quarterly scrutiny of financial spend.</p> <p>All NFI matches recommended for follow up action are fully investigated with appropriate comment entered on the NFI website. Outcomes of the NFI exercises are reported to the Audit &amp; Risk Management Committee.</p>	<p>Review of key controls over the processing and payment of grants.</p> <p>Substantive testing of grant expenditure.</p> <p>Review action taken to investigate and clear data matches resulting from the National Fraud Initiative exercise.</p> <p>Undertake performance audit work on European funding as part of a national study.</p>
<p><b>4 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Desk top valuations will be undertaken by the District Valuer on 20% of land and buildings every year and a full valuation every 5 years.</p> <p>Provisions are monitored throughout the year and all movements and the rationale for these are detailed within the working papers.</p>	<p>Completion of 'review of the work of an expert' programme for the professional valuer.</p> <p>Substantive testing of provisions at year end.</p>

Audit Risk	Management assurance	Planned audit work
<p><b>5 Prior year findings</b></p> <p>A number of adjustments were required to the 2015/16 accounts submitted for audit to correct misstatements identified by the audit process. There is a risk that similar misstatements will be included in the 2016/17 unaudited financial statements.</p>	<p>Resourcing issues impacted on the production of a final set of accounts within tight deadlines for the 2015/16 financial year.</p> <p>These issues are not expected for 2016/17 and the project plan for the production of the accounts has been refreshed. The peer and management review period will be adhered to in order to minimise adjustments to the accounts submitted on 31 May 2017.</p>	<p>Focused testing on areas where adjustment was required to the 2015/16 financial statements.</p>
<p><b>6 Non-current assets</b></p> <p>Recent discussions with finance staff have indicated that some assets that should have been capitalised in prior years may not have been capitalised. The risk of misstatement in the financial statements is, therefore, increased.</p>	<p>A review of the capitalisation policy is being undertaken. If any change is proposed, the implications will be addressed including the potential for a prior period adjustment.</p>	<p>Review the work undertaken by finance staff to identify any assets which meet the definition of capital expenditure but have not been capitalised in previous years.</p> <p>Focused substantive testing of significant purchases.</p>
<p><b>7 Revaluation reserve</b></p> <p>The balance on the revaluation reserve should equal the total of the revaluation balances on the individual assets held by Scottish Natural Heritage. There is uncertainty as to whether this is currently the case and so there is an increased risk of misstatement in the financial statements.</p>	<p>Work is ongoing to reconcile information held within the fixed asset register and the revaluation reserve. This involves looking at each asset individually and tracking any events which impact on the asset's value. On completion of this exercise, any adjustments to the revaluation and general reserve will be quantified and detailed working papers prepared.</p>	<p>Review the list of individual assets and confirm that the total agrees to the Revaluation Reserve balance included in the financial statements.</p>
<p><b>Wider dimension risks</b></p>		
<p><b>8 Governance and transparency (see paragraph 23)</b></p> <p>In September 2010, Audit Scotland published a report on 'The role of boards'. The report highlighted the need for Boards to demonstrate strong leadership and strategic direction. There is a risk that Scottish Natural Heritage cannot demonstrate that it has effective governance and scrutiny arrangements in place.</p>	<p>The Scottish Natural Heritage Board and sub-committees meet regularly with all papers and minutes being openly available. There is a mix of skills and experience across the Board and sub-committees and detailed terms of reference are available.</p>	<p>Follow up our 2010 'The role of boards' report.</p>

Audit Risk	Management assurance	Planned audit work
<p><b>9 Financial sustainability and Financial management (see paragraphs 21 &amp; 22)</b></p> <p>In June 2014, Audit Scotland reported on Scotland's Public Finances and identified that financial planning improvements were required by public bodies.</p> <p>The outcome of the EU referendum led to uncertainty over future European funding, which is a significant source of income for Scottish Natural Heritage.</p>	<p>Work is ongoing to develop a five year financial strategy. This will be developed alongside the corporate plan for 2018-2022 and work undertaken with regards to workforce planning.</p>	<p>Review progress in developing a five year financial strategy.</p> <p>Undertake performance work on European funding as part of a national study.</p>

## Reporting arrangements

**3.** Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**4.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

**5.** We will provide an independent auditor's report to Scottish Natural Heritage, Scottish Parliament and the Auditor General for Scotland summarising the results of the audit of the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

## Exhibit 2

### 2016/17 Audit outputs

Audit Output	Target date	Audit & Risk Management Committee Date
Interim Management Report	30 April 2017	10 May 2017
Annual Audit Report including ISA 260 requirements	14 July 2017	27 July 2017
Signed Independent Auditor's Report	27 July 2017	N/A

## Audit fee

**6.** The proposed audit fee for the 2016/17 audit of Scottish Natural Heritage is £55,020. In determining the audit fee we have taken account of the risk exposure of Scottish Natural Heritage, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 31 May 2017.

**7.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

## Responsibilities

### Audit & Risk Management Committee and Accountable Officer

**8.** Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

**9.** The audit of the financial statements does not relieve management or the Audit and Risk Management Committee, as those charged with governance, of their responsibilities.

### Appointed auditor

**10.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

**11.** Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Financial statements

**12.** The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Scottish Natural Heritage and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Scottish Natural Heritage will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**13.** We will give an opinion on the financial statements as to:

- whether they give a true and fair view of Scottish Natural Heritage's financial position and its expenditure and income
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of the expenditure and income.

## Materiality

**14.** Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for Scottish Natural Heritage are set out in [Exhibit 3](#).



### Exhibit 3

#### Materiality values

Materiality level	Amount
<b>Planning materiality</b> - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2017 based on the latest budget information.	£493,000
<b>Performance materiality</b> - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 65% of planning materiality.	£320,000
<b>Reporting threshold</b> - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 4% of planning materiality.	£20,000

15. We review and report on other information published with the financial statements including the Performance Report, Remuneration and Staff Report, and Governance Statement. Any issue identified will be reported to the Audit and Risk Management Committee.

#### Timetable

16. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit and Risk Management Committee dates.

### Exhibit 4

#### Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited financial statements with complete working papers package	31 May 2017
Latest date for final clearance meeting with Head of Finance	7 July 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	14 July 2017
Independent auditor's report signed (following Audit and Risk Management Committee meeting)	27 July 2017

## Internal audit

17. Auditing standards require internal and external auditors to work closely together to make the best use of the available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by Scottish Natural Heritage's in-house Internal Audit team supported by a co-sourcing contract with BDO to provide specialist and additional resources as required. Due to a vacancy within the Internal Audit team, the 2016/17 internal audit plan has been revised to reflect the reduced resources. There is no impact on the areas where we plan to place formal reliance on Internal Audit's work.

### Adequacy of Internal Audit

18. Our review of Internal Audit concluded that the internal audit service is effective, operates in accordance with the Public Sector Internal Audit Standards (PSIAS), and has sound documentation standards and reporting procedures in place. An independent third party review was completed in September 2015 by Scott-Moncrieff.

### Areas of reliance

19. To support our wider dimension audit responsibilities we plan to consider the following areas of internal audit work:

- corporate governance arrangements
- risk management system
- workforce plan project management.

## Audit dimensions

20. As noted at paragraph 1 above, we are required to meet the wider scope requirements of public sector audit which are outlined in the Code of Audit Practice. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#). As part of our responsibility to report on the four audit dimensions, we have identified specific areas of audit work for 2016/17 and these are outlined in Exhibit 1 above. We plan to undertake further work on these dimensions over our five year audit appointment.

## Exhibit 5

### Audit dimensions



### Financial sustainability

**21.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether Scottish Natural Heritage can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

### Financial management

**22.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on the following over our five year appointment:

- whether Scottish Natural Heritage has arrangements in place to ensure systems of internal control are operating effectively
- whether Scottish Natural Heritage can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how Scottish Natural Heritage has assured itself that its financial capacity and skills are appropriate
- whether Scottish Natural Heritage has established appropriate and effective arrangements for the prevention and detection of fraud and corruption have been established, including their response to the National Fraud Initiative exercise.

### Governance and transparency

**23.** Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We will review, conclude and report on the following over our five year appointment:

- whether Scottish Natural Heritage can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

## Value for money

**24.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on the following over our five year appointment:

- whether Scottish Natural Heritage can provide evidence that it is demonstrating value for money in the use of its resources
- whether Scottish Natural Heritage can demonstrate that there is a clear link between money spent, output and outcomes delivered
- whether Scottish Natural Heritage can demonstrate that outcomes are improving
- whether there is a sufficient focus on improvement and the pace of it.

## Independence and objectivity

**25.** Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

**26.** The engagement lead for Scottish Natural Heritage is Maggie Bruce, Senior Audit Manager. Auditing and ethical standards require that any relationships that may affect the independence and objectivity of audit staff are communicated to you. We are not aware of any such relationships pertaining to the audit of Scottish Natural Heritage.

## Quality control

**27.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

**28.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

**29.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

# Scottish Natural Heritage

## Annual Audit Plan 2016/17

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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