

NatureScot

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

Prepared for NatureScot
February 2021



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.

Contents

Risks and planned work	4
Audit scope and timing	8

Risks and planned work

Introduction

1. This annual audit plan contains an overview of the planned scope and timing of our audit of Scottish Natural Heritage (operating as NatureScot). Our audit is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit.

Impact of COVID-19

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

3. The public health crisis caused by the coronavirus disease 2019 (COVID-19) pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses, and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

4. In Audit Scotland we continue to manage the impacts of COVID-19 on the audit process. We expect the 2020/21 audit to be more challenging than last year as our current year's resources have been reduced by the extended 2019/20 reporting timescales and the current lockdown restrictions. The well-being of audit teams and the delivery of high-quality audits remain paramount. Our aim is to maintain a pragmatic and flexible approach to enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

Adding value

5. We aim to add value to NatureScot through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help NatureScot promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

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

Exhibit 1

2020/21 significant audit risks

Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement due to fraud caused by the management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries and other period end adjustments.</p> <p>Review of accounting estimates for bias.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p>2 Risk of material misstatement caused by fraud in expenditure</p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. NatureScot makes significant grant payments to third parties. Due to the nature of these expenditure streams there is a risk of fraud over expenditure which may result in a material misstatement in the financial statements. There is also a risk that internal controls designed to mitigate this risk were not operating as intended during 2020/21 due to COVID-19 suppression measures including lockdowns and remote working.</p>	<p>Effective budget monitoring by management and Board members.</p> <p>Management approval of payments over £200k, with additional checking in the final quarter of 2020/21.</p> <p>Participation in the National Fraud Initiative (NFI).</p> <p>Internal controls continued to operate as intended during COVID-19 lockdowns and remote working.</p>	<p>Walkthrough of controls over payables including grant payments.</p> <p>Focused testing of authorisation of grant payments.</p> <p>Substantive testing of expenditure payments relating to grants.</p>
<p>3 Estimations and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and accruals. This subjectivity represents an increased risk of material misstatement in the financial statements which is heightened by the impact of the COVID-19 pandemic on property markets and the ability of officers to physically verify work in progress at year-end.</p>	<p>Valuers are established and recognised providers of information in their field.</p> <p>Accruals are monitored and validated by reviewing pre and post year end payments and invoices together with reviewing encumbrance balances at the end of the financial year to ensure accruals are complete and accurate.</p>	<p>Assessment of the scope, independence and competence of the professionals engaged to provide valuations.</p> <p>Review of the judgements and assumptions made when valuing non-current assets.</p> <p>Substantive testing of 2020/21 transactions with particular focus on accuracy and cut-off.</p>

Audit Risk	Source of assurance	Planned audit work
<p>4 Changes to FReM requirements for narrative reporting</p> <p>Last year we noted that there was scope to improve the performance report. This year's FReM includes a new chapter (Chapter 3) on lessons learned from the Government Financial Reporting Review, examples of good practice and guidance on improving narrative reporting. Chapters 5 (performance report) and 6 (accountability report) have also been revised. There is a risk that the 2020/21 annual report and accounts do not reflect the revised FReM requirements.</p>	<p>Changes to the FReM have been reviewed and the "Good practice note on improving the quality of central government annual report and accounts", prepared by Audit Scotland has been noted and shared with colleagues responsible for preparing the annual report and accounts. Learning points from both sources will be incorporated.</p>	<p>Review of the performance and accountability reports against requirements set out in the 2020/21 FReM.</p> <p>Review of completed disclosure checklist and investigation of any areas of non-compliance.</p>
Wider dimension risks		
<p>5 Financial sustainability</p> <p>To date, NatureScot's financial plans have only covered a one-year period. Management have acknowledged the need to develop medium to longer-term financial plans to ensure future financial sustainability. Without this, there is a risk that the NatureScot will not be able to deliver the strategic outcomes set out in the 2018-2022 Corporate Plan.</p>	<p>A medium to long term financial plan has been prepared and will be updated following the Scottish Government budget announcement has taken place (28 Jan 2021). A paper is then to be considered by senior management in April and the Audit and Risk Committee in May 2021.</p>	<p>Review of 2020/21 outturn against budget.</p> <p>Review of 2021/22 budget setting process.</p> <p>Review of medium- and long-term financial plans including scenario planning.</p>

Source: Audit Scotland

Reporting arrangements

7. 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.

8. 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.

9. We will provide an independent auditor's report to NatureScot, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will also 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 during the audit.

10. The unique and continuing challenges presented by COVID-19 mean that we are starting the current year's audits later than in previous years and that audits are taking longer to complete. We will endeavour to meet the timescales set out below but recognise that this may not be possible due to uncertainty resulting from the COVID-19 pandemic.

Exhibit 2

2020/21 audit outputs

Audit Output	Target date	Committee Date
Management Report	30 April 2021	06 May 2021
Annual Audit Report	21 July 2021	28 July 2021
Independent Auditor's Report	28 July 2021	N/A

Source: Audit Scotland

Audit fee

11. The agreed audit fee for the 2020/21 audit of NatureScot is £59,150 (2019/20: £57,730). In determining the audit fee we have taken account of the risk exposure of NatureScot, 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 draft annual report and accounts, with a complete working papers package on 4 June 2021.

12. Where our audit cannot proceed as planned through, for example, late receipt of the draft annual report and accounts 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 out with our planned audit activity.

Responsibilities

Audit and Risk Committee and Accountable Officer

13. 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.

14. The audit of the annual report and accounts does not relieve management or the Audit and Risk Committee, as those charged with governance, of their responsibilities.

Appointed auditor

15. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

16. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. 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.

17. Membership of our audit team has not changed significantly since last year.

Audit scope and timing

Annual report and accounts

18. The annual report and accounts, which include the financial statements, will be the foundation and source for most 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 NatureScot 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 NatureScot 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.

19. We will give an opinion on:

- whether the financial statements give a true and fair view of NatureScot's financial position as at 31 March 2021 and its income and expenditure for the year then ended
- whether the financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of income and expenditure.

Other information in the annual report and accounts

20. We also review and report on other information published within the annual report and accounts including the performance report, governance statement and the audited part of the remuneration and staff report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

21. In addition, we review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

Materiality

22. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

23. We calculate materiality at different levels as described below. The calculated materiality values for NatureScot are set out in [Exhibit 3](#).



Exhibit 3

Materiality values

Materiality	Amount
Planning materiality – this is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 2% of gross expenditure for the year ended 31 March 2021 based on the latest expenditure budget.	£1.125 million
Performance materiality – 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 70% of planning materiality.	£785,000
Reporting threshold (i.e., clearly trivial) – we are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£55,000



Source: Audit Scotland

Timetable

24. To support the efficient use of resources it is critical that a timetable is agreed with us for the preparation and audit of the annual report and accounts. [Exhibit 4](#) sets out the agreed timetable which takes account of submission requirements and Audit and Risk Committee dates. We will endeavour to meet the timescales set out below but recognise that this may not be possible due to uncertainty resulting from the COVID-19 pandemic.

Exhibit 4

Annual report and accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual report and accounts with complete working papers package	4 June 2021
Latest date for final clearance meeting with Head of Finance, Planning and Performance	30 June 2021
Agreement of audited unsigned annual report and accounts, and issue of Letter of Representation and proposed independent auditor's report	21 July 2021
Independent auditor's report signed	28 July 2021

Internal audit

25. Internal audit is provided by NatureScot's in-house team supported by a co-sourcing contract with Azets (formerly Scott-Moncrieff) to provide specialist and additional resources as required. As part of our planning process we carried out an assessment of the internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS).

26. A detailed external assessment of compliance against the PSIAS requires to be completed at least every five years. The latest assessment, completed in November 2020, found that NatureScot's internal audit section generally conforms with the requirements of the PSIAS in all areas.

Using the work of internal audit

27. International Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit, wherever possible, to avoid duplication. To support our wider dimension audit responsibilities, we plan to consider the findings of internal audit's work in the following areas:

- corporate governance arrangements
- risk management systems
- workforce planning follow-up
- paybill management.

Audit dimensions

28. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5

Audit dimensions



Source: Code of Audit Practice

Financial sustainability

29. 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 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 NatureScot can demonstrate the affordability and effectiveness of its funding and investment decisions.

Financial management

30. 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:

- whether arrangements are in place to ensure systems of internal control are operating effectively
- whether NatureScot can demonstrate the effectiveness of budgetary control systems in communicating accurate and timely financial performance information
- how NatureScot has assured itself that its financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements in place, including within the procurement function, for the prevention and detection of fraud and corruption.

Governance and transparency

31. 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:

- whether NatureScot can demonstrate that the governance arrangements in place are appropriate and operated effectively throughout 2020/21
- whether there is effective scrutiny, challenge and transparency of decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

Value for money

32. Value for money refers to using resources effectively and continually improving services. We will review, conclude, and report on whether NatureScot can demonstrate:

- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered
- that outcomes are improving
- there is sufficient focus on improvement and the pace of it.

33. As part of our 2020/21 audit we also plan to conclude our review of how NatureScot demonstrates compliance with the Equality Act 2010, and how it is advancing equalities both within and outwith the organisation.

Best value

34. NatureScot's Accountable Officer has a duty to ensure arrangements are in place to secure Best Value. We will review and report on these arrangements.

Independence and objectivity

35. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. 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 robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

36. The engagement lead (i.e. appointed auditor) for NatureScot is Maggie Bruce, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of NatureScot.

Quality control

37. 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.

38. 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 (and supporting guidance) 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 and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

39. 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.

NatureScot

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk