

# NatureScot

2020/21 Annual Audit Report



Prepared for NatureScot and the Auditor General for Scotland  
July 2021

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# Key messages

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## 2020/21 annual report and accounts

- 1 Our audit opinions on the annual accounts are unmodified.
- 2 We have no significant findings to report from the audit of the financial statements.

## Financial management and sustainability

- 3 NatureScot operated within its revised Departmental Expenditure Limits for 2020/21.
- 4 The move to 90-day business plans helped NatureScot reprioritise its activities and ensure it maximised the use of its financial resources during 2020/21. We consider this to be an example of good practice.
- 5 Key controls within core financial systems continued to operate as expected during 2020/21.
- 6 The 2021/22 budget includes a further reduction in the funding available to support non-ringfenced projects. A medium-term financial plan has been developed and approved. The plan includes recommendations to improve NatureScot's financial sustainability over the next five years.

## Governance, transparency and value for money

- 7 NatureScot's governance arrangements are appropriate and support effective oversight of its activities and finances.
- 8 There is scope to further improve the readability of the performance report and governance statement.
- 9 NatureScot has an appropriate best value framework in place.
- 10 Performance monitoring continued throughout 2020/21, with 84% of key deliverables achieved or on track at 31 March 2021.
- 11 Monitoring of individual Biodiversity Challenge Fund projects is robust but more needs to be done to demonstrate how these contribute to delivery of the Fund's aims and objectives.
- 12 NatureScot has made good progress in promoting equalities but recognises more needs to be done to improve equality of access to nature.

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# Introduction

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- 1.** This report summarises the findings from our 2020/21 audit of NatureScot, the operating name for Scottish Natural Heritage. All references to NatureScot should be taken as referring to Scottish Natural Heritage as the legal entity.
- 2.** The scope of our audit was set out in our Annual Audit Plan presented to the February 2021 meeting of the Audit and Risk Committee. This report comprises the findings from the main elements of our audit work:
  - review of NatureScot's key financial systems
  - an audit of NatureScot's 2020/21 annual report and accounts including the issue of an independent auditor's report setting out our opinions
  - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#).
- 3.** In common with all organisations, NatureScot has had to respond to the coronavirus pandemic (Covid-19). Visitor centres were closed, and outdoor activities were suspended for nearly 4 months during 2020/21 as a result of lockdown provisions. The majority of staff continued to work from home throughout the full financial year. We included the risk of homeworking to the continued operation of key internal controls within our Annual Audit Plan.
- 4.** NatureScot was asked to administer the Scottish Government's Better Places Green Recovery Fund in the final quarter of the financial year. We considered the impact of this spend on our audit approach as part of our audit of the financial statements.

## Adding value through the audit

- 5.** We add value to the body through the audit by:
  - identifying and providing insight on significant risks, and making clear and relevant recommendations
  - sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
  - providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Responsibilities and reporting

**6.** NatureScot has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers.

**7.** NatureScot is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity.

**8.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), and supplementary guidance and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on:

- the appropriateness and effectiveness of the performance management arrangements
- the suitability and effectiveness of corporate governance arrangements
- the financial position and arrangements for securing financial sustainability.

Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

**9.** This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

**10.** Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers and dates for implementation. It also includes any outstanding actions from last year and progress against these.

## Auditor independence

**11.** 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 comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

**12.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and that the 2020/21 audit fee of £59,150, set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**13.** This report is addressed to both NatureScot and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

**14.** We would like to thank the management and staff who have been involved in our work for their co-operation and assistance during the audit.

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# 1. Audit of 2020/21 annual report and accounts

The principal means of accounting for the stewardship of resources and performance

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## Main judgements

Our audit opinions on the annual accounts are unmodified.

We have no significant findings to report from the audit of the financial statements.

Good progress was made in implementing prior year recommendations.

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## Our audit opinions on the annual report and accounts are unmodified

**15.** The annual report and accounts for the year ended 31 March 2021 were approved by the Audit and Risk Committee on 28 July 2021. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the performance report, governance statement and audited part of the remuneration and staff report were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

## The Covid-19 pandemic did not adversely impact our ability to obtain audit evidence

**16.** The completeness and accuracy of accounting records and the extent of information and explanations that we required for our audit were not adversely affected by the Covid-19 outbreak. We were able to obtain sufficient, appropriate audit evidence to support our audit opinion.

**17.** The working papers provided to support the accounts were of a good standard and the audit team received support from finance staff which helped ensure the final accounts audit process ran smoothly.

## The annual report and accounts were signed off in line with the original timescales

18. The unaudited annual report and accounts were received on 4 June 2021 in line with our agreed audit timetable. Both NatureScot and Audit Scotland staff worked from home for the duration of the audit, due to ongoing restrictions as a result of the Covid-19 pandemic. Lessons learned from the previous year and use of efficient communication methods such as Microsoft Teams allowed the audit to progress in line with the planned timetable.

## Overall materiality is £1.1 million

19. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

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### Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£1.1 million
Performance materiality	£765,000
Reporting threshold	£55,000

Source: Audit Scotland

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## [Appendix 2](#) identifies the main risks of material misstatement and our audit work to address these

20. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the audit team were directed. The appendix also identifies the work we undertook to address these risks and our conclusions from this work.

## We have no significant findings to report from the audit of the financial statements

21. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. We have no significant findings to report from our audit of the financial statements.

## There were no individual misstatements above our reporting threshold

**22.** A number of presentational and monetary adjustments were made as a result of our audit, and management also chose to amend for some misstatements identified by the finance team as part of their quality control processes. The net effect of these adjustments was to increase net expenditure and decrease net assets by £27,000. None of the corrected misstatements exceeded our reporting threshold and there are no uncorrected misstatements.

## Other matters noted during the audit of the financial statements

**23.** The valuer of one of the heritage assets included in the balance sheet included a 'material valuation uncertainty' clause in their valuation report regarding the impact of Covid-19 and noted that a higher degree of caution should be attached to this valuation than would normally be the case. We have not included an 'Emphasis of Matter' paragraph in our independent auditor's report as we do not believe this individual asset is fundamental to users' understanding of the accounts.

**24.** Our review of the unaudited performance report and governance statement identified two non-compliances with the requirements of the government financial reporting manual (FReM):

- the performance report lacked an appropriate forward-looking section
- the parliamentary accountability report did not include a disclosure on fees and charges.

The audited annual report and accounts have been amended to include the required disclosures.

## Good progress was made on prior year recommendations

**25.** NatureScot has made good progress in implementing our prior year audit recommendations with all four fully actioned (refer to [Appendix 1](#) for details).

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## 2. Financial management

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively

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### Main judgements

NatureScot operated within its revised Departmental Expenditure Limits for 2020/21.

The move to 90-day business plans helped NatureScot reprioritise its activities and ensure it maximised the use of its financial resources during 2020/21. We consider this to be an example of good practice.

Key controls within core financial systems continued to operate as expected during 2020/21.

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### NatureScot operated within its revised budget for 2020/21

**26.** The main financial objective for NatureScot is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

**27.** NatureScot's financial performance against Departmental Expenditure Limits (DEL) is shown in [Exhibit 2](#). This shows NatureScot reported an outturn of £53.183 million underspending against its revised 2020/21 DEL budget by £3.108 million.

**28.** During the year, amendments were made to the initial 2020/21 budget due to increases in funding provided by the Scottish Government. These included an additional £7.407 million to fund peatland restoration and £0.490 million to fund GovTech challenge fund grants offset by the surrender of £1.2 million to support Scotland's Rural Development Programme.

**29.** In addition, NatureScot agreed with the Scottish Government that it would underspend its resource and capital budgets by £0.913 million (due to delays in the introduction of IFRS 16) and £0.485 million (due to delays in the GovTech programme) respectively. The £3.108 million underspend above includes the authorised underspend as the budget allocation was not adjusted by the Scottish Government. Once the agreed underspend is taken into account, NatureScot underspent its DEL budget by £1.710 million.

**30.** No additional funding was provided to cover costs resulting from the Covid-19 pandemic. These costs, including an estimated £0.132 million in supplier relief payments to contractors who were unable to provide services (in full or part) due to Covid-19 restrictions, were met by savings made elsewhere in NatureScot's budget.

## Exhibit 2

### Performance against DEL in 2020/21

Performance	Initial Budget £m	Final Budget £m	Outturn £m	Over/(under) spend £m
Resource DEL	48.058	50.918	49.085	(1.833)
Capital DEL	1.000	5.373	4.098	(1.275)
Total DEL	49.058	56.291	53.183	(3.108)

Source: NatureScot Annual Report and Accounts 2020/21

### Peatland Action accounts for the majority of the unapproved underspend

**31.** The majority of the £1.710 million underspend relates to the Peatland Action project which underspent by £1.192m. Covid-19 restrictions in the early part of 2020/21 caused a build-up of activity towards the end of the financial year. This, combined with adverse weather and additional lockdown restrictions in the latter half of 2020/21, impacted the ability of contractors to deliver on peatland restoration targets. The majority of the uncompleted activity has been carried forward into 2021/22.

### NatureScot was lead partner for delivering the Scottish Government's Green Recovery Fund to support rural tourism

**32.** Unprecedented numbers of visitors have enjoyed Scotland's nature since initial lockdown restrictions were relaxed but this has presented a number of challenges to local communities including parking and traffic management; accommodating more people camping/campervans; and tackling high-profile incidents of littering, wildfires, toileting and general damage to Scotland's nature.

**33.** In December 2020, the Scottish Government asked NatureScot to administer the Better Places Green Recovery Fund on their behalf. The Fund aimed to *'help identify the local impacts and opportunities of visitor management at nature destinations across the country, boosting Scotland's green recovery by making the most of increased nature-based tourism.'*

**34.** The Fund provided grants of between £5,000 and £20,000 to non-governmental organisation (NGO) or community-led projects which will help plan for the future management of nature sites in a low-impact and sustainable way, improving the experience for both visitors and local communities. Expenditure totalling £0.387 million was incurred on 35 projects during 2020/21 and was funded from NatureScot's existing grant in aid allocation.

**35.** The Scottish Government announced a second round of the Better Places Fund in March 2021, with an initial budget of £2.75 million, for provision of grants to local authorities and community organisations of up to £75,000 per site. NatureScot has approved 90 projects totalling £2.774 million to be completed by October 2021. We will review expenditure on these projects as part of our audit of NatureScot's 2021/22 annual report and accounts.

### **The move to 90-day business plans helped NatureScot reprioritise its activities and ensure it maximised the use of its financial resources**

**36.** The restrictions introduced in response to the pandemic meant that some NatureScot services were unable to be delivered, with funding and projects re-prioritised as a result. At the outset of the pandemic, NatureScot moved from an annual business plan for 2020/21 to a series of 90-day business plans. This approach enabled NatureScot to quickly reprioritise funding between key areas of service delivery.

**37.** Senior management and the Board continued to receive regular budget monitoring reports throughout the financial year.

### **Financial systems of internal control operated as expected**

**38.** We reported the findings from our review of internal controls in our management report, presented to the Audit and Risk Committee in May 2021. We concluded that the key controls within NatureScot's main financial systems continued to operate as intended during 2020/21. We did not identify any weaknesses in these controls as a result of the move to homeworking in response to the Covid-19 pandemic.

**39.** No significant internal control weaknesses were identified during the audit which could affect NatureScot's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

### **Internal audit remains effective**

**40.** We reviewed NatureScot's internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent to which we could use the work of internal audit.

**41.** Internal audit is provided by NatureScot's in-house team supported by a co-sourcing contract with Azets. Our review concluded that NatureScot's internal audit arrangements are effective. Whilst we chose not to place formal reliance on the work of internal audit, we did consider five of its reviews – corporate governance arrangements, risk management systems, workforce planning follow-up, paybill management and green infrastructure claims - to support our wider dimension audit responsibilities.

### **Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate**

**42.** NatureScot is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. Furthermore, the Board is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

**43.** We have reviewed the arrangements in place to maintain standards of conduct including the codes of conduct in place for both staff and Board members. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

**44.** We concluded that appropriate arrangements are in place for the prevention and detection of fraud, error and irregularities. We are not aware of any specific issues that we need to bring to your attention.

### **Good practice**

**45.** The [Code of Audit Practice 2016](#) encourages auditors to identify good practice which in their opinion is worth sharing more widely. In our opinion, NatureScot's introduction of 90-day business plans in response to Covid-19 restrictions is an example of good practice.

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## 3. Financial sustainability

Financial sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services

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### Main judgements

The 2021/22 budget includes a further reduction in the funding available to support non-ringfenced projects.

A medium-term financial plan has been developed and approved. The plan includes recommendations to improve NatureScot's financial sustainability over the next five years.

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### The 2021/22 budget includes a further reduction in the funding available to support non-ringfenced projects

**46.** The Board approved the 2021/22 budget, in March 2021, as part of the 2021/22 Business Plan. This shows that NatureScot plans to invest £57.1 million in nature during 2021/22 and that this will be funded by £50.2 million grant in aid from the Scottish Government (2020/21 £47.1 million) and additional funding of £6.9 million for specific European Regional Development Fund (ERDF) projects.

**47.** The budget incorporates a number of budgetary pressures including an increase in the amount allocated for paybill costs resulting in a reduction of 11% (2019/20: 11% reduction) in the funding available for non-ringfenced projects to support delivery of NatureScot's strategic priorities.

**48.** In addition to the grant in aid funding noted above, the Scottish Government has also provided £0.750 million of non-recurring Covid-19 funding to help manage the increase in visitor numbers at NatureScot's National Nature Reserves.

**49.** The Covid-19 pandemic continues to have a significant impact on Scottish Government finances, and it is likely that funding will require to be reprioritised across public sector bodies during the year.

### A medium-term financial plan has been developed and approved

**50.** In response to a previous external audit recommendation, NatureScot has developed a medium-term financial plan which was approved by the Audit and Risk Committee in May 2021.

**51.** The plan covers a five-year period from 1 April 2021 to 31 March 2026, and is intended to guide NatureScot's longer-term decision-making by prioritising the use of financial resources, highlighting the key financial drivers and how these might impact on financial sustainability, and linking these to the wider corporate plan.

**52.** In compiling the plan, NatureScot considered wider macro-economic factors such as EU withdrawal, the impact of Covid-19 on public finances, and the Green recovery. Sensitivity analysis is also used to consider the impact of potential scenarios (e.g. changes to grant in aid) on the balance available to fund non-ringfenced projects and how NatureScot might respond to them.

**53.** The baseline financial plan (no increase in income and inflationary uplifts applied to payroll and overhead costs) highlights that the balance available for projects, and ultimately the ability of NatureScot to deliver its intended outcomes, is coming under increasing pressure. If this scenario were allowed to run its course, then the balance available for projects would reduce from £14.8m in 2020/21 to £10.6m in 2025/26 (28% reduction).

**54.** The plan considers how this could be addressed under six key themes including transformation projects to reduce costs; increased income generation; and working in partnership with other organisations. The plan makes a number of recommendations for senior management including developing skills and knowledge in, and setting targets for, income generation; assessing the financial impact of the transformation work currently being undertaken on payroll and office accommodation expenditure; and agreeing a multi-year capital plan. The plan also stresses the need to clarify with NatureScot's Sponsor Division the impact any increased income generation or external funding would have on grant in aid.

**55.** We have concluded that the plan is well thought out, clearly presented and fully addresses our prior year recommendation. In line with good practice, NatureScot is committed to reviewing and updating the plan alongside the development of the new corporate plan next year, and each year thereafter.

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# 4. Governance and transparency

The effectiveness of scrutiny and oversight, and transparent reporting of information

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## Main judgements

NatureScot's governance arrangements are appropriate and support effective oversight of its activities and finances.

There is scope to further improve the readability of the performance report and governance statement.

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### **NatureScot's governance arrangements are appropriate and support effective oversight of its activities and finances**

**56.** NatureScot is governed by a Board that is accountable to the Scottish Ministers. The Board met virtually six times during 2020/21 and was supported by three committees: Audit and Risk, Protected Areas and Scientific Advisory.

**57.** The Board consisted of the Chair, eight non-executive members and the Chief Executive during 2020/21. The appointments of four of the non-executive members came to an end on 31 March 2021. Seven new Board members were appointed with effect from 1 April 2021 increasing Board membership from nine to twelve.

**58.** Based on our attendance at Audit and Risk Committee meetings and review of Board minutes, we have concluded that appropriate arrangements are in place to support good governance, accountability and scrutiny of NatureScot's activities.

### **NatureScot has improved the presentation and content of its performance report but there is scope to further improve its readability by reducing its length**

**59.** In addition to the opinion on the performance report covered in [section 1](#) of this report, we also consider the qualitative aspects of the performance report included in the annual report and accounts. The performance report should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of a body's performance as well as helping stakeholders understand the financial statements.

**60.** Last year we noted that the annual report narrative could be improved and recommended that NatureScot review the content and presentation of the 2020/21 performance report against the financial reporting manual (FReM) and Audit Scotland's good practice guide. Our review concluded that the 2020/21 performance report addresses the areas for improvement (more balanced, cohesive and better linkages between sections) we raised last year. We noted, however, that the readability and impact of the performance report could be further improved by reducing its length.

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## Recommendation 1

The length of the performance report should be reviewed to improve its readability and impact.

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### The layout of the governance statement could be improved

**61.** HM Treasury's Financial Reporting Manual (the FReM) requires that NatureScot includes an annual governance statement within its annual report and accounts. Guidance for the content of the governance statement is set out in the Scottish Public Finance Manual (SPFM).

**62.** In [section 1](#) of this report, we concluded that the governance statement included in the audited annual report and accounts is consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

**63.** Our review of the governance statement included in the unaudited annual report and accounts noted that the 'Review of effectiveness and conclusion' section was too long, and that the overall conclusion was unclear. Management agreed to review this section and it was amended in the audited annual report and accounts. In our view, there is also scope to improve the risk assessment section of the governance statement through, for example, the use of sub-titles to improve its readability.

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## Recommendation 2

The layout of the risk assessment section of the governance statement should be reviewed to improve its readability.

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**64.** Each year internal audit assesses the Board's corporate governance arrangements and prepares a detailed report to support the disclosures in the governance statement. The Head of Internal Audit concluded that NatureScot's systems relating to internal control, risk management and corporate governance were broadly sound during 2020/21. There were no material qualifications to the Head of Internal Audit's opinion.

**65.** The governance statement highlights the risks (financial and reputational) of NatureScot's decision to pay some grant recipients directly to support their cash flow needs as a result of delays in processing some EU claims. These risks include that the managing authority (the Scottish Government) will not reimburse these claims; and that some projects will not be funded to completion and so will not deliver the expected outcomes. NatureScot is working with government officials to improve payment performance for these claims. Internal audit has also made a number of recommendations, which we support, to improve how the decision to make an advance payment is assessed, approved and documented.

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# 5. Value for money

Using resources effectively and continually improving services

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## Main judgements

NatureScot has an appropriate best value framework in place.

Performance monitoring has continued throughout 2020/21, with 84% of key deliverables achieved or on track at 31 March 2021.

Monitoring of individual Biodiversity Challenge Fund projects is robust but more needs to be done to demonstrate how these contribute to delivery of the Fund's aims and objectives.

NatureScot has made good progress in promoting equalities but recognises more needs to be done to improve equality of access to nature.

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## NatureScot has an appropriate best value framework

**66.** [Ministerial guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

**67.** The Chief Executive of NatureScot is the designated Accountable Officer. A range of processes are in place to help the Accountable Officer demonstrate best value. These include:

- the development of a four-year corporate plan together with an annual business plan, supplemented by 90-day business plans throughout 2020/21 to allow a flexible response to the Covid-19 pandemic
- an appropriate management structure, which set out clear lines of responsibility and reporting, and robust systems used in decision-making, budgeting and risk management
- regular monitoring of performance including financial performance against budget
- appropriate governance and accountability arrangements including a systematic approach to risk management
- an established approach to partnership working, which underpins much of what NatureScot does

- an emphasis on equality and dignity at work, which underpins its values and behaviours in its treatment of staff and how it conducts business
- building sustainability into how it operates through procurement practice, efficient use of offices, its approach to travel and how it uses energy.

**68.** We concluded that NatureScot has an appropriate best value framework in place.

### **84% of key deliverables were achieved or on track by year-end**

**69.** NatureScot continued to monitor key performance indicators throughout 2020/21 with performance against each of the 2020/21 business plan's 43 key deliverables included in quarterly performance reports to the Board. Performance against the Scottish Government's national performance framework indicators that NatureScot leads or contributes to was also included.

**70.** Performance reports use a traffic light system to report progress against each of the activities and key deliverables. The annual report and accounts highlight that, as at 31 March 2021, 36 (84%) key deliverables were achieved or on-track with 7 (16%) experiencing slippage.

**71.** Key areas of slippage include development of investment options to support income generation and diversification at nature reserves; and software developments, infrastructure investment and office portfolio design which were delayed due to Covid-19 and prioritisation of work to enhance cyber resilience. Plans are in place to recover slippage in early 2021/22.

**72.** We concluded that NatureScot has a well-developed performance management framework in place.

### **Monitoring of individual Biodiversity Challenge Fund projects is robust but more needs to be done to demonstrate how these contribute to delivery of the Fund's aims and objectives**

**73.** The Biodiversity Challenge Fund (BCF) is a competitive fund which *'specifically encourages applicants with innovative projects that improve biodiversity, and address the impact of climate change, by increasing the resilience of our most at-risk habitats and species and creating large areas of new or restored habitat'*.

**74.** NatureScot is responsible for administering the Fund including assessing and approving applications. To date there have been three rounds of funding resulting in nearly £7 million being awarded to 49 projects. As part of our wider dimension audit responsibilities, we reviewed NatureScot's arrangements for assessing applications, approving projects, monitoring their delivery, and authorising grant payments. We also considered how NatureScot monitors how these projects have contributed to the aims and objectives of the BCF.

**75.** Individual BCF projects are assessed, approved, monitored and grant payments authorised in line with NatureScot's standard procedures. We reviewed the controls in operation over these grant payments and found these to be operating as expected. The same three funding officers have been involved in assessing, approving, monitoring and authorising BCF payments since the Fund was established in 2018 ensuring consistency in how each round is administered.

**76.** Due to the nature of the BCF, which is largely focussed on improving biodiversity through habitat protection, creation and regeneration, the benefits of any individual project will often not be seen until after the project has concluded. NatureScot has recognised this and plans to review the impact of each project in the current funding round at 2, 5 and 7 year intervals. This is in addition to the review which takes place as standard at the end of the 10 year compliance period.

**77.** To date, NatureScot has not reported on how the individual projects contribute to the achievement of the BCF's aims and objectives except through input to national and international reporting against targets (such as Aichi). NatureScot has recognised this and a review of BCF freshwater projects is being piloted. This review aims to develop a revised reporting structure to help show how these individual projects' activities map to the higher level BCF outcomes and Aichi targets. Once tested, this new reporting structure will be rolled out to the full range of habitats.

**78.** We concluded that monitoring of individual projects is robust and in line with NatureScot's standard grant funding procedures but more needs to be done to demonstrate how individual projects contribute to delivery of the BCF's aims and objectives. NatureScot has recognised this and is actively working to develop performance measures and a consistent approach to demonstrating what has been achieved through the BCF.

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### **Recommendation 3**

**NatureScot should continue to develop its approach to demonstrating how individual projects contribute to delivery of the Biodiversity Challenge Fund's aims and objectives.**

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### **NatureScot has made good progress in promoting equalities but recognises more needs to be done to improve equality of access to nature**

**79.** Every public sector body must be able to demonstrate how it fulfils the general equality duty under the Equality Act 2010. We have reviewed how NatureScot demonstrates its compliance with the Act, and how it advances equalities within the organisation and in its business activities.

**80.** Our high-level review confirmed that NatureScot complies with the specific duties of the Equality Act 2010. NatureScot produces equality outcome reports every two years which focus on equality outcomes. The latest (2021) report reviewed progress against the current outcomes which were last refreshed in 2019. These focus on improving equality of access to nature; encouraging more people from minority ethnic communities and people with disabilities to apply for positions within NatureScot; developing a more age-inclusive culture; and reducing the gender pay gap to 9%.

**81.** Notable achievements include:

- the gender pay gap target has been reduced to 8.5% (exceeding target) from 12.8% in 2013. Gender balance is relatively static at 59% female and 41% male. Gender parity has been achieved at Senior Leadership Team and Board level but there are more women employed in the lower pay grades
- NatureScot's Board first achieved gender parity in 2015, compared to 25% female representation in 2013. The benefits of extending Board diversity beyond that of gender have been recognised. Working with Inclusion Scotland, NatureScot created a shadow Board member opportunity in 2019 to identify how accessible public appointments are for those with disabilities, and is currently exploring ways to establish a more formal role for a young person on the Board
- working extensively with partner organisations to improve access to nature for those from under-represented backgrounds with a particular focus on young people. The Covid-19 pandemic has exacerbated already existing equality issues with regard to the general population, such as with inequality of access to the outdoors for minority ethnic groups
- encouraging employees to consider and embed equalities into procurement activities and when bidding for project resources. Staff have been given unconscious bias training and NatureScot is working on more generic role profiles to remove bias from recruitment processes.

**82.** Equalities reporting and assessment of improvements is hampered by a lack of available data. Disclosure of protected characteristics by employees is largely voluntary, and this limits the extent of analysis which can be undertaken. NatureScot has launched a campaign to encourage disclosure by employees and it is hoped that the new recruitment system can be developed to allow monitoring of diversity information throughout the recruitment cycle.

**83.** We concluded that NatureScot shows a strong commitment to promoting and complying with equality legislation and has achieved a number of significant outcomes in promoting equalities to its staff, grant recipients and stakeholders. It recognises more needs to be done to improve equality of access to nature and plans to engage with more marginalised communities and groups as part of the development of its next corporate plan.

## National performance audit reports

**84.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Although there were no reports published in 2020/21 which were of direct interest to NatureScot, there were others with some wider relevance. These are set out in [Appendix 3](#).

# Appendix 1. Action plan 2020/21

## 2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Improving the impact of the performance report</b></p> <p>The readability and impact of the performance report could be improved by reducing its length to give greater focus to the key messages.</p> <p>Risk – there is a risk that the length of the performance report detracts from the key messages by presenting too much information for readers to absorb.</p>	<p>The length of the performance report should be reviewed in order to improve its readability and impact.</p> <p><a href="#">Paragraph 59-60</a></p>	<p>This will be reviewed as part of the 2021/22 annual report and accounts project.</p> <p><b>Responsible officer:</b> Head of Finance, Planning and Performance</p> <p><b>Agreed date:</b> 31 May 2022</p>
<p><b>2. Improving the layout of the governance statement</b></p> <p>The risk assessment section of the governance statement is quite lengthy and hard to read.</p> <p>Risk – there is a risk that the length of the risk assessment section detracts from the readability and impact of the governance statement.</p>	<p>The layout of the risk assessment section of the governance statement should be reviewed to improve its readability.</p> <p><a href="#">Paragraph 61-63</a></p>	<p>This will be reviewed as part of the 2021/22 annual report and accounts project.</p> <p><b>Responsible officer:</b> Head of Finance, Planning and Performance</p> <p><b>Agreed date:</b> 31 May 2022</p>

Issue/risk	Recommendation	Agreed management action/timing
<p><b>3. Improved monitoring of Biodiversity Challenge Fund impact</b></p> <p>More needs to be done to demonstrate how individual projects contribute to delivery of the Biodiversity Challenge Fund's aims and objectives.</p> <p>Risk – there is a risk that NatureScot is unable to demonstrate that individual Biodiversity Challenge Fund projects have helped deliver its aims and objectives.</p>	<p>NatureScot should continue to develop its approach to demonstrating how individual projects contribute to delivery of the Biodiversity Challenge Fund's aims and objectives.</p> <p><a href="#">Paragraphs 73-78</a></p>	<p>As noted in paragraph 77, a pilot project is underway to develop a reporting structure to help show how freshwater projects' activities link to delivery of the Biodiversity Challenge Fund's outcomes.</p> <p><b>Responsible officer:</b></p> <p>Funding Manager</p> <p><b>Agreed date:</b> 31 December 2021</p>

## Follow-up of prior year recommendations

Issue/risk	Recommendation	Progress made in implementing recommendation
<p><b>4. Key finance post remains vacant</b></p> <p>The Head of Finance, Planning and Performance post has been vacant since the beginning of June.</p> <p>Risk – there is a risk that NatureScot does not have sufficient financial capacity to support the organisation as it plans for its longer-term recovery from Covid-19.</p>	<p>NatureScot should progress recruitment to this key post in order to ensure there is sufficient senior finance staff capacity to support the organisation as it plans for its longer-term recovery from the impact of Covid-19.</p>	<p><b>Complete</b></p> <p>A new Head of Finance, Planning and Performance has been in post since 16 November 2020.</p>
<p><b>5. Internal control arrangements</b></p> <p>The scale and pace of change as a result of Covid-19 poses a risk to NatureScot's governance arrangements.</p> <p>Risk – there is a risk that key financial controls do not operate as intended due to new ways of working.</p>	<p>NatureScot should ensure that internal controls remain effective during this period of uncertainty and new ways of working.</p>	<p><b>Complete</b></p> <p>A review of risks to organisational resilience has been completed by the Head of Internal Audit, in response to Covid-19. This included a Fraud Risk Assessment, and action to review budget and financial management controls.</p>

Issue/risk	Recommendation	Progress made in implementing recommendation
<p><b>6. Annual report narrative</b></p> <p>The annual report narrative could be improved to ensure it is balanced and transparent.</p> <p>Risk – there is a risk that NatureScot fails to communicate effectively with its stakeholders.</p>	<p>NatureScot should review the content and presentation of its performance report against Annex 5 of the FReM and Audit Scotland’s good practice guide.</p>	<p><b>Complete</b></p> <p>The performance report contained within the 2020/21 annual report and accounts is considerably improved, with better balance and improved linkages between sections.</p> <p>It could be further improved by reducing its length (<a href="#">Recommendation 1</a>).</p>
<p><b>7. Financial sustainability</b></p> <p>NatureScot’s financial plans only cover a one-year period. Last year we reported that the publication of the Scottish Government’s five-year financial strategy, together with NatureScot’s new 2018-2022 Corporate Plan, provided an opportunity to further develop medium and longer-term financial planning.</p> <p>Limited progress was made on this during 2018/19 with the 2019/20 budget covering a one-year period. Scenario planning was used as part of the 2019/20 budget setting process, but this only covered one year.</p> <p>Risk – NatureScot is unable to deliver on its long-term vision for Scotland’s nature and landscapes.</p>	<p>NatureScot should develop medium to longer-term financial plans in order to identify and address risks to its financial sustainability and long-term vision for Scotland’s nature and landscapes. These plans should link closely to the outcomes set out in its 2018-2022 Corporate Plan.</p>	<p><b>Complete</b></p> <p>A medium-term financial plan, including scenario planning and sensitivity analysis, has been developed and was approved by the Audit and Risk Committee in May 2021.</p> <p>In line with good practice, the plan will be reviewed and updated alongside the development of the new corporate plan next year, and each year thereafter.</p>

# Appendix 2. Significant audit risks

The table below sets out the audit risks we identified during our planning for the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the financial statements and those relating to our wider responsibility under the [Code of Audit Practice 2016](#).

## Risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></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>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><b>Results:</b></p> <p>Our audit work did not identify any issues which would indicate management override of controls in order to manipulate the year-end position reflected in the accounts.</p> <p><b>Conclusion:</b> Satisfactory</p>
<p><b>2. Risk of material misstatement caused by fraud in expenditure</b></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</p>	<p>Walkthrough of controls over payables including grant payments.</p> <p>Focussed testing of authorisation of grant payments.</p> <p>Substantive testing of expenditure payments relating to grants.</p>	<p><b>Results:</b></p> <p>During the audit we reconsidered this risk and concluded that it applied only to Peatland Action grants. As a result, our testing focused on these grants.</p> <p>We did not identify any issues from our:</p> <ul style="list-style-type: none"> <li>walkthrough of controls over payables including grant payments</li> </ul>

Audit risk	Assurance procedure	Results and conclusions
<p>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>		<ul style="list-style-type: none"> <li>• testing of authorisation of Peatland Action grant payments</li> <li>• substantive testing of Peatland Action grant payments</li> </ul> <p><b>Conclusion:</b> Satisfactory</p>
<p><b>3. Estimations 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 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>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>	<p><b>Results:</b></p> <p>Our audit work did not identify any issues with the scope, independence or competence of the expert valuers.</p> <p>No issues were identified from our review of the year-end property valuations. One valuer included a 'materiality uncertainty' clause for one asset valuation but this was not material to our opinion on the accounts.</p> <p>In response to the Covid-19 pandemic we focused our substantive testing of accruals on areas which were most likely to be impacted (e.g. Peatland Action claims). No issues were identified.</p> <p><b>Conclusion:</b> Satisfactory</p>
<p><b>4. Changes to FReM requirements for narrative reporting</b></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</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>	<p><b>Results:</b></p> <p>Our audit work identified two instances of non-compliance with recommended practice:</p> <ul style="list-style-type: none"> <li>• the performance report lacked an appropriate forward-looking section</li> <li>• the parliamentary accountability report did not include a disclosure on fees and charges.</li> </ul> <p>Management agreed to amend the disclosures in the audited annual report and accounts.</p>

Audit risk	Assurance procedure	Results and conclusions
reflect the revised FReM requirements.		<p>Our review of the completed disclosure checklist did not identify any issues.</p> <p><b>Conclusion:</b> Satisfactory</p>

## Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p><b>5. Financial sustainability</b></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>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>	<p><b>Results:</b></p> <p>NatureScot operated within its resource allocation in 2020/21.</p> <p>The 2021/22 budget incorporates a number of budgetary pressures including an increase in the amount allocated for paybill costs resulting in a reduction of 11% (2019/20: 11% reduction) in the funding available for non-ringfenced projects to support delivery of NatureScot's strategic priorities.</p> <p><a href="#">Paragraph 46-49</a></p> <p>A medium-term financial plan, including scenario planning, has been developed which makes recommendations to improve NatureScot's financial sustainability over the next five years.</p> <p><a href="#">Paragraph 50-55</a></p> <p><b>Conclusion:</b> Satisfactory</p>

# Appendix 3. Summary of 2020/21 national performance reports

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## April

[Affordable housing](#)

## June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

## July

[The National Fraud Initiative in Scotland 2018/19](#)

## January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

## February

[NHS in Scotland 2020](#)

## March

[Improving outcomes for young people through school education](#)

# NatureScot

## 2020/21 Annual Audit Report

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)



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