

Scottish Natural Heritage

Report on the 2009/10 Audit to Scottish Natural Heritage and the Auditor General for Scotland

October 2010

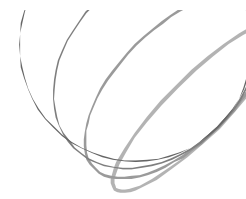


 AUDIT SCOTLAND



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Key messages

In 2009/10 we looked at the key strategic and financial risks being faced by Scottish Natural Heritage (SNH). We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

Financial statements

We have given an unqualified opinion on the financial statements of SNH for 2009/10. We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

Financial position and use of resources

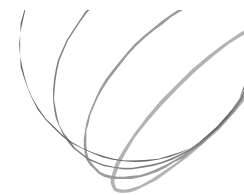
Scotland's economy is recovering from recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight. It remains unclear what impact the recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known. Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available. In the current economic climate difficult decisions will have to be made across the public sector about priority spending programmes.

SNH had a total resource budget of £66.855 million for 2009/10, covering operating costs and capital spend. The outturn for the year was an underspend of £0.636 million.

Scottish Ministers have agreed a resource budget for SNH of £66.863 million for 2010/11. This comprises operating expenditure of £60.981 million, capital expenditure of £2.069 million and non cash items amounting to £3.903 million. Following the merger of SNH and the Deer Commission for Scotland, the resource budget includes an allocation of £1.887 million operating expenditure, £0.035 million capital expenditure and £0.012 million non-cash cover towards the costs of activities previously provided by the Deer Commission.

SNH generated cash efficiencies of 3.071 million during the year, exceeding its 2009/10 efficiency plan target of £2.402 million. These savings were achieved mainly from asset management, procurement and shared services. The efficiency saving target for 2010/11 will be £3.598 million. SNH expects to meet this target which along with other budget pressures will present a significant challenge to the organisation.

During the year we examined SNH's arrangements for the effective use of financial resources using our Best Value toolkit. We concluded that SNH's financial management arrangements were of high quality. We assessed SNH's financial reporting arrangements as being advanced practice, and its financial governance, service planning, decision making, and monitoring and control arrangements as meeting the



overall definition of better practice, although there were also examples of advance practices achieved in specific areas within these themes.

Governance and accountability

Corporate governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall the corporate governance and control arrangements for SNH operated satisfactorily during the year, as reflected in the Statement on Internal Control.

We examined the key financial systems which underpin the organisation's control environment. We concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them.

Performance

SNH performed well during 2009/10 achieving 5 of the 6 high level indicators agreed with the Scottish Government. These targets are drawn from the Corporate Plan and are used to demonstrate SNH's contribution towards achievement of the Scottish Government's strategic objectives.

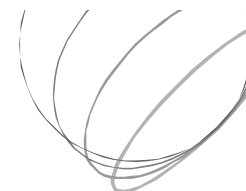
As highlighted in prior years, SNH did not anticipate achieving the missed target relating to bringing 95% of the special features on Scotland's nationally important nature sites into favourable condition by March 2010. A number of factors outwith the control of SNH continue to provide a real challenge to SNH in improving this indicator, with the overall percentage of sites assessed as in favourable condition at 31 March 2010 maintained at 78%. However, when assessed against sites on SNH estate only, performance increases to 87%, rising to 94% when sites with no on-site remedy are also excluded. We will continue to monitor SNH's performance arrangements and delivery against objectives.

Looking forward

The final part of our report notes some key risk areas and issues for SNH going forward. SNH faces significant financial challenges and we will continue to monitor SNH's financial position and the achievement of efficiency savings.

The assistance and co-operation given to us by SNH staff during our audit is gratefully acknowledged.

Audit Scotland
October 2010

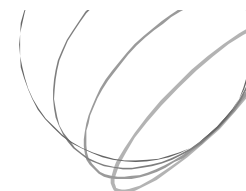


Introduction

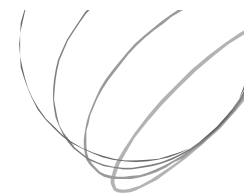
1. This report summarises the findings from our 2009/10 audit of Scottish Natural Heritage (SNH). The scope of the audit was set out in our Audit Plan in accordance with the Code of Audit Practice, which was presented to the Audit and Risk Management Committee on 22 February 2010. This plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance.
2. We have issued other reports during the year, and we briefly touch on the key issues we raised in this report. The reports set out our detailed findings and recommendations and SNH's agreed response.
3. Best value duties apply across the public sector and are a formal duty on all accountable officers. Audit Scotland has adopted a generic framework for the audit of best value across the public sector and this has been further developed during 2009/10 with the completion of its bank of best value Toolkits which, although primarily designed for audit use, are available to all public bodies for reference.

Exhibit 1: Framework for a best value audit of a public body





4. A linked development here has been the Scottish Government's work to refresh its 2006 best value Guidance for Public Bodies. This latter initiative, due for issue later in 2010, will result in clearer guidance to public bodies, and particularly those in the Central Government and Health sectors, on securing continuous improvement in performance, with due regard to the balance between cost and quality.
5. Throughout this report we comment on aspects of SNH's arrangements in this area. Our comments are made on the basis of information made available in the course of the annual audit. We do not make an overall best value judgement because we do not yet have enough evidence to conclude on all relevant areas. Our intention is to build up the corporate assessment over time. This report represents a further step towards that goal.
6. Another building block for our assessment of best value is the national study programme carried out by Audit Scotland on behalf of both the Auditor General for Scotland and the Accounts Commission. Where these have a bearing on the activities, risks or performance of SNH we make reference to these reports in this document. Full copies of the study reports can be obtained from Audit Scotland's website, www.audit-scotland.gov.uk.
7. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by staff of SNH during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website.



Financial Statements

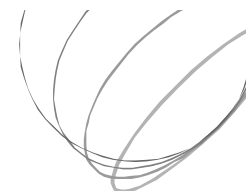
8. In this section we summarise key outcomes from our audit of SNH financial statements for 2009/10 and the accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

Our responsibilities

9. We audit the financial statements and give an opinion on:
- whether they give a true and fair view of the financial position of SNH and its expenditure and income for the period in question
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
 - the consistency of the information which comprises the management commentary within the financial statements
 - the regularity of the expenditure and receipts.
10. We also review the statement on internal control by:
- considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control
 - assessing whether disclosures in the statement are consistent with our knowledge of SNH.

Overall conclusion

11. We have given an unqualified opinion on the financial statements of SNH for 2009/10. In previous years the financial statements included a qualified regularity opinion in relation to expenditure incurred on nature conservation management agreements entered into before 1 January 2001. The European Commission had confirmed such agreements entered into after 1 January 2001 were allowable for state aid. However, no ruling has yet been made regarding retrospective approval of management agreements entered into prior to 1 January 2001. In light of the decreasing level of expenditure on these agreements, and with no challenge being made by the European Commission, we have removed the qualification from our audit opinion.
12. As agreed the unaudited accounts were provided to us on 25 May 2010, supported by a comprehensive and well documented working paper package. We concluded our audit within the



agreed timetable and provided our opinion to the Audit and Risk Management Committee on 27 July 2010 as timetabled.

Issues arising from the audit

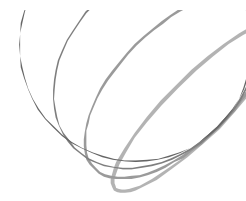
13. Auditing standards require us to report the main issues arising from our audit of the financial statements to those charged with governance. On 27 July we reported to the Audit and Risk Management Committee that there were no significant issues identified.

Regularity

14. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.

International financial reporting standards (IFRS)

15. UK Government departments and other public sector bodies prepared their accounts in accordance with International Financial Reporting Standards (IFRS) for the first time in financial year 2009/10. The transition arrangements to IFRS required bodies to prepare IFRS shadow accounts for 2008/09, including revised opening balances as at 1 April 2008.
16. During 2009/10 we were required to review the shadow accounts and report on them to SNH by 28 February 2010. The purpose of this exercise was to consider whether the shadow accounts had been properly prepared and report any matters that might prevent them forming a reliable basis for the first set of IFRS based accounts in 2009/10.
17. The shadow accounts and supporting documentation for the 2008/09 financial year were received from SNH on 27 November 2009, within the prescribed timetable.
18. Based on the audit work we carried out the figures in the shadow accounts appeared to be appropriate for use as comparative amounts for the 2009/10 IFRS based accounts.



Use of Resources

19. Sound management and use of resources (people, money and assets) to deliver strategic objectives is a key feature of best value. This section sets out our main findings from a review of SNH's financial position and financial management.

Financial Position

Outturn 2009/10

20. SNH is required to work within its resource budget set by the Scottish Government. SNH is expected to ensure that, taking one year with another, income from Grant in Aid and other revenue streams equals expenditure. For 2009/10 SNH used £62.775 million of Grant in Aid allocation towards the operating costs of the organisation, against a total budget of £63.356 million. Capital costs of £3.444 million were £0.055 million less than the allocated resource budget of £3.499 million. As a result SNH did not have to draw down its full operating grant-in-aid entitlement.

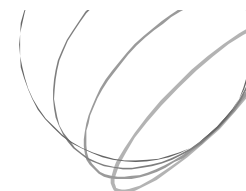
21. SNH's statement of financial position at 31 March 2010 shows net assets of £25.168 million (2008/09 £27.014 million). This movement is mainly due to a reduction in the carrying value of property, plant and machinery.

22. SNH operated within the resource and capital budget limits set by the Scottish Government – see exhibits 2 below.

Exhibit 2 – Performance against resource budget 2009/10 (£ million)

| Limits | Budget £m | Actual Outturn £m | Difference £m |
|------------------------------|---------------|----------------------|------------------|
| Operating costs - cash | 59.577 | 58.814 | 0.763 |
| Operating costs – non-cash | 3.799 | 3.961 | (0.182) |
| Total Operating Costs | 63.356 | 62.775 | 0.581 |
| Capital costs – cash | 2.629 | 2.574 | 0.055 |
| Capital costs – non-cash | 0.870 | 0.870 | 0.00 |
| Total Capital Costs | 3.499 | 3.444 | 0.055 |

23. The two largest elements of capital expenditure in 2009/10 was a £0.750 million grant to the Scottish Environment Protection Agency as SNH's contribution towards the construction of Inverdee House, and a £0.870 million capital grant in kind which represented the market value of property on the Isle of Rum transferred during the financial year from SNH to Isle of Rum Community Trust. This second and



final phase transfer of village properties released SNH from ongoing maintenance of transferred assets.

Scotland's public finances

24. The Auditor General's report on *Scotland's public finances*, published in November 2009, contained an overview of the financial environment in Scotland and the pressures and challenges facing the public sector. The aim of this report was to help to inform the debate on the future of public finances in Scotland. The key messages from this report were:

Extract from Auditor General's report *Scotland's public finances*

The public sector is coming under the greatest financial pressure since devolution.

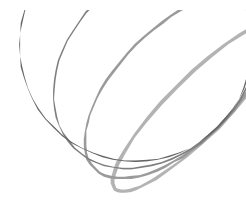
- Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight.
- The Scottish Government and the wider public sector need to work together to develop better activity, cost and performance information. This information is needed to enable informed choices to be made between competing priorities, and to encourage greater efficiency and productivity.

The Scottish Government faces significant challenges in balancing the budget while also delivering on its commitments and meeting increasing demands for public services.

- It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known.
- In many cases, the public sector uses income from various sources to pay for services. Income levels anticipated before the recession are unlikely to be realised, reducing the amount available to spend.
- The Scottish public sector faces significant challenges in balancing its budget while also delivering on its commitments. Changes in Scotland's population and rising unemployment rates will increase demand for public services.
- Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available.

In the current economic climate difficult decisions will have to be made about priority spending programmes.

- The Scottish Government's annual budget is largely developed on an incremental basis which involves making adjustments at the margin to existing budgets. This approach is not suitable for budgeting in a financial downturn because it does not easily allow informed choices to be made about priorities, based on robust information about activity, costs and performance.
- The Scottish Parliament has an important role in scrutinising the government's spending plans. Better information linking spending to costs, activities and service performance, and a rolling programme of performance reviews, would support the Scottish Parliament in fulfilling this role.



25. In common with other public sector bodies, SNH has been identifying and delivering efficiency savings over the past few years as part of the Efficient Government programme. However, in light of the pressures on public sector finances, increased efficiencies and savings will be required in the coming years. In addition to measures such as only filling key vacancies that arise, and property sharing arrangements with public sector partners like the Crofters Commission, SNH has also developed scenario planning, based on varying degrees of anticipated cuts in funding levels. The review is considering at a fundamental level issues such as the various activities performed by the organisation and the staffing structure required to deliver this, alongside future grant commitments and flexibility around discretionary spend.

Financial sustainability and the 2010/11 budget

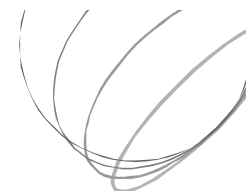
26. Scottish Ministers have agreed a financial allocation of £66.863 million for 2010/11. This comprises operating expenditure of 60.891 million, capital expenditure of £2.069 million and non-cash costs of £3.903 million:

Exhibit 3 – 2010/11 Resource Plan

| Limits | Budget £million |
|------------------------------|------------------------|
| Cash items | |
| Operating costs | 60.891 |
| Capital | 2.069 |
| Non cash items | |
| Depreciation | 3.018 |
| Cost of capital ¹ | 0.885 |
| Total | 66.863 |

27. SNH is expected to achieve a minimum 2% recurring efficiency saving in 2010/11. SNH has currently set a target of £3.598 million for efficiency savings and this is reflected in the budget agreed with Scottish Ministers. Grant in Aid will not be uplifted for pay or general inflation as this is expected to be met from SNH's efficiency savings each year. Delivering efficiencies year on year while absorbing cost pressures such as the increase in VAT from January 2011 represents a significant challenge for SNH.

¹ Following the laying of the 2010-11 Summer budget revision to the Budget (Scotland) Act, cost of capital charges have been removed from budgets in line with the UK Government's Clear Line of Sight project.

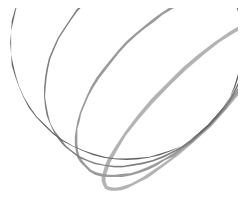


Financial management

28. During the year we examined SNH's arrangements for the effective use of financial resources using our Best Value toolkit. Our use of resources toolkits, including the financial management toolkit used in this assessment, form part of our approach to the application of Best Value reviews in Health and Central Government organisations.
29. We considered 5 themes during this review; financial governance, financial and service planning, finance for decision making, financial monitoring and control, and financial reporting, and each was reviewed to assess whether the organisation demonstrated basic, better or advanced practice. An assessment of basic or better practice does not automatically mean an organisation is underperforming in a particular area, and it may be the optimal performance level appropriate to that organisation's circumstances.
30. Our overall conclusion was that SNH's financial management arrangements were of high quality. We assessed SNH's financial reporting arrangements as being advanced practice, and on balance the other 4 themes as meeting the overall definition of better practices, although there were examples of advance practices achieved in specific areas within these themes.

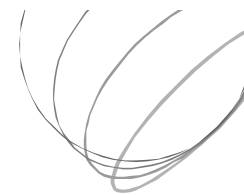
National Studies

31. *Improving public sector purchasing*, an Audit Scotland national study on procurement, was published on 23 July 2009 and provided a position statement on progress made by the Public Procurement Reform Programme, which aimed at improving purchasing practice and making savings of about three per cent a year.
32. The report found that the public sector in Scotland is improving its purchasing and estimated it had saved a total of £327 million in the first two years of the Programme, which has cost £61 million so far to implement.
33. Because of the public sector's size and combined purchasing power, there is potential for it to buy goods and services more efficiently and deliver more significant savings through increased collaboration and better management. There has been progress in recent years but it has varied across the country and been slower than planned.
34. The report recommended that the use of collaborative contracts in the public sector should increase. These are a key feature of the Programme, but are being developed more slowly than expected. The health sector has been the most successful in this, introducing 150 new contracts and saving £54 million in the two years to 2007/08. Public bodies also need to ensure that staff have the appropriate



procurement skills and that better information and management systems are in place to facilitate more effective purchasing.

35. SNH has in recent years been developing its procurement information through the Purchase to Pay project, which incorporates e-procurement and purchase and supplier analysis. It approved a new procurement strategy in October 2009 as part of its Supporting Delivery programme, and it also continues to work with the Scottish Procurement Information Hub in developing procurement management information across Scottish public sector bodies, supporting analysis of SNH spend for identification of collaborative opportunities and efficiencies.



Governance and Accountability

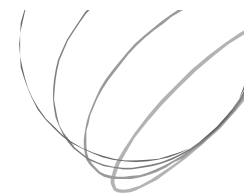
36. High standards of governance and accountability, with effective structures and processes to govern decision-making and balanced reporting of performance to the public, are fundamental features of best value. This section sets out our findings arising from a review of SNH's arrangements.
37. Increasingly services are being delivered across the public sector through partnership working, sometimes involving complex governance and accountability arrangements. Best value characteristics also include effective partnership working to deliver sustained improvements in outcomes.

Overview of arrangements

38. This year we reviewed:
- key systems of internal control
 - internal audit
 - arrangements for the prevention and detection of fraud and irregularity, including standards of conduct
 - information governance.
39. Our overall conclusion is that arrangements within SNH are sound and have operated through 2009/10.

Systems of internal control

40. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In his annual report for 2009/10 the Head of audit and consultancy services provided his opinion based on the internal audit work undertaken during the year, and concluded that the programme of internal audits in 2009/10 has offered reasonable assurance that SNH continues to have a broadly sound framework of internal controls.
41. As part of our audit we reviewed the high level controls in a number of SNH systems that impact on the financial statements. Our overall conclusion was that key controls were operating effectively and that SNH has adequate systems of internal control in place. We did identify a number of minor areas where controls could be strengthened and agreed an action plan of improvements with management. This will be followed up in 2011.



Statement on Internal Control

42. The Statement on Internal Control provided by SNH's Accountable Officer reflected the main findings from both external and internal audit work. This recorded management's responsibility for maintaining a sound system of internal control and set out SNH's approach to this. Attention was drawn in the statement to some specific issues.
- There are significant risks to SNH associated with the quality assurance of Scottish Rural Development Programme casework and the subsequent issuing of Rural Development Contracts.
 - Internal audit were only able to provide a weak assurance over SNH's business continuity planning arrangements owing to the sporadic coverage of continuity plans in SNH and an inconsistent approach to monitoring updating and testing of plans.
43. SNH has taken action to address these issues in 2010/11 including strengthening internal governance of SRDP application recommendations and the development of a testing programme covering business continuity programmes, with periodic monitoring reports to the Audit and Risk Management Committee.

Internal Audit

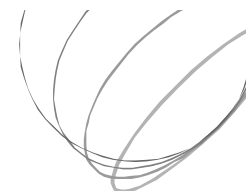
44. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2009/10 audit we assessed whether we could place reliance on SNH's internal audit function. We concluded that the internal audit service operates in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in number of areas during 2009/10, as we anticipated in our annual audit plan.

Prevention and detection of fraud and irregularities

45. SNH has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and Board members.

Information governance

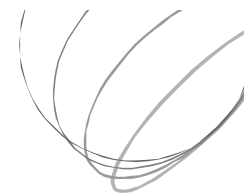
46. Your Business @ Risk (YB@R) is a web-based survey that helps bodies quickly assess procedural, cultural and ethical compliance risks that have the potential to undermine the effectiveness of their information governance policies. SNH participated in the 2009 survey and agreed to re-run the survey in 2010.



47. Over 74% of SNH staff participated in the 2010 information security survey, and the results highlighted a high level of awareness amongst SNH staff of good practice in information governance, and favourable results in comparison to Scottish public sector benchmark data. However the survey also highlighted areas where action could be taken to improve aspects of information governance awareness, including the completion of information governance and data protection training for all staff, and the refresh of some internal policies and procedures, supported by guidance notes.

National Studies

48. In September 2010 Audit Scotland will be publishing a national study on *The Role of Boards* which will be relevant to the governance of SNH. Boards play a crucial role in ensuring that governance standards are maintained in public sector organisations. Feedback relating to SNH will be provided in due course where appropriate.

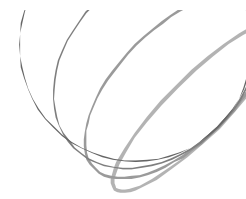


Performance

49. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. Key features of best value include:
- setting a clear vision of what the organisation wants to achieve, backed up by plans and strategies to secure improvement, with resources aligned to support their delivery
 - a performance management culture which is embedded throughout the organisation and a performance management framework which is comprehensive and supports the delivery of improved outcomes.
50. In this section we comment on:
- Vision and strategic direction
 - performance against targets
 - risk management
 - SNH's efficiency programme

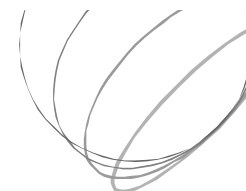
Vision and strategic direction

51. SNH's corporate plan 2008-11 sets out the framework within which SNH delivers its 5 strategic priorities:
- Caring for nature
 - Responding to climate change
 - Delivering health and wellbeing
 - Supporting the Scottish economy
 - Delivering a high quality public service.
52. The corporate plan is underpinned by an annual business plan, which sets out the business planning programmes and identifies, at a business unit level, actions to deliver on the strategic priorities including planned outcomes and milestones to achieving these.
53. The corporate plan and business plans are in the process of being refreshed to take account of new activities arising from SNH's merger with the Deer Commission for Scotland. Delivery of the corporate plan and annual business plan will be particularly challenging given the financial constraints over the coming period. We will keep this area under review over the coming year.



Performance overview

54. In 2009-10 SNH achieved 5 of its 6 high level indicators of success agreed with the Scottish Government. Reported achievements against targets for these indicators were:
- **Improvement in Scotland's biodiversity indicators:** Overall the biodiversity indicators showed a slowing of deterioration and many improvements. The abundance of terrestrial birds' index reported an increase over the previous year and significantly above its 1994 baseline figure.
 - **SNH advice and input on development proposals:** responses were provided to planning applications within 20 working days and all requests for Strategic Environmental Assessments were met on time.
 - **Increase in the participation rates for the enjoyments of the outdoors:** Despite this indicator reporting a decrease from 47% to 46% last year, improved performance was maintained against previous years.
 - **Community Planning Partnerships:** SNH has increased the number of Community Planning Partnership single outcome targets for biodiversity access and enjoyment of the outdoors.
 - **Efficient Government:** SNH significantly exceeded its 2009/10 efficiency target of £2.402 million, with savings of £3.071 million.
55. The remaining key target is to bring 95% of the special features on Scotland's nationally important nature sites into favourable condition by March 2010. As highlighted in previous years, there are a number of sites where there is a limit to what site management can achieve, as factors such as climate change are outwith the control of SNH. The overall percentage of sites assessed as in favourable condition has been maintained at 78%. However, when performance is assessed against sites on SNH's own estate, this increases to 87%, and rises further to 94 % when sites with no on-site remedy are excluded from the indicator.
56. SNH delivered a number of significant achievements during 2009/10 through its Environmental Management Programme including exceeding its 4% carbon reduction target by delivering a 6% saving in carbon dioxide emissions across SNH's operations, through installation of renewable energy heating and insulation, reductions in the number of pool cars and size of these cars, and upgrades to insulation and lighting control systems across five offices.

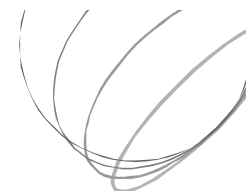


Risk management

57. There are a number of key challenges and risks for SNH in delivering its strategic priorities. SNH has put in place robust systems for the identification and management of risk. Identified risks are monitored through its business planning database, with units undertaking monthly review of changes to risks. Key risks are reported regularly to the Management Team, Audit and Risk Management Committee and the Board. Key risks identified include:
- biodiversity – there is a risk that action to tackle ecosystem health issues may not be successful, leading to criticism of SNH
 - designated sites - concern over achieving the 95% condition target by end of 2010/11
 - social and economic development - failing to meet stakeholder expectations for marine renewals and not reporting achievements properly
 - supporting delivery – financial constraints will make it increasingly difficult to operate current levels of service within grant-in-aid levels.
58. The SNH senior management team have put in place a series of control measures to manage these key business risks effectively. These include dialogue with stakeholders, improved reporting and better planning arrangements to manage expectations and bring them inline with available resources.

Improving public sector efficiency

59. The Audit Scotland report *Improving public sector efficiency* was published on 25 February 2010. It provided a position statement on the first year (2008/09) of the Efficient Government Programme (the Programme), which aims to deliver £1.6 billion efficiency savings over the three years to 2010/11. It also gave an update on how the Scottish Government and public bodies have addressed the recommendations made in the 2006 report about the previous efficiency programme.
60. The report found that Scottish public bodies reported more efficiency savings than the Government's two per cent target. But there are serious financial challenges ahead – the biggest since devolution – and making the required savings through efficiency will become increasingly difficult.
61. The report recommended that to deal with reduced future funding and increase savings public bodies need to consider fresh approaches to improving efficiency and productivity. They must take a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working.
62. The drive to improve efficiency and productivity is not just an exercise for managers and service providers. It requires strong leadership and engagement from the very top of public bodies. Leaders



and senior decision-makers within an organisation have a responsibility to check, challenge, monitor and support their organisations in delivering efficiency and productivity improvements. The report's recommendations highlighted areas that public bodies' key decision makers should look at to assess their organisation's development and to challenge existing arrangements (see below).

Extract from Audit Scotland report *Improving public sector efficiency*

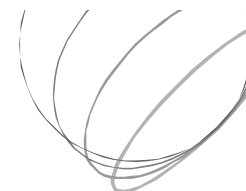
In order to improve the delivery of efficiency savings public bodies should:

- ensure they have a priority-based approach to budgeting and spending
- continue to improve collaboration and joint working, overcoming traditional service boundaries
- consider using alternative providers of services, if these providers can improve the efficiency, productivity or quality of services
- improve information on costs, activity, productivity and outcomes, including setting baselines to measure performance against
- give greater urgency to developing benchmarking programmes
- maintain the momentum of activities and initiatives to improve purchasing and asset management and extend shared services
- ensure there is a joined-up approach to efficiency savings across the public sector, avoiding duplication
- ensure that plans are in place to deliver savings, clearly setting out what action will be taken, the level of savings to be delivered and how these will be measured
- strengthen the involvement of front-line staff, service providers and users in redesigning public services
- reduce reliance on non-recurring savings to meet financial targets and generally use these as part of a wider and longer term strategy
- report efficiency savings consistently.

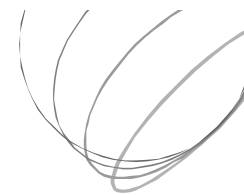
63. To support these high-level recommendations, Audit Scotland, the Northern Ireland Audit Office and the Wales Audit Office have drawn on their combined experience to develop a detailed good practice checklist. The checklist is intended to promote detailed review and reflection and, if necessary, a basis for improvement. We recommend that those responsible for leading efficiency and improvement work should consider assessing themselves against each question, and recording the results.
64. SNH achieved for year 2009/10, as part of the Efficient Government Programme, cash efficiencies of £3.071million which was significantly above the target of £2.402 million. These efficiencies were gained from such areas as asset management, procurement and shared services. The efficiency saving target for 2010/11 will rise to £3.598 million and it is expected that this challenging target will be met by continuing with the current approach to achieving efficiency savings.

National studies

65. In January 2010, Audit Scotland published "Protecting and improving Scotland's environment". The report provided an overview of the Scottish public sector's performance against targets for:
- improving air quality
 - protecting and improving the water environment
 - protecting and improving biodiversity



- improving waste management.
66. The report concluded that the overall quality of Scotland's environment is good but there is a risk that some targets will not be met. A number of public bodies are involved to varying degrees in achieving targets. The key messages in the report particularly relevant to SNH include:
- there has been mixed progress in protecting and improving Scotland's biodiversity
 - the duty on all public bodies to promote biodiversity has had limited impact, due to a lack of sufficient guidance on how to implement it and the absence of any monitoring or reporting system to enforce it
 - the Scottish Government's target for 95 per cent of all protected areas to be in favourable condition by 2010 is at risk of not being met
 - the target to increase the number of terrestrial breeding birds is being met
 - the quality of Scotland's water environment has improved significantly
 - over half of Scotland's waters currently meet the European standard of good ecological status
 - pollution from agricultural sources is now the leading threat to the water environment.
67. SNH has considered the findings of the report, and continues to work with partners in addressing the relevant environmental issues as part of delivering its strategic objectives. Audit Scotland will assess national progress in addressing the report's findings during 2011.



Looking Forward

68. SNH faces a number of challenges in 2010/11, which include:

- **Efficiencies and future funding** - the announcement of future budget cuts by the new UK government indicates that there are serious financial challenges ahead – the biggest since devolution – and making the required savings through efficiency will become increasingly difficult. SNH is currently reviewing the structure and scope of activities it undertakes to support delivery of its objectives, and we will continue to monitor developments in this area as part of the 2010/11 audit.
- **Best Value** - the concept of best value is seen as a key driver of modernisation and improvement in public services. Audit Scotland has continued its commitment to extending the best value audit regime across the whole public sector and significant development work has taken place over the last year including the finalisation of its best value toolkits. This has been matched by the Scottish Government's commitment to refreshing its Best Value Guidance for Public Bodies. SNH has utilised these and other tools in assessing continuous improvement across the organisation, and has prioritised the areas of leadership and culture, and public performance reporting for more in-depth challenge and improvement. We will continue to review the scope and extent of this work during 2010/11.
- **Heritage Assets** - Accounting Standards Board Financial Reporting Standard 30 on heritage assets has significant new disclosure requirements for reporting the content and value of heritage assets. The new standard is mandatory for 2010/11 and SNH will need to put in place processes to capture the information required to comply with this new standard.
- **Deer Commission for Scotland**; From 1 August 2010 SNH and the Deer Commission Scotland merged to become one body. A transitional Deer Panel has been created to advise, mentor and train the current SNH Board, committees, management team and senior management over the next three years. Going forward this merger should achieve stronger stakeholder relationships and increase efficiencies through shared resources and reduced costs. As part of our 2010/11 audit activity we will review the arrangements made for managing this merger and establish if there are any issues arising that we need to consider.
- **Environmental Management Programme (EMP)** – SNH delivered a number of significant achievements during 2009/10 through its EMP, including a 6% saving in carbon dioxide emissions across SNH's operations. SNH's carbon management plan commits the organisation to deliver a 13% reduction in these emissions by 2013. We will continue to monitor SNH's progress in meeting its greening programme over the coming year.