

Scottish Natural Heritage

Annual Audit Plan 2018/19



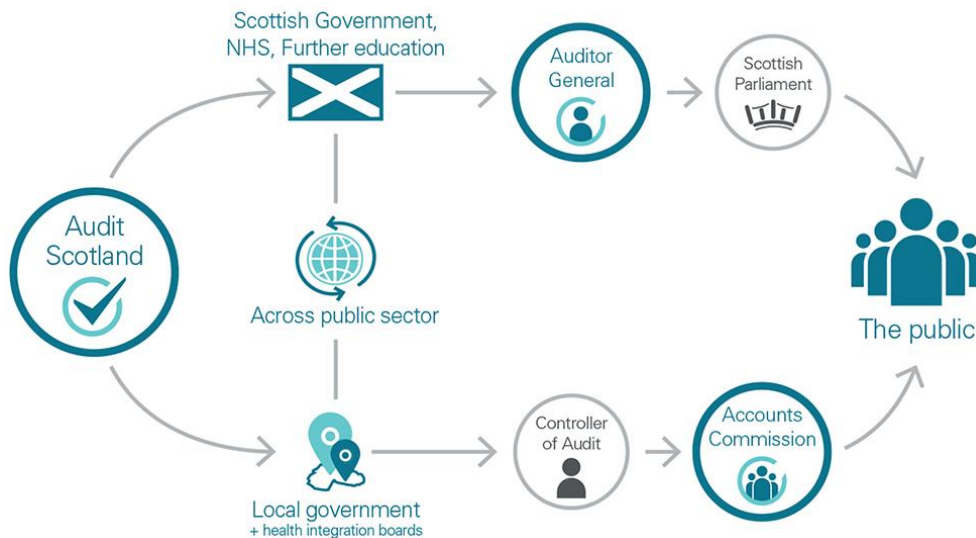
 AUDIT SCOTLAND

Prepared for Scottish Natural Heritage
January 2019

Who we are

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

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



About us

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

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

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

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit.

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


Adding value

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


Audit risks

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

Exhibit 1 2018/19 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>

 Audit Risk	Source of assurance	Planned audit work
<p>2 Risk of fraud over expenditure</p> <p>Most public-sector bodies are net expenditure bodies and, therefore, the risk of fraud is more likely to occur in expenditure. Scottish Natural Heritage makes significant grant payments to third parties. Due to the nature of this expenditure there is an inherent risk of fraud over expenditure.</p>	<p>Effective budget monitoring by management and Board members.</p> <p>Management approval of payments over £200k, with additional checking in the final quarter of 2018/19.</p> <p>Participation in the National Fraud Initiative (NFI).</p>	<p>Walk-through of controls over payables, covering grant expenditure.</p> <p>Substantive testing of expenditure transactions including focused testing of grant payments to third parties.</p> <p>Review action taken to investigate and clear data matches resulting from the NFI exercise.</p>
<p>3 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and accruals. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Valuers are established and recognised providers of information in their field.</p>	<p>Reliance on the work of an expert to support the quality of data provided by valuers.</p> <p>Substantive testing of transactions in 2018/19.</p>
<p>4 HR and finance system upgrade</p> <p>Plans are in place to upgrade the current Oracle finance system to a cloud-based version with effect from 1 April 2019. The current version has been customised to provide a range of reports for final accounts and audit purposes including those required for cut-off testing. There is a risk that additional work will be required to generate similar reports from the new system and this may impact on the ability to deliver the accounts and audit within the agreed timescales.</p>	<p>We intend to close down the 2018/19 accounts in the current Oracle finance system and as such there will be limited impact on the provision of reports. 2019/20 transactions will be entered in the cloud-based version.</p>	<p>Liaise with key financial staff and request key reports required for audit purposes prior to 1 April 2019.</p> <p>Substantive testing of year end transactions to confirm they have been accounted for in the correct financial year (cut-off testing).</p>
<p>Wider dimension issues and risks</p>		
<p>5 Board membership</p> <p>The appointments of eight of the nine current Board members are due to end on 31 March 2019. There is a risk that significant changes in Board membership will impact on the effectiveness of governance and scrutiny arrangements while new Board members become familiar with Scottish Natural Heritage's business.</p>	<p>Steps are in hand through the Executive Office, in liaison with Scottish Government, to smooth the transition of Board member changes. All members who are due to stand down in 2019 have been proposed for re-election, albeit for differing terms depending on the duration of their tenure to date.</p>	<p>Monitor public appointments website for new appointments to the Board.</p> <p>Assess governance and scrutiny arrangements and report conclusions in the Annual Audit Report.</p>

 Audit Risk	Source of assurance	Planned audit work
<p>6 Financial sustainability</p> <p>Fewer than anticipated staff left Scottish Natural Heritage during the first seven months of 2018/19 and as result £400,000 was transferred from the projects budget to the pay bill budget to fund the projected overspend. There is a risk that the current vacancy management policy does not reduce future years' pay bills to a sustainable level resulting in reduced projects budgets which will impact on the delivery of the strategic outcomes set out in the 2018-2022 Corporate Plan.</p>	<p>We have reviewed the Scottish Government's (SG) five-year financial strategy and undertaken scenario planning relative to information provided by our Sponsor team within SG. The assumptions for pay bill are being reviewed for the 2019/20 Business Planning round in conjunction with a prioritisation exercise for identified projects.</p>	<p>Review of 2018/19 outturn against budget.</p> <p>Review of 2019/20 budget setting process.</p> <p>Review of medium- and long-term financial plans including scenario planning and impact of the Scottish Government's five-year financial strategy.</p>
<p>7 European Union (EU) withdrawal</p> <p>The UK's decision to leave the EU on 29 March 2019 represents a major constitutional change for Scotland. It will affect everyone in Scotland to some degree including Scottish Natural Heritage. What these effects will be remains uncertain, but they will unfold over both the short and the long term. There is a risk that withdrawal from the EU adversely affects Scottish Natural Heritage's business.</p>	<p>Risk recognised in strategic risk register.</p> <p>An EU exit co-ordinator has been appointed to provide strategic direction including development and delivery of a 'Day 1 readiness plan'.</p> <p>Regular updates have been given to the Senior Leadership Team and going forward will be provided to the Board.</p>	<p>Review of Audit and Risk Committee/Board papers.</p> <p>Assess Scottish Natural Heritage's preparations for EU withdrawal through discussions with EU co-ordinator and report, as appropriate, in the Annual Audit Report.</p>

Source: Audit Scotland

Reporting arrangements

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

6. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

7. We will provide an independent auditor's report to Scottish Natural Heritage, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the Annual Report and Accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2

2018/19 audit outputs

Audit output	Target date	Committee date
Management Report	30 April 2019	15 May 2019
Annual Audit Report	12 July 2019	26 July 2019
Independent Auditor's Report	12 July 2019	N/A

Source: Audit Scotland

Audit fee

8. The agreed audit fee for the 2018/19 audit of Scottish Natural Heritage is £56,980 (2017/18 fee £55,850). In determining the audit fee, we have taken account of the risk exposure of Scottish Natural Heritage, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual report and accounts, with a complete working papers package on 31 May 2019.

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

Responsibilities

Audit and Risk Committee and Accountable Officer

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

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

Appointed auditor

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

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

Audit scope and timing

Annual report and accounts

14. The annual report and accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

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

15. We will give an opinion on whether the financial statements:

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

Other information in the annual report and accounts

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

17. We also read and consider any information in the annual report and accounts other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.



Materiality

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

19. We calculate materiality at different levels as described below. [Exhibit 3](#) sets out the 2018/19 materiality values for Scottish Natural Heritage.

Exhibit 3 Materiality values



Materiality	Amount
Planning materiality – this is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2019 based on the latest budget information provided by Scottish Natural Heritage.	£546,000
Performance materiality – this acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75% of planning materiality.	£410,000
Reporting threshold (i.e. clearly trivial) – we are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£30,000

Source: Audit Scotland

Timetable

20. To support the efficient use of resources it is critical that a timetable is agreed with us for the audit of the annual report and accounts. [Exhibit 4](#) sets out the agreed timetable which takes account of submission requirements and planned Audit and Risk Committee dates.

Exhibit 4 Annual report and accounts audit timetable

 Key stage	 Date
Latest submission date of unaudited annual report and accounts with complete working papers package	31 May 2019
Latest date for final clearance meeting with Head of Finance	28 June 2019
Agreement of audited unsigned Annual Report and Accounts, and issue of Annual Audit Report including ISA260 report to those charged with Governance	12 July 2019
Independent auditor's report signed	26 July 2019

Internal audit

21. Internal audit is provided by Scottish Natural Heritage’s in-house team supported by a co-sourcing contract with BDO to provide specialist and additional resources as required. As part of our planning process we have carried out an annual assessment of the internal audit function to ensure that it operates in accordance with Public Sector Internal Audit Standards (PSIAS). We have concluded that the service operates in accordance with these Standards.

Using the work of internal audit

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

- risk management system
- corporate governance arrangements
- workforce planning.

Audit dimensions

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

Exhibit 5 Audit dimensions



Source: Code of Audit Practice

Financial sustainability

24. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. Over our five-year appointment we will review, conclude and report on:

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

Financial management

25. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. Over our five-year appointment we will review, conclude and report on:

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

Governance and transparency

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

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

Value for money

27. Value for money refers to using resources effectively and continually improving services. Over our five-year appointment we will review, conclude and report on whether:

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

Independence and objectivity

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

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

Quality control

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

31. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

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

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