

Scottish Natural Heritage

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for Scottish Natural Heritage
February 2020

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 which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit.

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 review of supporting information we have identified the following significant audit risks for Scottish Natural Heritage. We have categorised these risks, which require specific audit testing, into financial statements risks and wider dimension risks in [Exhibit 1](#).

Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud which is presumed to be a significant risk in any audit. This includes 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 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>

 Audit Risk	Source of assurance	Planned audit work
<p>2 Risk of fraud over expenditure</p> <p>As most public sector bodies are net expenditure bodies, 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 these expenditure streams 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 2019/20.</p> <p>Participation in the National Fraud Initiative (NFI).</p>	<p>Walkthrough of controls over payables.</p> <p>Focused testing of authorisation of grant payments.</p> <p>Substantive testing of expenditure payments relating to grants.</p> <p>Review of 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>Assessment of the scope, independence and competence of the professionals engaged to provide valuations.</p> <p>Substantive testing of transactions in 2019/20.</p>
<p>4 New finance and HR system</p> <p>A new cloud-based finance and HR system was phased in during 2019/20. There is a risk that the financial statements are materially misstated due to:</p> <ul style="list-style-type: none"> the system not operating as expected opening balances being incorrectly input to the new system. <p>There is also a risk that the customised reports used in the preparation and audit of the financial statements will not be available from the new system which may impact on the ability to deliver the accounts and audit within the agreed timescales.</p>	<p>Reconciliations have been completed to ensure that opening balances and transactional data input to the new system has been entered correctly.</p> <p>Finance reports to support year end project and the audit are substantially complete.</p> <p>Reports and data relating to HR areas to support the production of the annual report and accounts are outstanding but a remedial solution has been identified to move these to completion.</p>	<p>Initial systems review of all core financial systems, including payroll.</p> <p>Walkthrough of key controls.</p> <p>Focused testing of key controls.</p> <p>Verification of opening balances input to the new system.</p> <p>Liaise with key financial staff and request key reports required for audit purposes.</p>
<p>Wider dimension risks</p>		
<p>5 Financial sustainability</p> <p>Tough choices were required to balance the 2019/20 budget as cost pressures resulted in a 17% reduction in the amount available to fund projects designed to support Scottish Natural Heritage's strategic priorities. Current projections are that the paybill and fixed costs will continue to increase putting further pressure on project budgets.</p>	<p>SNH will continue to prioritise this area of work. Work is underway to create a medium to longer-term plan including payroll which is being modelled on a rolling three-year basis.</p>	<p>Review of 2019/20 outturn against budget.</p> <p>Review of 2020/21 budget setting process.</p> <p>Review of medium- and long-term financial plans including scenario planning.</p>

	Audit Risk	Source of assurance	Planned audit work
	Management acknowledge the need to develop medium- and longer-term financial planning to ensure future financial sustainability. Without this, there is a risk that the Scottish Natural Heritage will not be able to deliver the strategic outcomes set out in the 2018-2022 Corporate Plan.		
6	<p>Introduction of IFRS 16 Leases</p> <p>The Government Financial Reporting Manual (FRoM) requires IFRS 16 Leases, as adapted and interpreted by the FRoM, to be applied to public sector bodies with effect from 1 April 2020. Early work is required to assess the practical implications and ensure arrangements are in place to support adoption of this IFRS.</p>	<p>A review of existing leases has been undertaken and an initial assessment of the impact has been undertaken.</p> <p>A lease accounting module has been procured to assist with implementation and ongoing management of IFRS 16. Information will be loaded once all required data has been obtained.</p>	Ongoing engagement to assess preparation for the implementation of IFRS16 Leases.

Source: Audit Scotland

Reporting arrangements

5. Audit reporting is the visible output for the annual audit. All annual audit plans, the outputs 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 officers 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 also provide an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2 2019/20 Audit outputs

Audit Output	Target date	Committee Date
Management Report	30 April 2020	13 May 2020
Annual Audit Report	16 July 2020	29 July 2020
Independent Auditor's Report	29 July 2020	N/A

Source: Audit Scotland

Audit fee

8. The agreed audit fee for the 2019/20 audit of Scottish Natural Heritage is £57,730 (2018/19: £56,980). In determining the audit fee, we have taken account of the audit risks identified, 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 29 May 2020.

9. Where our audit cannot proceed as planned through, for example, late receipt of the unaudited annual report and accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith 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 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 the financial statements 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 review the content of the annual report for consistency with the financial statements and with our knowledge, and report any uncorrected material misstatements in the other information.

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. The calculated materiality values for Scottish Natural Heritage are set out in [Exhibit 3](#).



Exhibit 3

Materiality values

Materiality	Amount
Planning materiality – this is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2019 based on the audited accounts for 2018/19.	£575,000
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 60% of planning materiality.	£345,000
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 accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual report and accounts with complete working papers package	29 May 2020
Latest date for final clearance meeting with Head of Finance	29 June 2020
Agreement of audited unsigned annual report and accounts, and issue of Letter of Representation and proposed independent auditor's report	16 July 2020
Independent auditor's report signed	29 July 2020

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 the main requirements of the 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 dimension audit responsibilities, we plan to consider the findings of internal audit's work in the following areas:

- corporate governance arrangements
- staff awareness of conflicts of interest procedures
- budget management.

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 financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

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

Financial management

25. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

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

Governance and transparency

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. 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. We will review, conclude and report on whether Scottish Natural Heritage can demonstrate:

- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered
- that outcomes are improving
- that there is sufficient focus on improvement and the pace of it
- it has arrangements in place to support the Accountable Officer in her duty to secure best value in line with the Scottish Public Finance Manual.

28. As part of our 2019/20 audit, we plan to review how Scottish Natural Heritage demonstrates compliance with the Equality Act 2010, and how it is advancing equalities both within and outwith the organisation.

Independence and objectivity

29. 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.

30. 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

31. 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.

32. 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.

33. 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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