

NatureScot

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for NatureScot
April 2022

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of NatureScot. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the financial statements, and provision of an Independent Auditor's Report
- provision of an audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Governance Statement and the audited part of the Remuneration and Staff Report
- consideration of arrangements in relation to the audit dimensions that frame the wider scope of public sector audit: financial management, financial sustainability, governance and transparency and value for money
- consideration of Best Value arrangements
- providing assurance on the Whole of Government Accounts (WGA) return
- reviewing NatureScot's participation in the National Fraud Initiative.

Impact of Covid-19

2. The coronavirus disease (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

4. We aim to add value to NatureScot through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help NatureScot promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit and Risk Committee and actively participate in discussions.

Respective responsibilities of the auditor and NatureScot

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and NatureScot. Key responsibilities are summarised below.

Auditor responsibilities

6. 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.

7. 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 NatureScot to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

NatureScot responsibilities

8. NatureScot is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. NatureScot also has 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 it to deliver its objectives.

Managing the transition to 2022/23 audits

10. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

Financial statements audit planning

Materiality

11. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2021/22 audit

12. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for NatureScot are set out in [Exhibit 1](#).

Exhibit 1

2021/22 Materiality levels for NatureScot

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 2% of gross expenditure for the year ended 31 March 2022, based on the operating budget for 2021/22.	£1.4 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 70% of planning materiality.	£980,000
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.	£70,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. Our risk assessment draws on our cumulative knowledge of NatureScot, its major transaction streams, key systems of internal control and risk management processes. It is also informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

14. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments during the period. • Evaluate significant transactions outside the normal course of business. • Assess any changes to the methods and underlying assumptions used to prepare material accounting estimates compared to the prior year. • Undertake substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>2. Risk of material misstatement arising from fraud in grant expenditure</p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is most likely to occur in expenditure.</p> <p>Grant expenditure accounted for £9 million of NatureScot's expenditure in 2020/21, the majority of which related to Peatlands and the Biodiversity Challenge Fund. Grant payments are forecast to increase by around £19 million in 2021/22 following the introduction of two new schemes (Better Places Fund and the Nature Recovery Fund).</p> <p>Additional Funding Officers have been recruited to administer these funds. This increases the risk that controls over grant payments do not operate as intended thus increasing the risk of fraud over expenditure which may result in a material misstatement in the financial statements.</p>	<p>Effective budget monitoring by management and Board members.</p> <p>Robust induction process, mentoring and supervision of all new Funding Officers.</p> <p>Effective controls in place over the authorisation and approval of grant payments.</p> <p>Management approval of payments over £200k, with additional checking in the final quarter of 2021/22.</p> <p>Counter-fraud e-learning course has been re-launched for new staff in key positions including the new Funding Officers.</p> <p>Participation in the National Fraud Initiative (NFI).</p>	<ul style="list-style-type: none"> • Test accruals focusing on significant risk areas. • Walkthrough of controls over grant payments focussing on new schemes. • Focussed testing of authorisation and approval of grant payments. • Substantive testing of expenditure payments relating to grants.

Source: Audit Scotland

15. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

16. We have rebutted this risk for NatureScot as the majority of funding is received directly from the Scottish Government through grant-in-aid and specific grants, partner funding from other public sector bodies, and a small amount of income generated from the provision of services such as property rentals. We have previously tested the systems for these income streams and confirmed that the controls operate as expected. In addition, evidence from NatureScot's involvement in the National Fraud Initiative does not indicate there is a material risk of fraud in this area.

17. We have not considered it is necessary to incorporate specific work into our audit plan in these areas in addition to our standard audit procedures.

Other areas of audit focus

18. We have not identified any other areas where we consider there are risks of material misstatement to the financial statements. If our assessment of risk changes and we identify any additional significant risks, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

Audit risk assessment process

19. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

Audit dimensions and Best Value

Introduction

20. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

Audit dimensions

21. The four dimensions that frame our audit work are shown in [Exhibit 3](#).

Exhibit 3

Audit dimensions



Source: Code of Audit Practice

22. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively
- **Financial sustainability** – 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)

- **Governance and transparency** – 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
- **Value for money** – value for money refers to using resources effectively and continually improving services.

Duty of Best Value

23. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will undertake a high-level review to confirm that such arrangements are in place within NatureScot.

Audit dimension risks

24. We did not identify any new audit dimension risks this year and so our focus will be on following up last year's recommendation that 'NatureScot should continue to develop its approach to demonstrating how individual projects contribute to delivery of the Biodiversity Challenge Fund's aims and objectives.'

Reporting arrangements, timetable, and audit fee

Reporting arrangements

25. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 4](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

26. 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.

27. We will provide an independent auditor's report to NatureScot, the Scottish Parliament and the Auditor General for Scotland, setting out our opinions on the annual report and accounts. We will provide NatureScot and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

28. [Exhibit 4](#) outlines the target dates for our 2021/22 audit outputs which reflect available audit resources and prioritisation decisions (see paragraph 31 below) and ensure that the statutory requirement to lay NatureScot's audited accounts in the Scottish Parliament by 31 December 2022 is achieved.

Exhibit 4 2021/22 Audit outputs

Audit Output	Target date	Audit and Risk Committee date
Annual Audit Plan	28 February 2022	12 May 2022
Annual Audit Report	21 July 2022	28 July 2022
Independent Auditor's Report	21 July 2022	28 July 2022

Source: Audit Scotland

Timetable



29. To support an efficient audit, it is critical that high quality unaudited accounts and supporting working papers are provided and that the timetable for producing the annual report and accounts for audit is achieved.

30. The effect of Covid-19 on the 2019/20 and 2020/21 audits means that we are starting the 2021/22 audits later than in previous years. We expect that this year will continue to be challenging and we have reviewed resources and timings across the audits which Audit Scotland delivers.

31. In the interests of public accountability, and with a view to the new audit appointments from 2022/23, Audit Scotland is prioritising NHS, agency and council audits this year. Although the target date for the completion of NDPB audits (including NatureScot) is 31 October 2022, this cannot be met in all cases. The overriding statutory requirement is for the audited accounts to be laid in the Scottish Parliament by the statutory deadline of 31 December 2022, and our aim is to complete all audits in time to achieve that deadline. As noted in paragraph 3, however, the well-being of audit teams and the delivery of high-quality audits remain paramount

32. We have included a proposed timetable for the audit of NatureScot at [Exhibit 5](#) that has been discussed with management. Progress against the timetable will be discussed with management throughout the audit process as the impact of staffing changes within NatureScot's finance team and the ongoing pressures, and uncertainties caused by Covid-19 become clearer.

Exhibit 5 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Submission date for the receipt of the unaudited annual report and accounts with working papers package	13 June 2022
Latest submission for receipt of complete working papers package	20 June 2022
Latest date for final clearance meeting with the Director of Business Services and Transformation	15 July 2022
Agreement of audited unsigned annual report and accounts, and issue of Letter of Representation and proposed independent auditor's report	21 July 2022
Issue of Annual Audit Report to those charged with governance.	21 July 2022
Signed Independent Auditor's Report	28 July 2022

Source: Audit Scotland

Audit fee

33. The agreed audit fee for the 2021/22 audit of NatureScot is £60,290 (2020/21: £59,150). In determining the audit fee, we have taken account of the risk exposure of NatureScot, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

34. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate supporting working papers 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.

Other matters

Internal audit

35. Internal audit is provided by NatureScot's in-house team supported by a co-sourcing contract with Azets to provide specialist and additional resources as required. International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

36. Whilst we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities, we plan to consider their findings across a range of work to support our wider dimension responsibilities. These include:

- corporate governance arrangements
- risk management system
- EBS Cloud Move – Post Project Review
- Covid-19 Lessons Learned.

Independence and objectivity

37. Auditors appointed by the Auditor General for Scotland 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.

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

Quality control

39. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

40. 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) has been commissioned to carry out external quality reviews.

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

NatureScot

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Audit Scotland'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

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