

# NatureScot

2021/22 Annual Audit Report



 AUDIT SCOTLAND

Prepared for NatureScot and the Auditor General for Scotland  
December 2022

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# Key messages

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## 2021/22 annual report and accounts

- 1 Our audit opinions on the annual accounts are unmodified.
- 2 There were delays in preparing and auditing the annual report and accounts due to staffing and system issues at NatureScot.

## Financial management and financial sustainability

- 3 NatureScot operated within its revised Departmental Expenditure Limits for 2021/22.
- 4 Significant levels of additional funding were received during the year for projects focussed on Scotland's Green Recovery, tackling climate change and biodiversity loss.
- 5 Key controls within core financial systems continued to operate effectively during 2021/22.
- 6 The amount of funding available to support non-ringfenced projects continues to reduce year on year.
- 7 Delivery of Corporate Plan priorities will become increasingly challenging as pressures on budgets intensify in medium-term.

## Governance, transparency, and value for money

- 8 NatureScot's governance arrangements are appropriate and support effective oversight of its activities and finances.
- 9 The readability of the performance report has improved by reducing its length. Management acknowledges there is scope to do more and plan a more fundamental review in 2022/23.
- 10 NatureScot has an appropriate best value framework in place.
- 11 Performance monitoring has continued throughout 2021/22, with 83% of key deliverables achieved or on track at 31 March 2022.
- 12 NatureScot has made good progress in developing a reporting structure to better demonstrate how individual Biodiversity Challenge Fund projects contribute to delivery of the Fund's aims and objectives.

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# Introduction

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1. This report summarises the findings from our 2021/22 audit of NatureScot, the operating name for Scottish Natural Heritage. All references to NatureScot should be taken as referring to Scottish Natural Heritage as the legal entity.
2. The scope of our audit was set out in our Annual Audit Plan presented to the May 2022 meeting of the Audit and Risk Committee. This report comprises the findings from the main elements of our audit work:
  - our audit of NatureScot's 2021/22 annual report and accounts including the issue of an independent auditor's report setting out our opinions
  - review of NatureScot's key financial systems
  - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#).

## Adding value through the audit

3. We add value to the body through the audit by:
  - identifying and providing insight on significant risks, and making clear and relevant recommendations
  - providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability
  - sharing intelligence and good practice through our national reports ([Appendix 2](#)) and good practice guides.

## Responsibilities and reporting

4. NatureScot has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers.
5. NatureScot is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.
6. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice 2016, and supplementary guidance and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on:

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

**7.** Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016 and supplementary guidance.

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

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

## Auditor Independence

**10.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

**11.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and that the 2021/22 audit fee of £60,290 as set out in our 2021/22 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

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

## Audit appointment from 2022/23

**13.** The Auditor General for Scotland is responsible for the appointment of external auditors to central government bodies. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end in 2020/21 but this was extended for a year so that 2021/22 is the last year of the current appointment round.

**14.** The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23 Mazars will be the appointed auditor for NatureScot. We are working closely with the new auditors to ensure a well-managed transition.

**15.** A new [Code of Audit Practice](#) applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016.

**16.** We would like to thank Board and Audit and Risk Committee members, Directors, and other staff, particularly those in finance, for their co-operation and assistance over the last six years.

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# 1. Audit of 2021/22 annual report and accounts

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

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## Main judgements

Our audit opinions on the annual accounts are unmodified.

There were delays in preparing and auditing the annual report and accounts due to staffing and system issues at NatureScot.

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

**17.** The annual report and accounts for the year ended 31 March 2022 were approved by the Audit and Risk Committee on 20 December 2022. As reported in the independent auditor's report:

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

## There were delays in preparing and auditing the annual report and accounts due to staffing and system issues at NatureScot

**18.** The unaudited annual report and accounts were not received in line with our agreed audit timetable due to staffing pressures at NatureScot. Audit fieldwork commenced in mid-June, once a substantially complete set of accounts was received, and was completed in early August.

**19.** Revised accounts were not received until early October, however, due to systems issues at NatureScot, by which time the audit team had moved on to other audits. The audit resumed in early December 2022 and the annual report and accounts were certified on 20 December 2022, some four months later than planned.

**20.** We recognise that NatureScot faced exceptional staffing and system challenges in 2021/22. Historically the annual report and accounts have been prepared on time and to a high standard and the audit has run smoothly in previous years. We note that the Financial Accountant, who oversees preparation of the accounts, intends to retire at the end of this year.

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## Recommendation 1

NatureScot should ensure that there are adequate resources in place to deliver the 2022/23 annual report and accounts to the agreed timetable.

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## Overall materiality is £1.4 million

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

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### Exhibit 1

#### Materiality values

Materiality level	Amount
Overall materiality	£1.4 million
Performance materiality	£980,000
Reporting threshold	£70,000

Source: Audit Scotland

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**22.** In determining performance materiality, we considered the following factors:

- our understanding of NatureScot
- the extent of misstatements identified in previous years
- issues identified from our risk assessment procedures.

## We have one significant finding to report on the annual report and accounts

**23.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. The significant finding from our audit of the annual report and accounts is summarised in [Exhibit 2](#).



## Exhibit 2

### Significant findings from the audit of financial statements

Issue	Resolution
<p><b>1. Cut-off error in grant payments</b></p> <p>Audit testing identified that a grant payment of £43,000 had been made to a third party for the 'Wee Forests' project for work that had not been completed by 31 March 2022. As a result, grant expenditure was overstated by £43,000 in the unaudited accounts.</p>	<p>NatureScot reviewed all Wee Forests payments made in March 2022 and identified a further £66,000 which had been paid in advance.</p> <p>These payments had been processed outwith the Funding team who normally process most (but not all) grant payments made by NatureScot.</p> <p>We requested a list of all grant payments received in March 2022 and processed outwith the Funding team and tested a sample of these to ensure that payment had not been made in advance. No issues were identified from this additional testing.</p> <p>The audited accounts were amended to record the £109,000 as a prepayment.</p> <p><b>Recommendation 2</b></p>

Source: Audit Scotland

## We obtained audit assurances over the significant risks identified in our Annual Audit Plan

24. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

## Exhibit 3

### Significant risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>As stated in International Standard on Auditing 240, management is in a unique</p>	<p>Assessed the design and implementation of controls over journal entry processing.</p> <p>Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual</p>	<p>We found the controls over journal entry processing to be operating satisfactorily.</p> <p>We reviewed a sample of journal entries and found no errors.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>activity relating to the processing of journal entries and other adjustments.</p> <p>Tested journals at the year-end and post-closing entries and focus on significant risk areas.</p> <p>Considered the need to test journal entries and other adjustments during the period.</p> <p>Evaluated significant transactions outside the normal course of business.</p> <p>Assessed any changes to the methods and underlying assumptions used to prepare material accounting estimates compared to the prior year.</p> <p>Substantively tested income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</p> <p>Tested accruals focusing on significant risk areas.</p>	<p>There were no significant transactions outside the normal course of business.</p> <p>No issues were identified regarding the controls over identifying and disclosing related party disclosures.</p> <p>There were no changes to the methods and underlying assumptions used to prepare accounting estimates.</p> <p>Our income and expenditure testing identified an issue with expenditure being accounted for in the incorrect year (refer to Exhibit 2 for details). Additional testing confirmed that this was isolated to one project, the amounts involved were not material to our opinion, and there was no evidence of management override of controls.</p> <p>Our testing of accruals and prepayments did not identify any issues that would indicate management override of control.</p> <p><b>Conclusion:</b> Satisfactory</p>
<p><b>2. Risk of material misstatement arising from fraud in grant expenditure</b></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</p>	<p>Completed a walkthrough of controls over grant payments focussing on new schemes.</p> <p>Undertook focussed testing of authorisation and approval of grant payments.</p> <p>Substantively tested expenditure payments relating to grants.</p>	<p>We found the controls over grant payments to be operating satisfactorily.</p> <p>Substantive testing of grant payments identified an issue with expenditure being accounted for in the incorrect year (refer to Exhibit 2 for details). Additional testing confirmed that this was isolated to one project and the amounts involved were not material to our opinion.</p> <p><b>Conclusion:</b> Satisfactory</p>

Audit risk	Assurance procedure	Results and conclusions
<p>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>		

## Other areas of audit focus

**25.** In our 2021/22 Annual Audit Plan we did not identify any other areas where we considered there to be risks of material misstatement to the financial statements. This remained the case over the course of the audit and we did not need to modify our audit approach.

## Net expenditure has reduced, and net assets have increased by £164,000 in the audited accounts

**26.** It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality.

**27.** Our audit did not identify any material misstatements and only one above our reporting threshold. We reviewed the nature and cause of this misstatement and undertook additional testing to quantify the total amount of misstatement in the population (refer to [Exhibit 2](#) for details).

**28.** Management have adjusted for all identified misstatements, including those below our clearly trivial level. As a result, net expenditure has reduced, and net assets have increased by £164,000. There are no unadjusted errors to report.

## Good progress was made on prior year recommendations

**29.** NatureScot has made good progress in implementing our prior year audit recommendations. Revised responses and timescales have been agreed with management and are set out in [Appendix 1](#), for the action that is not yet fully implemented.

## 2. Financial management

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

### Main judgements

NatureScot operated within its revised Departmental Expenditure Limits for 2021/22.

Significant levels of additional funding were allocated for projects focussed on Scotland's Green Recovery, tackling climate change and biodiversity loss.

Key controls within core financial systems continued to operate effectively during 2021/22.

### NatureScot operated within its revised budget in 2021/22

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

**31.** NatureScot's financial performance against Departmental Expenditure Limits (DEL) is shown in [Exhibit 4](#). This shows NatureScot reported an outturn of £64.9 million against its resource budget of £70.3 million, an underspend of £5.4 million.

### Exhibit 4 Performance against DEL in 2021/22

Performance	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Resource DEL	45.609	51.052	48.822	(2.230)
Non-cash DEL	2.150	2.150	1.627	(0.523)
Capital DEL	2.450	17.060	14.421	(2.639)
Total DEL	50.209	70.262	64.870	(5.392)

Source: NatureScot Annual Report and Accounts 2021/22

**32.** In May 2022, the Scottish Government authorised an underspend of £1.5 million, including £0.6 million arising from further delay to the implementation of IFRS16 in the public sector, and £0.2 million associated with delays to the GovTech project. The remaining approved underspend of £0.7 million arises from savings identified by NatureScot in response to requests to identify spending reductions to mitigate significant pressures experienced more widely across other Scottish Government budgets during 2021/22. Once this agreed underspend is taken into account, NatureScot underspent its DEL budget by £4 million.

**33.** The majority of this underspend relates to:

- Peatland Action which underspent by £1.5 million due to Covid-related staff absences, adverse weather and the impact of Brexit on supply chains
- ring-fenced funds (Nature Restoration and Biodiversity Challenge funds) which underspent by £0.9 million due to additional funding being allocated late in the financial year
- a reduction in the annual leave accrual of £1 million due to a reduction in the number of days that staff can carry forward to the next holiday year. The implications of this change in policy had not been factored into budget monitoring and forecasting prior to the year end.

### **NatureScot received additional grant in aid funding totalling £20.1 million during the year**

**34.** During the year, amendments were made to the initial 2021/22 budget due to increases in funding provided by the Scottish Government. These included an additional £9.4 million to fund peatland restoration, £5 million for the Nature Restoration Fund, £2 million for the Better Places Fund and £2 million for the Biodiversity Challenge Fund. These revisions were significantly higher than in previous years, largely due to additional ring-fenced funding.

### **The majority of additional funding was ring-fenced to support projects that address the twin challenges of tackling climate change and biodiversity loss**

**35.** The Nature Restoration Fund (NRF) is a competitive fund, launched in July 2021, *‘to provide funding to applicants with projects that restore wildlife and habitats on land and sea’*. NatureScot awarded funding to 54 projects in 2021. At COP26, the Scottish Government announced an expansion to the NRF, with a further £55 million of funding to be awarded over the next four years. In July 2022, NatureScot awarded around £5 million of funding to a further 46 projects from this fund.

**36.** In December 2020, the Scottish Government asked NatureScot to administer the Better Places Fund (BPF) on their behalf. The fund aims to *‘help identify the local impacts and opportunities of visitor management at nature destinations across the country, boosting Scotland’s green recovery by making the most of increased nature-based tourism’*. During 2021/22, NatureScot approved funding to 90 projects totalling £2.774 million from this fund.

**37.** Scottish Ministers asked NatureScot to run a third round of the BPF towards the end of 2021/22, specifically to support employment of seasonal rangers and visitor operations posts to engage with the public and help manage visitor numbers, pressures, and behaviours during the 2022 tourist season. Funding was used to support posts in place from June to October 2022. Applications closed in April 2022 with a total of £1.436 million awarded to 48 projects.

**38.** The Biodiversity Challenge Fund (BCF) is a competitive fund which *‘specifically encourages applicants with innovative projects that improve biodiversity, and address the impact of climate change, by increasing the resilience of our most at-risk habitats and species and creating large areas of new or restored habitat’*. NatureScot distributed £1.8 million to 13 projects from this fund during the year (refer also to paragraph 67 to 71).

### **Financial systems of internal control were operating effectively**

**39.** Auditing standards require external auditors to obtain an understanding of the accounting and internal control systems that exist within the audited body to allow us to plan and develop an effective audit approach for the annual accounts.

**40.** Our 2021/22 testing concluded that internal controls were operating effectively. No weaknesses were identified which could affect NatureScot’s ability to record, process, summarise and report financial and other relevant data properly.

### **Internal audit remains effective**

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

**42.** Internal audit is provided by NatureScot’s in-house team supported by a co-sourcing contract with Azets. Our review concluded that NatureScot’s internal audit arrangements are effective. Whilst we chose not to place formal reliance on the work of internal audit, we did consider four of its reviews – corporate governance arrangements, risk management systems, EBS Cloud Move Post Project Review and Covid-19 Lessons Learned - to support our wider dimension audit responsibilities.

### **Arrangements for the prevention and detection of fraud and error and for maintaining standards of conduct are appropriate**

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

**44.** We concluded that NatureScot has appropriate arrangements for the prevention and detection of fraud, error, and irregularities. We also reviewed arrangements to maintain standards of conduct including the codes of conduct for both staff and Board members, and registers of interest. We concluded that NatureScot has established procedures for preventing and detecting any breaches of these standards.

**45.** The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. We reviewed NatureScot's arrangements and concluded that is proactive in investigating matches and reporting the outcomes of NFI activity to the Risk and Assurance Committee.

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# 3. Financial sustainability

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

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## Main judgements

The amount of funding available to support non-ringfenced projects continues to reduce year on year.

Delivery of Corporate Plan outcomes will become increasingly challenging as pressures on budgets intensify.

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## The 2022/23 budget includes a further reduction in the funding available to support non-ringfenced projects

**46.** The Board approved the 2022/23 budget, in March 2022, as part of the 2022/23 Business Plan. This shows that NatureScot plans to invest £75.4 million in nature during 2022/23 and that this will be funded by £64.1 million grant in aid from the Scottish Government (2021/22 £50.2 million) including ring-fenced funding of £14.5 million for the Nature Restoration Fund and Scotwind Licencing, and additional funding of £11.3 million for specific European Regional Development Fund (ERDF) projects.

**47.** During the year, additional grant in aid funding totalling £25.7 million has been allocated, the majority of which relates to ring-fenced projects including Peatlands Action (£12.9 million), Nature Restoration Fund (£7.1 million) and Better Places Fund (£1.5 million). NatureScot relies heavily on third parties to deliver the majority of projects funded through these schemes.

**48.** The budget incorporates a number of budgetary pressures including an increase in the amount allocated for paybill costs which now accounts for nearly 50% of the grant in aid budget. As a result, the funding available for non-ringfenced projects to support delivery of NatureScot's strategic priorities has reduced by 10% (2020/21: 11% reduction) in 2022/23.

## Latest monitoring reports forecast a small overspend against the 2022/23 budget, but this does not include recently agreed pay increases

**49.** The latest budget monitoring report, as at 10 October 2022, forecasts a small (£0.4 million) overspend on revenue budget and a small underspend (£0.1 million) on the indirect capital budget. A number of risk factors were, however, highlighted in the paper:



- the pay settlement for 2022/23 had not been agreed at the time the paper was drafted. An increase of 5% has since been agreed and discussions are ongoing with the Scottish Government about how this will be funded
- Peatland's activity is likely to be lower than anticipated in 2022/23
- the Scottish Government had not yet confirmed that NatureScot could retain the proceeds from the sale of non-current assets in 2022/23. Confirmation has since been received from the Scottish Government.

### **Delivery of Corporate Plan priorities will become increasingly challenging as pressures on budgets intensify**

**50.** Inflationary pressures and rising paybill costs mean NatureScot's budget for 2023/24 and beyond is looking increasingly challenging. As part of the recent resource spending review, Scottish Government has asked NatureScot to freeze their paybill budget at 2022/23 levels with effect from 2023/24. Even if this can be achieved, delivery of projects which do not have ringfenced funding would be severely impacted. Work is ongoing to update the medium-term financial plan, approved by the Audit and Risk Committee in May 2021, and this will be further updated following the Scottish budget announcement in December.

### **NatureScot faces increased risks to its financial position as the EU structural funds programme draws to a close**

**51.** NatureScot participates in two European Union (EU) structural funds programmes: the Green Infrastructure Fund (GIF) and the Natural and Cultural Heritage Funds (NCHF). Both funds are key to delivering outcomes set out in NatureScot's Corporate Plan.

**52.** These schemes are coming to an end in January 2024 and NatureScot estimates that there are around £20 million of payments still to be made to third parties and claimed back from the Managing Authority (MA) before then. With effect from 1 April 2021, NatureScot are required to pay these third parties before claiming reimbursement from the MA, greatly increasing the risk that any delay or errors in submitting claims will impact on its financial position.

**53.** NatureScot has recognised this risk in its corporate risk register and is in regular discussion with the MA to ensure delays and disallowance of claimed amounts are kept to a minimum. The Scottish Government has also agreed to provide a cash advance mechanism to help manage the impact on NatureScot's cash flow. The MA has confirmed that all eligible claims received by the end of the eligible financial period for the programmes will be paid.

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# 4. Governance and transparency

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

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## Main judgements

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

The readability of the performance report has improved by reducing its length. Management acknowledges there is scope to do more and plan a more fundamental review in 2022/23.

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

**54.** NatureScot is governed by a Board that is accountable to the Scottish Ministers. The Board met seven times during 2021/22 and was supported by three committees: Audit and Risk, Protected Areas and Scientific Advisory.

**55.** Board membership has changed significantly over the last eighteen months. Seven new Board members were appointed with effect from 01 April 2021 with a further three new members appointed from 1 September 2022. The Chair's appointment comes to an end in May 2023 and recruitment for a replacement Chair is expected to start shortly.

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

## The new Corporate Plan set out how NatureScot will help reverse biodiversity loss and achieve net-zero emissions in Scotland

**57.** In March 2022, the Board approved NatureScot's new Corporate Plan 2022-26 – 'A nature-rich future for all'. This sets out how NatureScot will help turn around the nature crisis and achieve net-zero carbon emissions in Scotland. The Plan includes fifteen objectives under four strategic priorities (Protecting nature; Restoring nature; Valuing nature; and the NatureScot Way) and will be supported by annual business plans.

**58.** A new approach to performance measurement has also been introduced, which focuses on measuring the impact of NatureScot's work. Measures of success are outlined for the short term (immediate), medium term (by 2026) and longer term (by 2030). Performance indicators have also been agreed for each of NatureScot's key priorities. These are complemented by performance measures defined by the national performance framework set out by the Scottish Government. Performance against the corporate plan objectives is reported quarterly to the Board, using a traffic light system.

### **NatureScot has improved the readability of the performance report by reducing its length, although there is scope for further improvement**

**59.** Last year, we noted that the readability and impact of the performance report could be further improved by reducing its length. NatureScot have made efforts to reduce the length of the performance report in the 2021/22 annual report and accounts, reducing it to 43 pages compared to 49 pages in 2020/21. Management acknowledges that there is scope to do more and plan a more fundamental review of the performance report in 2022/23 following approval of the new Corporate Plan 2022-26.

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### **Recommendation b/f 1**

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

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# 5. Value for money

Using resources effectively and continually improving services

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## Main judgements

NatureScot has an appropriate best value framework in place.

Performance monitoring has continued throughout 2021/22, with 83% of key deliverables achieved or on track at 31 March 2022.

NatureScot has developed a reporting structure to better demonstrate how individual Biodiversity Challenge Fund projects contribute to delivery of the Fund's aims and objectives.

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## NatureScot has developed an appropriate best value framework

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

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

- the corporate plan, business plan, and 90-day plans which set out the vision and role of NatureScot in addressing biodiversity loss and climate change
- an appropriate management structure, which sets out clear lines of responsibility and reporting, and robust systems used in decision-making, budgeting and risk management
- regular monitoring of performance including financial performance against budget
- appropriate governance and accountability arrangements including a systematic approach to risk management
- an established approach to partnership working, which underpins much of what NatureScot does
- an emphasis on equality and dignity at work, which underpins its values and behaviours in its treatment of staff and how it conducts business

- enhanced climate change training and guidance for colleagues, coupled with the introduction of a net-zero plan, to ensure sustainability is factored into how NatureScot operates.

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

### **83% of key deliverables were achieved or on track by year-end**

**63.** NatureScot continued to monitor key performance indicators throughout 2021/22 with performance against each of the 2021/22 business plan's 30 key measures included in quarterly performance reports to the Board. Performance against the Scottish Government's national performance framework indicators that NatureScot leads or contributes to was also included.

**64.** Performance reports use a traffic light system to report progress against each of the activities and key deliverables. The annual report and accounts highlight that, as at 31 March 2022, 25 (83%) key deliverables were achieved or on-track with 5 (17%) experiencing slippage.

**65.** Key areas of slippage include:

- work on identifying marine monitoring gaps and priorities was delayed as a result of reprioritisation of resources to deliver other key work
- slower than anticipated recruitment meant NatureScot were unable to conclude the 1-2-1 arrangements with all farmers under Phase 3 of Piloting Outcomes Based Approaches in Scotland. The conclusion of this work has been carried over to 2022/23
- the biggest and most complex Green Infrastructure project did not proceed as planned, as a result of a contractor withdrawing from the project towards the end of the financial year. Some of the funding was reallocated, but overall outputs from the programme were reduced.

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

### **NatureScot has developed a reporting structure to better demonstrate how individual Biodiversity Challenge Fund projects contribute to delivery of the Fund's aims and objectives**

**67.** NatureScot is responsible for administering the Fund including assessing and approving applications. There have been three rounds of funding resulting in nearly £5.7 million being awarded to 50 projects. The fund is now closed for applications, and all but 3 projects have been completed.

**68.** In 2020/21 we reviewed NatureScot's arrangements for assessing applications, approving projects, monitoring their delivery, and authorising grant payments. We also considered NatureScot's arrangements for monitoring how these projects have contributed to the aims and objectives of the BCF. We concluded that whilst monitoring of individual projects was robust and in line with NatureScot's standard grant funding procedures, more needed to be done

to demonstrate how individual projects contribute to delivery of the BCF's aims and objectives.

**69.** During 2021/22 NatureScot completed a pilot project to develop a reporting structure to help show how freshwater projects' activities linked to delivery of the BCF's outcomes. The reporting structure was rolled out for all BCF activity and has since been extended and applied to the Nature Restoration Fund (NRF).

**70.** A series of high-level measures have also been introduced for BCF2 and BCF3 projects, with associated milestones to facilitate internal reporting of progress against each project. Reporting on the BCF2 and BCF3 outcome/output measures is currently at an early stage.

**71.** We have concluded that NatureScot has made good progress in developing a reporting structure to better demonstrate how individual Biodiversity Challenge Fund projects contribute to delivery of the Fund's aims and objectives.

### **National performance audit reports**

**72.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2021/22 we published some reports which may be of interest to NatureScot as outlined in [Appendix 2](#).

# Appendix 1. Action plan 2021/22

## 2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Resourcing accounts preparation process</b></p> <p>There were delays in preparing and auditing the annual report and accounts due to staffing and system issues at NatureScot. We also note that that the Financial Accountant, who oversees preparation of the accounts, intends to retire at the end of this year.</p> <p>Risk: the annual report and accounts are not certified by the statutory deadline of 31 December.</p>	<p>NatureScot should ensure that there are adequate resources in place to deliver the 2022/23 annual report and accounts to the agreed timetable.</p> <p><a href="#">Paragraphs 18 to 20</a></p>	<p>The delays were the result of exceptional resourcing challenges within the Financial Accounts team. This was further exacerbated by system issues at a key time. We have now recruited to all vacant roles including the Financial Accountant role allowing for a handover period. We have also developed greater resilience with skills and capacity developed in the wider Finance, Planning and Performance activity for system support and transaction processing. We propose to adjust the timeline for the external audit and annual report and accounts production to ensure that deadlines are not affected by any future shortfalls in resourcing. We will continue to monitor resourcing closely to ensure that future agreed deadlines can be met and that the team is adequately resourced and supported.</p> <p><b>Responsible officer:</b> Head of Finance, Planning and Performance</p> <p><b>Agreed date:</b> 31 March 2023</p>

Issue/risk	Recommendation	Agreed management action/timing
<p><b>2. Grant payments in advance</b></p> <p>Grant payments totalling £109,00 had been made to third parties for work that had not been completed by 31 March 2022. These payments were processed by staff outwith the Funding team.</p> <p>Risk: there is a risk that payment is made in advance of work being completed.</p>	<p>NatureScot should ensure that all staff involved in processing grant payments are aware of the need for work to be completed before payment is made.</p> <p><a href="#">Exhibit 2</a></p>	<p>Finance have had discussions with the individual involved to develop their understanding and to ensure that they do not repeat this scenario. The Finance and Fundings Teams will be issuing guidance to all staff who are involved in similar grant projects during Q4 of 2022/23 to reinforce this point. The budget management policy is currently being reviewed and will act as a resource and opportunity to communicate our guidance on payment in advance of need to all staff when it is published and highlighted to colleagues in Q4 of 2022/23.</p> <p><b>Responsible officer:</b></p> <p>Head of Finance, Planning and Performance</p> <p><b>Agreed date:</b></p> <p>1 March 2023</p>

## Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>b/f 1. Improving the impact of the performance report</b></p> <p>The readability and impact of the performance report could be improved by reducing its length to give greater focus to the key messages.</p> <p>Risk: there is a risk that the length of the performance report detracts from the key messages by presenting too much information for readers to absorb.</p>	<p>The length of the performance report should be reviewed in order to improve its readability and impact.</p>	<p><b>In Progress</b></p> <p>The length of the performance report has reduced from 49 pages in 2020/21 to 43 pages in 2021/22. Management acknowledges that there is scope to do more and plan a more fundamental review of the performance report in 2022/23 following approval of the new Corporate Plan 2022-26.</p> <p><a href="#">Paragraph 59</a></p>



Issue/risk	Recommendation	Agreed management action/timing
		<p><b>Revised action:</b></p> <p>We have commenced a review of the performance report with a view to improving its focus and impact for the annual report and accounts 2022/23. A key element is our strengthened approach to performance measurement which will allow us to be more succinct when describing the progress made by NatureScot.</p> <p><b>Responsible officer</b></p> <p>Head of Finance, Planning, and Performance</p> <p><b>Revised date</b></p> <p>30 June 2023</p>
<p><b>b/f 2. Improving the layout of the governance statement</b></p> <p>The risk assessment section of the governance statement is quite lengthy and hard to read.</p> <p>Risk: there is a risk that the length of the risk assessment section detracts from the readability and impact of the governance statement.</p>	<p>The layout of the risk assessment section of the governance statement should be reviewed to improve its readability.</p>	<p><b>Complete</b></p> <p>The layout of the risk section of the governance statement was improved in 2021/22, with sub-headings for specific areas of risk such as Information and Cyber-security, Fraud and Response to the Covid-19 pandemic.</p>
<p><b>b/f 3. Improved monitoring of Biodiversity Challenge Fund impact</b></p> <p>More needs to be done to demonstrate how individual projects contribute to delivery of the Biodiversity Challenge Fund's aims and objectives.</p> <p>Risk: there is a risk that NatureScot is unable to demonstrate that individual Biodiversity Challenge Fund projects have helped deliver its aims and objectives.</p>	<p>NatureScot should continue to develop its approach to demonstrating how individual projects contribute to delivery of the Biodiversity Challenge Fund's aims and objectives.</p>	<p><b>Complete</b></p> <p>NatureScot has made good progress in developing a reporting structure to better demonstrate how individual Biodiversity Challenge Fund projects contribute to delivery of the Fund's aims and objectives.</p> <p><a href="#">Paragraphs 67 to 71</a></p>

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# Appendix 2. National reports and briefing papers

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## May

[Local government in Scotland Overview 2021](#)

## June

[Covid 19: Personal protective equipment](#)

## July

[Community justice: Sustainable alternatives to custody](#)

## September

[Covid 19: Vaccination programme](#)

## January

[Planning for skills](#)

[Social care briefing](#)

## February

[NHS in Scotland 2021](#)

## March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

# NatureScot

## 2021/22 Annual Audit Report

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

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



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