Annual Audit Report

NatureScot– year ended 31 March 2024

December 2024

forvis mazars

Audit and Risk Committee
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12 December 2024

Dear Audit and Risk Committee Members and the Auditor General for Scotland,

Annual Audit Report – Year ended 31 March 2024

We are pleased to present our Annual Audit Report for the year ended 31 March 2024. The purpose of this document is to summarise our audit conclusions and findings from our considerations of the wider scope audit specified in the Code of Audit Practice 2021 namely, financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

The scope of our work, including identified significant audit risks, and other key judgement areas, was outlined in our Annual Audit Plan, which we presented to you on 9 May 2024.

We have reviewed our Annual Audit Plan and concluded that the significant audit risks and other key judgement areas set out in that report remain appropriate.

We would like to express our thanks for the assistance of NatureScot's team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on +44 7816354994.

Yours faithfully

T. Reid

Tom Reid (Audit Director)

Forvis Mazars LLP

Contents

Our reports are prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 18 May 2022 through which the Auditor General for Scotland has appointed us as external auditor of NatureScot for financial years 2022/23 to 2026/27. We undertake our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000, as amended; and our responsibilities as set out within Audit Scotland's Code of Audit Practice 2021.

Reports and letters prepared by appointed auditors and addressed to NatureScot are prepared for the sole use of NatureScot and made available to Audit Scotland and the Auditor General for Scotland. We take no responsibility to any member or officer in their individual capacity or to any other third party.

01

Executive Summary

Executive summary

Audit conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2023/24 is set out in Audit Scotland's Code of Audit Practice 2021. Our responsibilities and powers are derived from our appointment by the Auditor General under the Public Finance and Accountability (Scotland) Act 2000 and as outlined in our Annual Audit Plan, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Annual Audit Plan, which include:

- Management override of controls;
- Valuation of property, plant and equipment; and
- Recoverability of EU Funding grant income.

Misstatements and internal control recommendations

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements. Section 7 outlines our work on NatureScot's arrangements to achieve economy, efficiency and effectiveness in its use of resources.

Status and audit opinion

We have completed our audit in respect of the financial statements for the year ended 31 March 2024 and have the following conclusions:

Audit opinion

We issued an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

Regularity

We issued an unqualified opinion, without modification, that in all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

Executive summary (continued)

Conclusions from our audit testing and audit opinion (continued)

Matters on which we report by exception
We are required by the Auditor General for Scotland to report to you if, during the course of our audit, we have found that adequate accounting records have not been kept; the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit.
We have nothing to report in respect of these matters.

Other information
We are required to report on whether the other information (comprising of the Performance Report and the Accountability Report and the unaudited parts of the Remuneration and Staff Report), is materially inconsistent with the financial statements; is materially inconsistent with our knowledge obtained in the course of the audit; or is materially misstated.
No inconsistencies have been identified and we have issued an unmodified opinion in this respect.

Governance Statement and Performance Report
We are required to report on whether the information given in the Governance Statement and Performance Report is consistent with the financial statements; and has been properly prepared in accordance with the Natural Heritage (Scotland) Act 1991 and directions made thereunder by the Scottish Ministers.
We have no matters to report in respect of the Annual Governance Statement or the Performance Report.

Whole of Government Accounts (WGA)
NatureScot is below the threshold for WGA audit. We will issue the required assurance statement to the National Audit Office following approval of the financial statements.

Executive summary (continued)

Wider Scope conclusions

As auditors appointed by the Auditor General of Scotland, our wider scope responsibilities are set out in Audit Scotland's Code of Audit Practice 2021. The Code requirements broaden the scope of the 2023/24 audit and allows us to use a risk-based approach to report on our consideration of NatureScot's performance and make recommendations for improvement and, where appropriate, conclude on NatureScot's performance.

The Code's wider scope framework is categorised into four areas:

- financial management;
- financial sustainability;
- vision, leadership and governance; and
- use of resources to improve outcomes.

It remains the responsibility of NatureScot to ensure proper financial stewardship of public funds, it complies with relevant legislation and establishes effective governance of their activities. NatureScot is also responsible for ensuring that it establishes arrangements to secure continuous improvement in performance and, in making those arrangements, ensures resources are being used to improve strategic outcomes and demonstrate the economy, efficiency, and effectiveness throughout the use of its resources. These arrangements should be proportionate to the size and type of the body, appropriate to the nature of the body and the services and functions that it has been created to deliver.

Wider Scope

We have no risks in arrangements to report in relation to the financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes arrangements that NatureScot has in place.

Further detail on our Wider Scope work is provided in section 7 of this report including any significant risks identified.

02

Status of the audit

Status of the audit

Our audit work is complete.

03

Audit Approach

Audit Approach

Changes to our audit approach

There have been changes to the audit approach we communicated in our Annual Audit Plan, issued on 9 May 2024. See the use of experts section below for more details.

Materiality

Our provisional materiality at the planning stage of the audit for NatureScot was set at £1,525k using a benchmark of 2% of gross operating expenditure. Our performance materiality was set at £1,060k, and clearly trivial threshold was £46k. We had also set a specific materiality of one band within the tables in the remuneration and staff report.

Based on the final financial statement figures and other qualitative factors, the final overall materiality we applied was £1,947k, final performance materiality was £1,363k, and final clearly trivial threshold was £58k. Our specific materiality of one band for the review of the remuneration and staff report, remained unchanged.

Use of experts

In our Annual Audit Plan presented to you on 9 May 2024, we identified the District Valuers of the Valuation Office Agency, engaged in the valuation of items of property, plant and equipment, as management's expert.

After review and consultation, we have also identified MyCSP as management's expert engaged to calculate and provide CETV pension values of directors to be disclosed in the remuneration and staff report.

We have identified Deloitte as an auditor's expert. Deloitte perform an annual review of the approach adopted by MyCSP in its calculation of CETV pension values.

Service organisations

In our Annual Audit Plan presented to you on 9 May 2024, we indicated that NatureScot engages MyCSP as a service organisation. This assessment has changed as we have now identified MyCSP as management's expert for the purpose of the audit. NatureScot does not engage any service organisations.

04

Significant findings

Significant findings

Significant findings, including key areas of management judgement

The significant findings from our audit include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Annual Audit Plan;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 17 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management;
- any significant difficulties we experienced during the audit.

Significant findings

Management override of controls

Description of the risk

Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.

How we addressed this risk

We addressed this risk through performing audit work:

- reviewing the key areas within the financial statements where management has used judgement and estimation techniques and consider whether there is evidence of unfair bias;
- testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- considering and testing any significant transactions outside the normal course of business or otherwise unusual; and
- examining any accounting policies that vary from the Government Financial Reporting Manual.

Audit conclusion

Our work has provided the assurance we sought in each of these areas and has not highlighted any material issues to bring to your attention.

Significant findings (continued)

Recoverability of EU grant income

Description of the management judgement

NatureScot acts as a principal for the EU Structural Funds Programme. In this programme, grantees are paid by NatureScot for works performed after verification of supporting documents. NatureScot then submits these claims in addition to its management costs to the Managing Authority, the Scottish Government.

At 31 March 2023, claims amounting to £6.86m had been paid by NatureScot or incurred management costs and were to be submitted to the Scottish Government. Since then, NatureScot has had claims totalling £9.3m relating to the Green Infrastructure Strategic Intervention and the Natural & Cultural Heritage Strategic Intervention, rejected by the Managing Authority. There is a risk that a significant portion of the funding claimed may not be received from the Managing Authority. NatureScot needs to ensure that EU funding income and receivables disclosed in the annual accounts adequately reflects the funding it expects to receive.

How our audit addressed this area of management judgement

We addressed this risk by:

- reviewing the relevant accounting policies to ensure they remain appropriate;
- evaluating management assumptions, judgements and any model used to determine the amounts recognised in the annual accounts; and
- substantively test grant income and receivables and evaluate the accuracy of related disclosures in the financial statements.

Audit conclusion

Our work has provided the assurance we sought in each of these areas and has not highlighted any material issues to bring to your attention.

Significant findings (continued)

Valuation of property, plant and equipment

Description of the management judgement

NatureScot's land and property is fully revalued every five years, with interim reviews of 25% of the portfolio undertaken in each of the intervening four year. The last full valuation was carried out at 31 March 2019, so a full valuation is due at 31 March 2024. NatureScot held property, plant and equipment with a net book value of over £26 million at 31 March 2023.

Valuations are based on specialist and management assumptions and changes in these can result in material changes to the valuations. NatureScot is also required to satisfy itself that the carrying amount of those assets not subject to valuation in 2023/24 are not materially different from their current value. There is therefore the risk that property, plant and equipment is materially misstated in the annual accounts.

How our audit addressed this area of management judgement

We addressed this risk by:

- assessing the scope and terms of engagement with the Valuer;
- assessing the competence, skill and objectivity of valuer, District Valuers of the Valuation Office Agency;
- assessing how the management use the Valuer's report to value land and buildings included in financial statements;
- testing the accuracy of the data used in valuations;
- challenging the NatureScot and the Valuer's assumptions and judgements applied in the valuations;
- reviewing the valuation methodology used, including the appropriateness of the valuation basis.

Audit conclusion

Our work has provided the assurance we sought in each of these areas and has not highlighted any material issues to bring to your attention.

Significant findings (continued)

Qualitative aspects of NatureScot's accounting practices

We have reviewed NatureScot's accounting policies and disclosures and concluded they comply with the Government Financial Reporting Manual (FReM) 2023/24, appropriately tailored to NatureScot's circumstances.

We received the unaudited annual report and accounts from NatureScot on 2 September 2024. The unaudited accounts were not of good quality, with several areas of the accounts incomplete. These included;

- Senior Leadership Team salaries and pension benefits disclosures
- Staff report
- Statement of Changes in Taxpayers' Equity
- Heritage assets
- Property, plant and equipment
- Leases
- Revaluation gains and losses
- Intangible assets, and
- Non-current assets classified as held for sale

We have received several versions of the annual accounts over the course of the audit which has complicated the audit process and delayed the completion of some of our work. We received a complete set of financial statements on 2 October 2024.

Significant matters discussed with management

During our audit we communicated the following significant matters to management:

- **Assets held for sale.** In the unaudited annual accounts NatureScot disclosed non-current assets classified as held for sale with a value of £795k at 31 March 2024. This comprised Kinloch Castle, the antiques and works of art contained within the castle and the Rum Byre and Workshop which was to be included in the sale of Kinloch Castle.

Following discussions with management and further investigation we identified that the sale of Kinloch Castle had been paused following Scottish Government Ministerial intervention. Consequently, NatureScot was not actively marketing the assets at 31 March 2024 and they continue not to be marketed. A further update from officers confirmed that:

- the Scottish Government had concluded engagement with the local community on realistic conditions of sale to support island life and economy
- a report and recommendation will be sent for Ministerial decision in quarter four of 2024/25
- NatureScot will act on the recommendation of the Minister in quarter four of 2024/25 or quarter one of 2025/26.

Officers confirmed that they could not demonstrate that Kinloch Castle met the conditions outlined in IFRS 5 - Non-current Assets Held For Sale and Discontinued Operations for recognition of an asset held for sale.

Officers decided that as Kinloch Castle, and its antiques and works of art, were considered heritage assets before they were classified as assets held for sale they would return them to heritage assets classification. Their view is that transferring them back to heritage assets is appropriate as they still meet the definition as set out in the FReM. Officers transferred the Rum Byre and Workshop back to their original categories of land and buildings on the basis that they still consider them to be operational.

We challenged officers and the valuer, as management's expert, on the reclassification and valuation of these assets. We are satisfied that reclassification of the assets is appropriate and that any valuation errors are below our clearly trivial reporting threshold. See section 6 for details of the audit adjustments.

Significant difficulties during the audit

We experienced significant delays in receiving several requested documents and information from the finance team. These included:

- valuation reports and other related documents supporting the carrying values of property, plant and equipment
- payroll information

Despite the challenges identified above, we have had the full co-operation of management throughout the audit.

Significant findings (continued)

Wider responsibilities – statutory reporting

We are required to notify the Auditor General when circumstances indicate that a statutory report may be required.

- Section 22 of the Public Finance and Accountability (Scotland) Act 2000 allows us to prepare a report to bring to the attention of the Scottish Parliament and the public, matters of public interest arising during the audit of NatureScot.

  We confirm no such reports have been prepared.

- Section 23 of the Public Finance and Accountability (Scotland) Act 2000 allows us to initiate an examination into the economy, efficiency and effectiveness with which NatureScot and their officeholders have used their resources in discharging their functions.

  We confirm no such examinations have been initiated.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. Since NatureScot falls below the £2 billion threshold, statutory reporting is not required, however we are required to undertake planning procedures and partially complete an assurance statement. We will issue the statement to the NAO following approval of the financial statements.

05

Internal control conclusions

Internal control conclusions

Overview of engagement

As part of our audit, we obtained an understanding of NatureScot's internal control environment and control activities relevant to the preparation of the financial statements, which was sufficient to plan our audit and determine the nature, timing, and extent of our audit procedures. Although our audit was not designed to express an opinion on the effectiveness of NatureScot's internal controls, we are required to communicate to the Audit Committee any significant deficiencies in internal controls that we identified during our audit.

Deficiencies in internal control

A deficiency in internal control exists if:

- A control is designed, implemented, or operated in such a way that it is unable to prevent, detect, and/ or correct potential misstatements in the financial statements; or
- A necessary control to prevent, detect, and/ or correct misstatements in the financial statements on a timely basis is missing.

The purpose of our audit was to express an opinion on the financial statements. As part of our audit, we have considered NatureScot's internal controls relevant to the preparation of the financial statements to design audit procedures to allow us to express an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NatureScot's internal controls or to identify any significant deficiencies in their design or operation.

The matters reported in this section of our report are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and which we consider to be of sufficient importance to merit being reported.

If we had performed more extensive procedures on internal control, we might have identified more deficiencies to report or concluded that some of the reported deficiencies need not in fact have been reported.
Our comments in this section should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

The deficiencies in NatureScot's internal controls that we have identified as at the date of this report are set out on the following pages.

Significant deficiencies in internal control

A significant deficiency in internal control is one which, in our professional judgement, has the potential for financial loss, damage to reputation, or a loss of information which may have implications on the achievement of business strategic objectives. Our view is that observations categorised as a significant deficiency is of sufficient importance to merit the attention of the Audit and Risk Committee.

We have not identified any significant deficiencies in NatureScot's internal controls as at the date of this report.

Other observations

We also record our observations on NatureScot's internal controls where, in our professional judgement, there is a need to strengthen internal control or enhance business efficiency that do not constitute significant deficiencies in internal control but which we view as being important for consideration by management.

Internal control conclusions (continued)

Other deficiencies in internal control

In our view, there is a need to address the deficiencies in internal control set out in this section (which are not deemed to be significant deficiencies) to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

Description of deficiency

Related party disclosures– Level 3

NatureScot's policy suggests that it is not mandatory for members of the Senior Leadership Team (SLT) to complete a register of interest form on Microsoft Fusion annually if they have no new interest to declare.

Potential effects

Relying on individual's judgement creates a risk that related party interests may not be accurately reported and disclosed.

Recommendation

NatureScot should update its policy to ensure all Senior Leadership Team members are required to complete an annual declaration of interest.

Management response

Directors (either executive or board level) will be asked to submit a mandatory declaration of interests annually including nothing to disclose. We will revisit our policy and process associated with this to strengthen this aspect. In the longer term we anticipate a Journey being used in Fusion to reduce the admin burden in this process.

Responsible individual: Head of People Organisational Development

Internal control conclusions (continued)

Other deficiencies in internal control (continued)

Description of deficiency

Related party disclosures– Level 2

NatureScot does not have established processes for responding to identified conflicts of interest or related party relationships for the Senior Leadership Team and Board members. We found no evidence that officers check contracts and transactions against entities disclosed in register of interest (ROI) forms to identify possible related party transactions.

Potential effects

Material related party transactions and relationships could be omitted and not appropriately disclosed in the financial statements.

Recommendation

NatureScot should implement procedures to ensure officers review declarations of interest against contracts and transactions to identify material related party transactions and relationships.

Management response

The Exec Office has a suite of Desk Instructions covering such processes and we will update this once agreement has been reached on the how we deal with ROI in the future.

Responsible individual: Chief of Staff

Internal control conclusions (continued)

Other deficiencies in internal control (continued)

Description of deficiency

Related party disclosures– Level 2

We found instances where officers did not receive responses to register of interest requests from Board members. NatureScot's approach is that "no reply" is taken to mean the individual has nothing to disclose. A member may not have responded for various reasons and taking a "no reply" to mean there are no changes could result in related party relationships not being disclosed.

Potential effects

Material related party transactions and relationships could be omitted and not appropriately disclosed in the financial statements.

Recommendation

NatureScot should encourage Board and Senior Leadership Team members to respond to all declaration of interest requests.

Management response

The practice of obtaining a confirmatory response will be reinstated. The onus is on Board members to take personal responsibility in adhering to the Ethical Standards Code by declaring any potential conflicts of interest.

Responsible individual: Chief of Staff

Internal control conclusions (continued)

Other deficiencies in internal control (continued)

Description of deficiency

Related party disclosures– Level 3

NatureScot requires line managers to sign-off register of interest forms for their direct reports once they are recorded on Fusion. The Chief Executive’s declarations of interest are not formally reviewed in this way.

Potential effects

Declared interests of the Chief Executive Officer are not adequately scrutinised, hence material related party transactions and relationships could be omitted and not appropriately disclosed in the financial statements.

Recommendation

Management should ensure all declarations of interest are subject to review and approvals at each appropriate level.

Management response

The CEO's declarations is/will be signed off by the Chair. If it is impossible to do this utilising our system then it can be done offline given it is only one person.

Responsible individual: Head of People Organisational Development

Internal control conclusions (continued)

Other deficiencies in internal control (continued)

Description of deficiency

Related party disclosures– Level 3

The People and Organisational Development (POD) team produce a report in May each year for the SLT which lists all conflicts of interest held by members. Officers manually check the transactions in this report for any new related parties disclosed in the year. However, related parties disclosed in prior years are not checked. This means material transactions with related parties may not be identified. Also, related parties that no longer create a conflict of interest may still be included in these reports when they should be removed.

Potential effects

In the absence of routine reviews, material related party transactions and relationships previously identified could be omitted and not appropriately disclosed in the financial statements and interests that no longer represent related party relationships could continue to be disclosed.

Recommendation

Officers should check all conflicts of interest identified in register of interest forms against the POD report for accuracy and completeness.

Management response

This can be added in to our processes to strengthen these and make them more robust.

Responsible individual: Head of People and Organisational Development

Internal control conclusions (continued)

Other deficiencies in internal control (continued)

Description of deficiency

Information technology (user access policy) – Level 3

There is no evidence to show that NatureScot has a user access policy for its main accounting system (Oracle Fusion) including its generic account. Fusion analysts are currently in possession of the password. This means users could have inappropriate access to systems which increases the risk of data breaches.

Potential effects

NatureScot does not appropriately control use of the generic user account for Oracle Fusion which increases the risk of data breaches and the potential for fraud.

Recommendation

NatureScot should consider the need to agree specific user policies for Oracle Fusion, including a user management policy.

Management response

Information on the controls in place for Fusion User access was provided during the audit process. A policy is now in place setting this out.

Responsible individual: Head of People and Organisational Development

Internal control conclusions (continued)

Other deficiencies in internal control (continued)

Description of deficiency

Information technology (user access review) – Level 3

NatureScot's process for review of user access does not cover dormant users. This means users could have inappropriate access to systems which increases the risk of fraud.

Potential effects

Authorised users could have inappropriate access to systems which in turn increases the risk of data breaches and the likelihood of fraud.

Recommendation

Management should update its policy to determine how long a user needs to be inactive to be considered dormant and engage system users to understand if access is still needed.

Management response

Quarterly checks on active users and the roles of each user are undertaken within Fusion Oracle to check for appropriateness. This includes quarterly check on leavers to ensure their access has been revoked.

Responsible individual: Head of People Organisational Development

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Internal control conclusions (continued)

Other deficiencies in internal control (continued)

Description of deficiency

Identification of Property, plant and equipment– Level 3

There are no unique identifiers that link items of property, plant and equipment to the assets register. The asset register does not capture serial numbers of the individual assets and the assets do not have identifying codes.

Potential effects

Without such identification, there is an increased risk that assets could be misappropriated or lost.

Recommendation

We recommend that management perform an asset verification exercise to ensure NatureScot's assets are appropriately captured in its asset register.

Management response

NatureScot carries out a verification exercise every year where we verify a 20% sample of all assets.

We are going to obtain serial numbers through these verifications and add these to the asset register over the coming years.

We have hired a further accountant for the team (starting 02.12.24) and now we have more resource going forward we are also going to complete physical verifications at least once a year to check serial numbers and tag assets with their unique asset code from the asset register.

Responsible individual: Head of Finance, Planning & Performance

Internal control conclusions (continued)

Other deficiencies in internal control (continued)

Description of deficiency

Property, plant and equipment (Review of Assets Under Construction) – Level 2

NatureScot's fixed assets policy states that every month the financial accounts team should run a report from the asset register to identify assets under construction and confirm with project managers whether any of the assets have been completed. This is to ensure that assets are appropriately reclassified and depreciated. We noted that this process has only been performed at year end due to resource constraints.

Potential effects

The absence of routine identification and reclassification of assets under construction increases the risk that assets are carried at inappropriate values in the financial statements.

Recommendation

We recommend that the finance team routinely run the asset under construction report from the asset register, assess the stage of completion and ensure appropriate classification and recognition of these assets in the financial statements.

Management response

As per above re additional resource we will review AUC monthly going forward.

However, there is no risk of any assets being misstated or having inappropriate values in the financial statements by carrying out this review once a year.

Although we only complete the review once a year all changes are back dated into the asset register. All reclassifications are recorded in the register at the date they come into use (date provided by project manager) and depreciation also commences from that date.

Responsible individual: Head of Finance, Planning & Performance

Internal control conclusions (continued)

Other deficiencies in internal control (continued)

Description of deficiency

Revaluation of property, plant and equipment– Level 2

We found limited evidence that officers appropriately review and challenge the judgements and inputs used by management's valuation experts to prepare the land and buildings valuations for the financial statements.

Potential effects

Management does not sufficiently challenge the findings of the valuation expert and the source data used, which increases the risk of material misstatement in the financial statements.

Recommendation

We recommend that management formally documents how it gains its assurance over the data, calculations and assumptions in the valuer's report.

Management response

A new process & guidance will be agreed between FP&P following post audit discussion with the DVO and Auditor to better understand the requirements.

Responsible individual: Head of Finance, Planning & Performance

Internal control conclusions (continued)

Other deficiencies in internal control (continued)

Description of deficiency

Capital commitment (Management agreement)– Level 2

From our review of management agreements on a sample of contracts, we noted that a contract containing a clause stating that annual reviews should be made and payments subsequently increased by reference to the Retail Price Index. However, we found a flat rate of £300 was maintained in calculating the estimated liability with no recourse to the terms of the agreement. A recalculation of the estimated value payable and application of an average RPI rate resulted in a misstatement of £189k.

Potential effects

Future liabilities and other commitments disclosed in the financial statements could be misstated.

Recommendation

We recommend that management review the basis of calculation of capital commitments to ensure these are calculated in accordance with the underlying contracts.

Management response

A new process & guidance will be agreed between the PAI&D and FP&P teams to ensure clarity on the inflationary increase to be applied, when and how this requires to be done, and by whom.

Responsible individual: Head of Finance, Planning & Performance

Internal control conclusions (continued)

Other deficiencies in internal control (continued)

Description of deficiency

Grant commitment – Level 3

We identified two projects in which revisions had been made to initial grant offers, and funds were moved between periods. There were no updated offer letters issued with appropriate authorisation for funding reallocations. The total amounts being reallocated was trivial (£48K) and the overall balance of commitments remains unchanged.

Potential effects

Unauthorised project grant revisions and reallocations between periods may not be identified and could result in material misstatements.

Recommendation

We recommend that management implement guidance covering the process for revisions to grant offers.

Management response

Management have noted that Guidance on Variations in offers was introduced from July 2024 onwards (post year-end) and are highlighted as a mitigating measure going forward for this Internal Control Recommendation.

Responsible individual: Head of External Funding

Internal control conclusions (continued)

Other deficiencies in internal control (continued)

Description of deficiency

Remuneration report (Exit packages)– Level 2

An incorrect process was followed for special payments made to past employees. The Scottish Public Finance Manual (SPFM) states that a business case should be completed and sent to the Severance Policy team at the Scottish Government for scrutiny before any settlement is agreed. We found an instance where NatureScot had reached a settlement before a consultation was made.

Potential effects

There is a potential risk of non-compliance with applicable laws and regulations.

Recommendation

We recommend that NatureScot ensures it follows the process outlined in the SPFM before it agrees any settlement payments.

Management response

Processes are now in place within P&OD to ensure compliance with SPFM requirements in relation to SG scrutiny in advance of any settlements being agreed.

Responsible individual: Head of People & OD

Internal control conclusions (continued)

Follow up on previous internal control points

We set out below an update on internal control points raised in the prior year.

Description of deficiency

Related parties' transactions and disclosures – Level 2

NatureScot did not disclose a related party contract relationship with a company associated with one of its Board members, Annandale Estates, in the unaudited 2022/23 annual report and accounts and the prior year audited accounts.

NatureScot has updated the annual report and accounts to include details of this related party transaction.

Potential effects

Incorrect or incomplete disclosure of related party transactions.

Recommendation

NatureScot should conduct regular reviews to identify transactions with related parties and ensure these are fully disclosed in the annual report and accounts.

2023/24 update

This is now cleared and adequate disclosures made in the 2023/24 financial statements.

06

Summary of misstatements

Summary of misstatements

We set out below and on the following pages a summary of the misstatements we identified during our audit, above the trivial threshold for adjustment of £58k or where management has decided to correct an identified misstatement below our trivial threshold.

The first table in this section sets out the misstatements we identified which management has assessed as not being material, individually or in aggregate, to the financial statements and does not plan to adjust. The second table outlines the misstatements we identified that have been adjusted by management.

Our overall materiality, performance materiality, and clearly trivial (reporting) threshold were reported in our Annual Audit Plan, issued on 9 May 2024. Any subsequent changes to those figures are set out in the section 3 of this report.

Unadjusted misstatements

Details of adjustment	CIES	CIES	Balance Sheet	Balance Sheet
	Dr (£ '000)	Cr (£ '000)	Dr (£ '000)	Cr (£ '000)
Dr: Prepayment	-		457	-
Cr: Other costs		457	-	
We identified one transaction accounted for as 2023/24 expenditure where the service was partially received in 2024/25. We have extrapolated the £13k error across the population resulting in a non-material uncertainty of £457k.				
Aggregate effect of unadjusted misstatements		**457**	**457**	

Summary of misstatements

Adjusted misstatements

The misstatements in the table below have been adjusted by management. We report all individual misstatements above our reporting threshold that we identify during our audit and which management had adjusted and any other misstatements we believe the Audit and Risk Committee should be made aware of.

Details of adjustment	CIES	CIES	Balance Sheet	Balance Sheet
	Dr (£ '000)	**Cr (£ '000)**	**Dr (£ '000)**	**Cr (£ '000)**
Dr: Prepayment Cr: Operating costs Adjustment to correct understatement of prepaid expenses.	-	30	30 -	-
Cr: Assets Held for Sale Dr: Heritage Assets Reclassification of Kinloch Castle and its artefacts.			775	775
Aggregate effect of adjusted misstatements		**30**	**805**	**775**

Summary of misstatements (continued)

Disclosure misstatements

We identified the following disclosure misstatements during our audit that have been corrected by management:

- **Statement of Changes in Taxpayers' Equity**
  - Correction of omitted disclosure for ' Structural Funds Cash' for £7,848k in comparative year.

- **Capital commitments- Note 25.2 & Note 25.3**
  - Update to disclosure notes as a result of price increase in contracts linked to RPI rates. This is to be increased by £189k.
  - Correction of Note 25.3 disclosure for a grant offer made but not yet concluded. This will increase by £26k to reflect this subsequent event and increase in grant commitment.

- **Statement of Comprehensive Net Expenditure**
  - Correction of error in the movement in provision of £297k against the 'Other costs'.
  - Correction of error in the movement in provisions for £694k against the 'EU Funding' income.
  - Correction of inconsistencies between amounts on the primary statement and amount recognised in the notes to the accounts.

- **Remuneration and Staff Report**
  - Exit package: Addition of £5.1k to existing disclosure for additional contractual termination payments for special severance pay for a second employee.
  - Inclusion of comparatives for number and costs of exit packages.
  - Trends in median pay ratio: Additional context needed for the explanation of reasons for changes in the year.

- **Performance Report**
  - Changes to the figures, dates, percentages, prior year information, and correction of spelling errors in the report.

Summary of misstatements (continued)

Disclosure misstatements (continued)

- **Statement of Cash Flows**
  - Correction of statement to ensure that working capital movements are consistent with the balance sheet figures.

- **Accounting policies**
  - Revisions to IAS 1 from 2023/24 require bodies to disclose “material accounting policy information”. Management updated the accounting policies to reflect material accounting policies.

- **Financial instruments**
  - Restatement of prior year disclosures to align with requirements of IFRS 9 Financial Instruments.

There were also adjustments to the annual report and accounts for other minor disclosures, page numbers, consistency or presentational matters.

07

Wider Scope and Best Value

Commentary on Wider Scope

Overall Summary

Commentary on Wider Scope

Wider scope summary

As auditors appointed by the Auditor General for Scotland, our wider scope responsibilities are set out in the Code of Audit Practice 2021. The Code requirements broaden the scope of the 2023/24 audit and allow us to use a risk-based approach to report on our consideration of NatureScot's performance and make recommendations for improvement and, where appropriate, conclude on NatureScot's performance.

The Code's wider scope framework is categorised into four areas:

- financial management;
- financial sustainability;
- vision, leadership and governance; and
- use of resources to improve outcomes.

Overall summary by reporting criteria

From the satisfactory conclusion of our audit work, we have the following conclusions:

Reporting criteria	Commentary page reference	Identified risks?	Actual risks identified?	Other recommendations made?
Financial management	43	No	No	No
Financial sustainability	46	Yes – see page 47	No	Yes - see page 50
Vision, leadership and governance	51	No	No	No
Use of resources to improve outcomes	56	No	No	Yes – see page 60

Commentary on Wider Scope

Financial management

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

Financial management (continued)

Our overall assessment

Area assessed	Our findings	Our judgements	Risks identified
Financial management culture	NatureScot provides staff with financial and procurement training and promotes adherence to the Scottish Public Finance Manual (SPFM). It follows relevant financial regulations, which include the Government Financial Reporting Manual and SPFM as required by its Accounts Direction from Scottish Ministers. This is confirmed in the accounting policies disclosed in the 2023/24 Annual report and accounts and it has also been confirmed by our audit of the financial statements.	NatureScot's standing financial regulations are comprehensive, current, and well-promoted within the organisation. The combination of training, accessible resources, and regular support contributes to a strong understanding and adherence to financial regulations, promoting a healthy financial management culture.	No significant issues identified.
Accountability	NatureScot generates weekly financial output that enables budget holders to prepare a monthly report for the Senior Leadership Team (SLT). This then forms part of the Quarterly Performance Report to the Audit and Risk Committee. Budget monitoring is also prepared for the Scottish Government, with a final Budgeting Monitoring Return submitted to the Scottish Government in March. NatureScot has a robust and clear budget setting process detailed in its Budget Management Policy. The process begins with a confirmation of the Grant-In-Aid by the Scottish Government and with budget holders aligning budget inputs with the delivery plans. The budget is revised quarterly to reflect known changes. Progress against planned savings is also reported to the SLT. All savings are required to be approved by the SLT along with any reallocations.	NatureScot has a clear process for budget setting and reports financial performance to the Board and its Senior Leadership Team on a regular basis. The budgetary control system appears effective in communicating accurate and timely financial performance, as evidenced by the structured reporting processes and regular updates. This systematic approach not only supports internal management but also ensures compliance and transparency with the Scottish Government.	No significant issues identified.

Financial management (continued)

Our overall assessment

Area assessed	Our findings	Our judgements	Risks identified
Arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption	NatureScot has an anti-fraud and corruption policy statement which sets out staff responsibilities for the prevention of fraud and corruption. These policies are issued annually. It has a fraud response plan using flowcharts to determine the level of suspected fraud and degree of investigation. It also has a whistleblowing policy which provides a guide for employees to follow. NatureScot has a Code of Conduct for Members which covers policies and procedures for general conduct, registration of interests and declaration of interests. It publishes Codes of Practice on its website for its Board members, staff and contractors on its various infrastructure projects. Fusion Learning Counter Fraud Awareness eLearning courses are issued annually in Quarter 1 to new staff within key teams.	The monitoring of completion rates of The Annual Fusion Learning Counter Fraud Awareness eLearning course by the Head of Internal Audit ensures that training is effectively reaching all relevant personnel. The use of flowcharts to investigate suspected fraud brings clarity and helps ensure that investigations are conducted systematically and transparently, reducing the risk of mishandling cases.	No significant issues identified.

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Commentary on Wider Scope

Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Financial sustainability (continued)

Significant risks

	Significant Risk in Arrangements Identified	Work undertaken and the results of our work
1	**Funding risk from outstanding grant claims** NatureScot acts as a principal for the EU Structural Funds Programme. In this programme, grantees are paid by NatureScot for works performed after verification of supporting documents. NatureScot then submits these claims in addition to its management costs to the Managing Authority, the Scottish Government. There is a risk that NatureScot's outstanding EU funding claim is rejected in part, or in full, by the Managing Authority. This would have a significant impact on its funding position.	**Work undertaken** We reviewed relevant correspondence between NatureScot and the Managing Authority with regards to the payment of outstanding claims. We reviewed NatureScot's budget performance and assessed the impact of the outstanding claims on the operating cash flow of NatureScot. **Results of our work** NatureScot had the vast majority of its claim approved by the Managing Authority. It has had to write off £0.173m which is significantly less than it provided for.

Financial sustainability (continued)

Our overall assessment

Area assessed	Our findings	Our judgements	Risks identified
Financial planning	NatureScot has a clear approach to determine its administration and budget requirements. It has reasonable arrangements in place for identifying and assessing savings. The finance team is responsible for identifying potential savings. These are considered by officers at SLT meetings. Directors are responsible for final sign off of their budgets so ensure that any savings agreed upon are reflected in budget returns. NatureScot prepares a longer-term financial plan covering four years with scenarios reflecting possible increases and reductions to core grant-in-aid and other income streams NatureScot met its main financial target of delivering services within budget in 2023/24. NatureScot has a strategy of overallocation of certain budgetary costs by 10% to ensure full spending. NatureScot’s major project- Peatland Action funds have been fully allocated during the year, and for the first time, £2 million in private financing has been secured, boosting peatland restoration efforts. NatureScot is also exploring opportunities for more funding from the Scottish Government for new peatland applications.	Allowing a 10% excess in budgets creates a safety net for unexpected costs and project overruns, ensuring funds are fully utilised by year-end. This strategy can encourage teams to fully spend their budgets, reducing the risk of underspending, which might lead to future budget cuts. However, to effectively implement this strategy, strong monitoring and support systems are essential. The financial planning systems support corporate performance goals by ensuring that resources are allocated effectively. The 90-day business planning process allows for adjustments, which helps in responding to changing priorities throughout the year. By tracking underspend and overspend positions, NatureScot can make informed decisions to accelerate or decelerate projects. This responsiveness is crucial for maintaining financial health and ensuring that resources are utilised efficiently. NatureScot's risk framework plays a vital role in identifying financial pressures at both corporate and objective levels. This proactive approach allows for early detection of potential issues arising from changing financial circumstances, enabling timely interventions.	No significant issues identified.

Financial sustainability (continued)

Our overall assessment

Area assessed	Our findings	Our judgements	Risks identified
Financial planning	Through a 90-day business planning process, resources are effectively aligned with shifting priorities throughout the year. The organisation monitors both underspend and overspend situations, allowing for the acceleration or deceleration of projects based on financial data, which is then reflected in reports to the Board. Additionally, NatureScot's risk framework identifies how financial pressures, at the corporate and objective levels, are influenced by changing financial conditions. NatureScot is committed to increasing private finance engagement to better support core projects. A corporate risk plan has also been established to support these initiatives. Longer term financial planning has become more challenging for non-departmental public bodies due to spending controls implemented by the Scottish Government in 2024/25. Looking forward, NatureScot has been advised by the Scottish Government to prepare for a 3% cut in grant-in-aid in 2025/26 and future years. It has also been advised to absorb the cost of any pay settlements. The recent UK Government budget increased employers' National Insurance contributions and reduced the threshold for payment. Officers have assessed that in total these three items would have a negative impact of over £3.5m on its budget compared to 2024/25.	NatureScot faces funding challenges in 2024/25 and beyond due to Scottish Government spending controls, reductions in grant-in-aid and increasing staff costs.	

Financial sustainability (continued)

Follow up of previously reported recommendations

In December 2023, we reported one recommendation to NatureScot to address risks identified from our wider work on financial sustainability. As part of our work in 2023/24, we followed up the progress made by NatureScot against the recommendation and determined whether the risk(s) remained during the year.

	Financial management finding as previously reported	Management response and implementation timeframe	Work undertaken and judgements made in 2023/24	Conclusions reached
1	**Funding risk from outstanding grant claims– Level 1** There is a risk that NatureScot's outstanding EU funding claim is rejected in part, or in full, by the Managing Authority. This would have a significant impact on its funding position for the 2023/24 financial year. NatureScot should ensure it obtains assurances from the Managing Authority that the claims will be paid before the closure of the programme. In addition, NatureScot should continue to assess the collectability of these receivables to ensure that the carrying amount of trade and other receivables in the 2023/24 financial statements is not materially misstated.	**Management's response** We continue to engage fully with the Managing Authority in preparing the final claims and have escalated the risk and need for assurance to key contacts within Scottish Government. We are adding to the team in order to deal with the final claims process and are drawing expertise from other Lead Partners and from Audit Scotland. We continue to assess the collectability of the receivables and will be able to reflect the reimbursement of the final claim, which is due by 30 June 2024, when preparing the 2023/24 financial statements. **Responsible officer** Deputy Director of Nature & Climate Change **Implementation date** June 2024 (the deadline for final reimbursement of the final claim from the Managing Authority)	NatureScot received two payments from the Managing Authority in June 2024 with respect to its structural funds projects. For the Natural and Cultural Heritage Fund claim, it received £9.170m against a receivable of £9.224m and on its Green Infrastructure claim, it received £12.921m against a receivable of £12.969m. Although NatureScot had to write off a receivable of £0.173m, this had been adequately provided for in the financial statements and there are ongoing discussions with the Managing Authority on settlement.	**Conclusions** This recommendation is now complete

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Commentary on Wider Scope

Vision, leadership and governance

Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

Vision, leadership and governance (continued)

Our overall assessment

Area assessed	Our findings	Our judgements	Risks identified
Clarity of plans to implement the vision	NatureScot has an ongoing corporate plan covering 2022-2026. This focuses on three key priorities; - **Protecting Nature** by expanding protected areas, regulating species management, and delivering effective planning advice on land and sea. - **Restoring Nature** through a new biodiversity strategy, restoring peatlands, aiding nature's recovery and transforming farming. - **Valuing** nature so that the many benefits it provides to society can in turn attract public, private and social enterprise financing for both protection and restoration. For each of the above priorities, the plan clearly states the problems, the strategies for combating the issues and what success will look like. The plan sets out further details on each objective and actions setting out how NatureScot will achieve the objective. It also includes details of how NatureScot will measure its success for each objective. NatureScot also has a business plan which provides a high-level overview of the activity that helps it work towards its strategic objectives.	NatureScot's corporate plan set out a clear vision and strategy for the organisation. It sets out a structured approach aimed at ensuring both immediate and long-term benefits for nature and the wider society. Members of the Board, staff and other stakeholders are continuously updated with these plans and any changes to it. The budget setting process, project implementation and performance measurement are all directed at implementing the vision of NatureScot.	No significant issues identified.

Vision, leadership and governance (continued)

Our overall assessment

Area assessed	Our findings	Our judgements	Risks identified
Governance arrangements	NatureScot is a non-departmental public body sponsored by the Scottish Government's Environment and Forestry Directorate. Its broad governance framework and relationship with the Scottish Government are set out in a joint framework agreement. Membership of the Board comes from a range of public and private sector backgrounds, including environmentalists and nature advocates. The Board is the Chair and 11 other non-executive members. Board members decide the strategic direction of the organisation, in line with the policy, planning and resources framework set by Scottish Ministers. The Board appoints the Chief Executive and is supported by committees with a specialist focus on scientific advice, protected areas, and audit and risk. The Board has three standing committees: - Scientific Advisory Committee, which advises the Board and staff on scientific and technical matters, reviews the quality of research and contributes specialist knowledge and wider advice via working groups and individually. - Audit and Risk Committee (ARC), which helps promote the highest standards in the use of public funds and encourage proper accountability for the use of funds and resources amongst others. - Protected Areas Committee, which advices on Site of Special Scientific Interest (SSSI), Special Area of Conservation (SAC) and Special Protection Area (SPA). During the year, there were seven Board meetings and four ARC meetings held along with an additional meeting for the review of the Annual Report & Accounts, these include open sessions which the public could attend. The Chief Executive and Accountable Officer is set to leave NatureScot in January 2025 after being in the role for over six years.	The Board, comprising diverse members, effectively shapes NatureScot's strategic direction and establishes a clear risk appetite. This diversity enhances decision-making and ensures a broad perspective on governance issues. The inclusion of open sessions during Board and committee meetings fosters public engagement and accountability. This transparency allows stakeholders to understand governance processes and decisions, enhancing trust in the organisation. A transition plan is crucial for ensuring leadership continuity and to maintain smooth decision-making and a clear strategic direction. Leadership changes can affect stakeholder trust, so clear communication about the transition and future plans is essential for stability. Additionally, the Board's oversight becomes more critical during this period to maintain governance practices and accountability to stakeholders.	No significant issues.

Vision, leadership and governance (continued)

Our overall assessment (continued)

Area assessed	Our findings	Our judgements	Risks identified
Strategy and priorities	NatureScot's Corporate Plan set out the vision and strategy for the organisation. It also sets out NatureScot's contribution to wider Scottish Government outcomes and the National Performance Framework. The Financial Planning & Performance team is responsible for leading the quarterly performance reporting and overseeing the measures of success outlined in the Corporate Plan. Equality Impact Assessments are undertaken on all developing policies. During the year, priorities were adapted with NatureScot's response being managed through a 90-day planning cycle. This includes processes for reallocating resources to priority areas.	NatureScot uses quarterly performance reporting as a structured and transparent assessment of how well it is achieving its strategic objectives. The ongoing process of conducting EIAs allows for continuous monitoring of inequality outcomes. This iterative approach enables NatureScot to adapt and refine its strategies based on feedback and changing circumstances. The 90-day planning cycle enables quick resource reallocation to priority areas, ensuring effective responses to changing needs. Overall, this structured and adaptable approach enhances NatureScot's ability to meet its goals while ensuring accountability and alignment with broader governmental objectives.	No significant issues.

Vision, leadership and governance (continued)

Our overall assessment (continued)

Area assessed	Our findings	Our judgements	Risks identified
Financial and performance information	Performance is reported to each meeting of the Board. The annual report of the Audit and Risk Committee for the 2023/24 financial year covered: - the progress of the internal audit plan - risk management assessment - medium to long term financial plan and value added by the audit and risk committee. The reports contain narrative explanations where benchmarks have not been met. There is a range of performance indicators showing progress against targets. This is shown in tables in the report. The report also summarises the Governance Statement, corporate risk reported at the end of each quarter, information management and cyber security, general data protection regulation and the Audit and Risk self-assessment exercise. NatureScot also report to the Scottish Government to help it measure progress in achieving its ambitions for Scotland through the National Performance Framework. The framework sets out the aims for Scotland through 5 Strategic Objectives and 11 National Outcomes. The progress of these outcomes is measured through 81 National Indicators which give a measure of national wellbeing. They include a range of economic, social and environmental indicators. NatureScot lead on reporting against three Scottish Government National Indicators:NI44: Condition of protected nature sites, NI45: Biodiversity: Terrestrial Abundance, NI46: Natural Capital. NatureScot also contributes data and support to two other National Indicators: NI43: Visits to the outdoors and NI48: Carbon footprint. NatureScot provides access to its datasets through the Open Data Hub, allowing for transparency and enabling external stakeholders to review and analyse the data. NatureScot collaborates with various stakeholders, including academic institutions and conservation organisations, to enhance data accuracy.	The regular performance reports presented to the Board provide clear information on NatureScot's performance against benchmarks and targets for its main operations. Narrative explanations are included in the Board reports where performance is below expectations. Also, by providing access to its datasets through the Open Data Hub, NatureScot demonstrates its commitment to environmental stewardship and ensures that the data reported against these national indicators is both accurate and reliable. The collaboration of academic institutions and conservation organisations brings in expert knowledge and methodologies that improve data reliability.	No significant issues.

Commentary on Wider Scope

Use of resources to improve outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.

Use of resources to improve outcomes (continued)

Our overall assessment

Area assessed	Our findings	Our judgements	Risks identified
Resources deployed to improve strategic outcomes	NatureScot's business plan incorporates the staff budget for each service area and estimates the percentage of time each area is expected to spend on achieving the four corporate objectives. NatureScot uses its quarterly performance reporting to measure how its resources are being deployed in improving strategic outcomes. This reporting assists the Senior Leadership Team in measuring the progress and risks in delivering the corporate objectives. The workforce plan covering the period 2018- 2022 has expired. Officers informed us they were in the process of soft launching a new People Strategy and Associated People Programme, however we found no evidence to show that this was implemented during the year. This strategy was expected to build on the key elements of the 2018-2022 workforce plan in addition to setting the performance and project management framework and demonstrating how training and management of human resource can help deliver strategic outcomes. NatureScot has also linked budgets to the business plan and to its four main objectives. During our audit we noted some staff capacity issues in the finance team which contributed to delays in the audit. We understand that NatureScot is undertaking recruitment to expand its finance team.	NatureScot has provided information on the resources it expects to use to achieve its corporate objectives within the 2024/25 business plan. This helps demonstrate how it is linking objectives to budget. Quarterly reporting assists the Senior Leadership Team in analysing how resources are deployed to improve strategic outcomes. A detailed people strategy will set a clear framework for deploying resources to areas of higher priority and a strategy for dealing with people issues such as sickness levels, workload and stress management.	**Workforce planning – Level 3** There is a risk that NatureScot is unable to ensure it has the resources and capacity to achieve its strategic objectives and respond to changing priorities. This was an identified risk reported to management in the 2022/23 report and the recommendation is yet to be implemented.

Use of resources to improve outcomes (continued)

Our overall assessment

Area assessed	Our findings	Our judgements	Risks identified
Needs of service users being met	To improve its service delivery to communities, NatureScot makes use of various surveys to interact with members of the public and drive its various proposals. NatureScot publishes the results of client surveys on its website. The following surveys were published during 2023/24: - Nature Discovery Map Launch: A new digital resource has been introduced to support outdoor learning for teachers and students across Scotland (21 November 2024). - Guidance for Forvie Seals: New measures have been implemented at Forvie National Nature Reserve to protect vulnerable seals and their pups (8 November 2024). - Climate Change and Butterflies: Research indicates that ten butterfly species have significantly increased in Scotland over the past 40 years, likely due to climate change pushing them northward (11 November 2024). - Consultation for New National Park: NatureScot is encouraging public input for the proposed new National Park in Galloway, following community discussions and surveys (7 November 2024). - Deer Awareness Campaign: A new road safety campaign has been launched to address deer-vehicle collisions on a high-risk stretch of the A9 (1 November 2024). - Beaver Survey: NatureScot is asking the public to report sightings of beavers as part of a new population survey in Tayside (22 October 2024). NatureScot also invites members of the public to observe its Board and committee sessions where they are able to contribute to conversations on managing Scotland’s protected areas.	The launch of the Nature Discovery Map and the deer awareness campaign has boosted public understanding of local wildlife and safety, promoting responsible outdoor activities. Research on butterflies has revealed the effects of climate change on species distribution, offering valuable insights for future conservation efforts. The consultation for the proposed National Park in Galloway encourages community engagement, allowing local input to shape conservation strategies and park management. Additionally, the beaver survey invites public participation in wildlife monitoring, enhancing NatureScot's decision-making regarding species management. Overall, these initiatives reflect NatureScot's proactive stance in tackling environmental challenges while fostering community involvement and awareness.	No significant issues.

Use of resources to improve outcomes (continued)

Our overall assessment

Area assessed	Our findings	Our judgements	Risks identified
Arrangements to deliver continuous improvements in priority services	NatureScot uses the business planning tool to report on all projects within the digital delivery program. These then form part of the quarterly reporting to both the Senior Leadership Team and the Scottish Government Digital Directorate on how the development of digital projects is progressing. Following the completion of digital projects (scale dependant), completion reports and lessons learned logs are generated, which also feed into the central business planning repository. The quarterly performance reporting to the Board on how NatureScot is measuring progress against its plan provides a snapshot of each project and allows Board members to assess whether projects are on track.	The business planning tool used for reporting on digital delivery projects allows for consistent tracking of progress. Regular updates to the Senior Leadership Team and the Scottish Government's Digital Directorate keep stakeholders informed about developments. NatureScot provides Board members and the public with clear information on operational performance and progress against business plan improvement projects.	No significant issues identified.

Use of resources to improve outcomes (continued)

Follow up of previously reported recommendations

In December 2023, we reported one recommendation to NatureScot to address risks identified from our Wider Scope audit for use of resources to improve outcomes. As part of our work in 2023/24, we followed up the progress made by the NatureScot against the recommendations made and determined whether the risk(s) remained during the year.

	Financial management finding as previously reported	Management response and implementation timeframe	Work undertaken and judgements made in 2023/24	Conclusions reached
1	**Workforce planning– Level 3** NatureScot's workforce plan expired in 2022 and management is in the process of developing the 2023-2026 plan. There is a risk that NatureScot is unable to ensure it has the resources and capacity to achieve its strategic objectives and respond to changing priorities. NatureScot should work to complete its new workforce plan. It should ensure the plan allows it to measure how effectively it is managing its resources.	**Management's response** The new People Strategy and associated People Programme now encompass the key elements of the Workforce Plan 2018-2022, and builds on the progress made to date. The People Strategy was approved in early 2023/24 by Senior Leadership Team and is due to be soft launched to the organisation in Q3 2023/24. **Responsible officer** Marie Hernandez, Head of People & Organisational Development **Implementation date** December 2023	NatureScot has strategies it continues to implement to ensure resources are effectively deployed to improve strategic outcome. It is yet to implement the People Strategy and Associated People Programme approved by the Senior Leadership Team.	**Conclusions** This recommendation is still open.

Commentary on Best Value

Best Value

Best Value

Best Value in central government bodies

The Scottish Public Finance Manual (SPFM) explains that accountable officers have a specific responsibility to ensure that arrangements have been made to meet their Best Value obligations. The duty of Best Value as set out in the SPFM is:

- To make arrangements to secure continuous improvement in performance whilst maintaining an appropriate balance between quality and cost; and, in making those arrangements and securing that balance; and
- To have regard to economy, efficiency, effectiveness, the equal opportunities requirements and to contribute to the achievement of sustainable development.

Ministerial guidance for Accountable Officers in public bodies sets out their duty to ensure that arrangements are in place to secure Best Value in public services.

The seven Best Value characteristics have been recently regrouped to reflect the key themes which will support the development of an effective organisational context from which public services can deliver key outcomes and ultimately achieve Best Value:

1. Vision and leadership
2. Governance and accountability
3. Effective use of resources
4. Partnerships and collaborative working
5. Working with communities
6. Sustainability
7. Fairness and equality

We have used a risk-based approach that is proportionate to the size and type of the body, to assess whether NatureScot has made proper arrangements for securing Best Value. We have also followed up on previously reported Best Value findings, where applicable, and have assessed the pace and depth of improvement implemented by NatureScot.

Best Value (continued)

Best Value in central government bodies – overall conclusion

NatureScot sets out in its annual report the main ways in which it demonstrated Best Value in 2023/24. This included through:

- its corporate plan, business plan and 90-day plans setting out its vision and leadership role in the sector
- its governance and accountability arrangements
- performance monitoring and reporting
- how it managed resources in 2023/24
- partnership working and collaborative working
- training and guidance on climate change
- its approach to equality and dignity at work.

In our opinion this is a fair assessment of how the Accountable Officer has made arrangements to meet their Best Value obligations and overall we have concluded that NatureScot has reasonable arrangements in place.

In our opinion, there are opportunities for NatureScot to further strengthen arrangements, and more clearly demonstrate the pace and depth of improvement, through a periodic review of its Best Value arrangements. We have seen this work well in other organisations as either a self-assessment or a review by internal audit.

Appendices

Appendix A: Draft management representation letter

Tom Reid

Forvis Mazars LLP

100 Queen Street

Glasgow

G1 3DN

XX December 2024

Dear Tom

NatureScot- Audit for the Year Ended 31 March 2024

This representation letter is provided in connection with your audit of the financial statements of NatureScot for the year ended 31 March 2024 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the Natural Heritage (Scotland) Act 1991 and UK adopted international accounting standards, as interpreted and adapted by the 2023/24 Government Financial Reporting Manual (the 2023/24 FReM).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy myself that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Natural Heritage (Scotland) Act 1991 and UK adopted international accounting standards, as interpreted and adapted by the 2023/24 Government Financial Reporting Manual (the 2023/24 FReM).

I have provided you with:

- access to all information of which I am aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within NatureScot you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Accountable Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Appendix A: Draft management representation letter (continued)

Accounting records

I confirm that all transactions undertaken by NaturScot have been properly recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all management and Board meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Nature Scot's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that the methods, significant assumptions and the data used by the NatureScot in making the accounting estimates, including those measured at fair value are appropriate to achieve recognition, measurement or disclosure that is in accordance with the applicable financial reporting framework.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired, or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against NatureScot have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Natural Heritage (Scotland) Act 1991 and UK adopted international accounting standards, as interpreted and adapted by the 2023/24 Government Financial Reporting Manual (the 2023/24 FReM).

Laws and regulations

I confirm that I have disclosed to you all those events of which I are aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

We have complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Appendix A: Draft management representation letter (continued)

Fraud and error

I acknowledge my responsibility as Accountable Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error. I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting NatureScot involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting NatureScot's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the Natural Heritage (Scotland) Act 1991 and UK adopted international accounting standards, as interpreted and adapted by the 2023/24 Government Financial Reporting Manual (the 2023/24 FReM).

I have disclosed to you the identity of the NatureScot's related parties and all related party relationships and transactions of which I are aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment and intangible assets below their carrying value at the statement of financial position date. An impairment review is therefore not considered necessary.

Reinforced Autoclaved Aerated Concrete

I confirm that NatureScot has assessed the potential impact of Reinforced Autoclaved Aerated Concrete, and in particular whether there are indications of a need for an impairment of NatureScot's property, plant and equipment balances. I confirm there are no such indications of impairment in those assets.

Charges on assets

All NatureScot's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

There are no plans or intentions that are likely to affect the carrying value or classification of the assets recognised within the financial statements.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Valuation of land, buildings and dwellings

I confirm that I am satisfied that the key assumptions feeding into the assessment of the carrying values of assets are appropriate based on my review.

Appendix A: Draft management representation letter (continued)

Right of Use assets and lease liabilities

I confirm that I have satisfied myself that the key judgments and assumptions made in valuing Right of Use assets and corresponding lease liabilities are reasonable and in accordance with IFRS 16. I am satisfied that assumptions around lease terms of implicit leases are reasonable.

Sponsor body

I confirm that the sponsor body for NatureScot is the Scottish Government.

Other Matters

I confirm in relation to the following matters that:

- COVID-19 – I have assessed the continued impact of the COVID-19 Virus pandemic on NatureScot and the financial statements, including the impact of mitigation measures and uncertainties, and am satisfied that the financial statements and supporting notes fairly reflect that assessment.
- Ukraine – I confirm that I have carried out an assessment of the potential impact of the continued conflict in Ukraine on NatureScot and there is no significant impact on NatureScot's operations from restrictions or sanctions in place.
- I confirm that I have assessed the impact on NatureScot of the on-going Global Banking challenges, in particular whether there is any impact on NatureScot's ability to continue as a going concern, and on the post balance sheet events disclosures.

Going concern

To the best of my knowledge there is nothing to indicate that NatureScot will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Performance related allocations

I confirm that I am not aware of any reason why NatureScot's funding allocation limits would be changed.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which Natural Heritage (Scotland) Act 1991 and UK adopted international accounting standards, as interpreted and adapted by the 2023/24 Government Financial Reporting Manual (the 2023/24 FReM) require adjustment or disclosure have been adjusted or disclosed.
Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Performance report

I confirm that the Performance Report has been prepared in accordance with the requirements of the FReM to the extent they apply in Scotland and the information is consistent with the financial statements.

Appendix A: Draft management representation letter (continued)

Governance Statement
I am satisfied that the Governance Statement fairly reflects the NatureScot's risk assurance and governance framework and I confirm that I am not aware of any significant risks that are not disclosed within the Governance Statement.

Remuneration and Staff Report
The Remuneration and Staff Report has been prepared in accordance with the requirements of the FReM to the extent they apply in Scotland and all required information of which I am aware has been provided to you.

Annual Report

The disclosures within the Annual Report and the Remuneration and Staff Report fairly reflect my understanding of the Body’s financial and operating performance over the period covered by the financial statements.

Other Representations

I confirm that all provisions required under IAS 37 have been included in the financial statements.

Unadjusted misstatements

I confirm that the effects of the unadjusted misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the unadjusted misstatements is attached to this letter as an Appendix 1.

Yours faithfully

Francesca Osowska

Chief Executive and Accountable Officer

Appendix B: Draft audit report

Independent auditor's report to the members of NatureScot, the Auditor General for Scotland and the Scottish Parliament

Report on the audit of the financial statements

Opinion on the NatureScot financial statements

We have audited the financial statements in the annual report and accounts of NatureScot for the year ended 31 March 2024 under the Natural Heritage (Scotland) Act 1991. The financial statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and notes to the financial statements, including material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the 2023/24 Government Financial Reporting Manual (the 2023/24 FReM).

In our opinion the accompanying financial statements of NatureScot:

- give a true and fair view of the state of the body's affairs as at 31 March 2024 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2023/24 FReM; and
- have been prepared in accordance with the requirements of the Natural Heritage (Scotland) Act 1991 and directions made thereunder by the Scottish Ministers.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Auditor General for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audits of the financial statements section of our report. We were appointed by the Auditor General on 18 May 2022. Our period of appointment is five years, covering 2022/23 to 2026/27. We are independent of the body in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the body. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Conclusions relating to going concern basis of accounting

We have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the body's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the body's current or future financial sustainability. However, we report on the body's arrangements for financial sustainability in a separate Annual Audit Report available from the Audit Scotland Website.

Appendix B: Draft audit report (continued)

Risks of material misstatement
We report in our separate Annual Audit Report the most significant assessed risks of material misstatement that we identified and our judgements thereon.

Responsibilities of the Accountable Officer for the financial statements
As explained more fully in the Statement of Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, the Accountable Officer is responsible for assessing the body's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the body's operations.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.
Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using our understanding of the central government sector to identify that the Natural Heritage (Scotland) Act 1991 and directions made thereunder by the Scottish Ministers are significant in the context of the body;
- inquiring of the Accountable Officer as to other laws or regulations that may be expected to have a fundamental effect on the operations of the body;
- inquiring of the Accountable Officer concerning the body's policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among our audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

Appendix B: Draft audit report (continued)

The extent to which our procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the body’s controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor’s responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Reporting on regularity of expenditure and income

Opinion on regularity

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Responsibilities for regularity

The Accountable Officer is responsible for ensuring the regularity of expenditure and income. In addition to our responsibilities in respect of irregularities explained in the audit of the financial statements section of our report, we are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Reporting on other requirements

Opinion prescribed by the Auditor General for Scotland on audited parts of the Remuneration and Staff Report

We have audited the parts of the Remuneration and Staff Report described as audited. In our opinion, the audited parts of the Remuneration and Staff Report have been properly prepared in accordance with the Natural Heritage (Scotland) Act 1991 and directions made thereunder by the Scottish Ministers.

Appendix B: Draft audit report (continued)

Other information

The Accountable Officer is responsible for the other information in the annual report and accounts. The other information comprises the Performance Report and the Accountability Report excluding the audited parts of the Remuneration and Staff Report.

Our responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on the Performance Report and Governance Statement to the extent explicitly stated in the following opinions prescribed by the Auditor General for Scotland.

Opinions prescribed by the Auditor General for Scotland on Performance Report and Governance Statement

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Natural Heritage (Scotland) Act 1991 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Natural Heritage (Scotland) Act 1991 and directions made thereunder by the Scottish Ministers.

Matters on which we are required to report by exception

We are required by the Auditor General for Scotland to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited parts of the Remuneration and Staff Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Appendix B: Draft audit report (continued)

Conclusions on wider scope responsibilities
In addition to our responsibilities for the annual report and accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in our Annual Audit Report.

Use of our report
This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Tom Reid (Audit Director)
For and on behalf of Forvis Mazars LLP

100 Queen Street
Glasgow
G1 3DN

Appendix C: Confirmation of our independence

We communicate any matters which we believe may have a bearing on our independence or the objectivity of Forvis Mazars LLP and the audit team. As part of our ongoing risk assessment, we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We confirm that no new threats to independence have been identified since issuing our Annual Audit Plan and therefore we remain independent.

Appendix C: Confirmation of our independence (continued)

Fees for work as NatureScot's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Annual Audit Plan presented to the Audit Committee on 9 May 2024. Having substantially completed our work for the 2023/24 financial year, we can confirm that our fees are as follows:

Area of work	2023/24 fees	2022/23 fees
Auditor remuneration	£68,860	£47,150
Pooled costs	£740	(£750)
Contribution to PABV costs	£0	£0
Audit support costs	£0	£1,340
Sectoral cap adjustment	£13,880	£30,990
Additional work required for land and property valuation due to NatureScot being unable to provide appropriate supporting evidence. This included meetings and correspondence with the professional valuer, review of third-party information, and internal consultation on alternative audit procedures.	£5,098	£0
Total fees	**£88,578**	**£78,730**

Fees for other work

We confirm that we have not undertaken any non-audit services for NatureScot in the year.

Appendix D: Other communications

	Other communication	Response
	Compliance with Laws and Regulations	We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations. We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.
	External confirmations	We did not experience any issues with respect to obtaining external confirmations.
	Related parties	We did not identify any significant matters relating to the audit of related parties. We will obtain written representations from management confirming that: a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
	Going Concern	We have not identified any evidence to cause us to disagree with the Accountable Officer that NatureScot will be a going concern, and therefore we have not identified any evidence to cause us to consider that the use of the going concern assumption in preparation of the financial statements is not appropriate. We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.

Appendix D: Other communications (continued)

	Other communication	Response
	Subsequent events	We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework. We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.
	Matters related to fraud	We have designed our audit approach to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement due to fraud. In addition, we have assessed the adequacy of NatureScot's arrangements for preventing and detecting fraud or other irregularities as part of the wider scope audit and concluded that they are sufficiently designed and implemented. We will obtain written representations from management, and where appropriate Those Charged With Governance, confirming that: a) they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; b) they have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud; c) they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: i. Management; ii. Employees who have significant roles in internal control; or iii. Others where the fraud could have a material effect on the financial statements; and d) they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Appendix D: Other communications (continued)

	Other communication	Response
	National Fraud Initiative	The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland and overseen by the UK’s Cabinet Office, designed to prevent and detect fraud. The NFI uses data analytics to compare information held on individuals by different public bodies to highlight the existence of fraud or error. NFI exercise runs once every two years, the most recent exercise was completed for financial year 2022/23. We monitored NatureScot’s participation and progress during the 2022/23 audit. At the time of preparing our 2022/23 Annual Audit Report (December 2023), work was ongoing on creditors matches with eight very high risk matches yet to be followed up. However, as per the paper presented in February 2024 to the Audit and Risk Committee meeting, 121 out of 408 were fully investigated and required no further action. We provided a “Green” rating for NatureScot’s NFI arrangements in our NFI checklist submitted to Audit Scotland in March 2024.

Appendix E: Wider scope and internal control ratings

We need to gather sufficient evidence to support our commentary on NatureScot's arrangements and to identify and report on any risks. We will carry out more detailed work where we identify significant risks. Where significant risks are identified we will report these to NatureScot and make recommendations for improvement. In addition to local risks, we consider challenges that are impacting the public sector as a whole.
We have assigned priority rankings to each of the risks identified to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. The table below describes the meaning behind each rating that we have awarded to each wider scope area based on the work we have performed.

Rating	Description
Level 1	The identified risk and/or significant deficiency is critical to the business processes or the achievement of business strategic objectives. There is potential for financial loss, damage to reputation or loss of information. The recommendation should be taken into consideration by management immediately.
Level 2	The identified risk and/or significant deficiency may impact on individual objectives or business processes. The audited body should implement the recommendation to strengthen internal controls or enhance business efficiency. The recommendations should be actioned in the near future.
Level 3	The identified risk and/or significant deficiency is an area for improvement or less significant. In our view, the audited body should action the recommendation, but management do not need to prioritise.

Contact

Forvis Mazars

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