

Scottish Natural Heritage

Annual report on the 2010/11 audit



Prepared for Scottish Natural Heritage and the Auditor General for Scotland
October 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Key messages	4
2010/11	4
Outlook.....	5
Introduction	6
Financial statements	7
Audit opinion	7
Accounting issues	8
Outlook.....	9
Financial position	10
Financial results 2010/11.....	10
Financial position at 31 March 2011	11
Capital investment and performance 2010/11	11
Financial planning to support priority setting and cost reductions	11
Outlook.....	13
Governance and accountability	15
Corporate governance.....	15
Prevention and detection of fraud and irregularities.....	17
Standards of conduct and arrangements for the prevention / detection of bribery and corruption	17
Best Value, use of resources and performance	18
Management arrangements	18
Overview of performance in 2010/11	20
National performance reports	21
Outlook.....	21
Appendix A: audit reports	22
Appendix B: action plan	23

Key messages

2010/11

The following are the key messages from our 2010/11 audit of Scottish Natural Heritage (SNH).

Financial statements

We have given an unqualified opinion that the financial statements of SNH for 2010/11 give a true and fair view of the state of the body's affairs and of its net operating cost for the year. In addition we have concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance issued by Scottish Ministers.

Financial position

Total operating and capital costs in 2010/11 were £66.250 million. This is £0.483 million less than the budget of £66.733 million. Net assets at 31 March 2011 are £27.264 million; an increase of £1.916 million from the previous year. This increase is mainly due to the recognition in 2010/11 of heritage assets valued at £2.192 million.

SNH recognise the funding pressures facing the public sector and based their budget for 2011/12 and the following three years on the basis of reductions in budget of 10%/5%/5%/5% respectively. The budget for 2011/12 is £60.674 million, a 9.1% reduction from 2010/11. SNH are on course to meet this through efficiencies and reductions including savings from its workforce reduction policy; and improvements in asset management and procurement.

Governance and accountability

SNH has a sound internal control environment. Our review of the controls within the main financial systems in 2010/11 did not highlight any areas of weakness. The Statement on Internal Control identified relatively minor weaknesses that are being addressed by management and, overall, concluded that corporate governance and control arrangements for SNH operated satisfactorily during the year.

Use of resources and performance management

SNH has a well established framework for the management and reporting of performance and use of resources, with comprehensive monitoring reports being regularly reported to senior management and the Board. SNH has continued its commitment to continuous improvement and to be "smaller, smarter, and more influential". In 2011/12 SNH will update its Best Value self-assessment in line with the new Scottish Government guidance and Audit Scotland Toolkits.

Outlook

Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The Scottish spending review and draft Scottish budget 2012/13 that was issued for consultation in September 2011 indicate that significant budget reductions will be required in these years. In addition the Audit Scotland Report "Scotland's public finances: responding to challenges" contained a number of key messages for public bodies to consider given the financial constraints being faced. SNHs 9.1% budget reduction for 2011/12 and projected reductions for future years reflect this.

SNH will produce its new three year corporate plan in 2012 once a more accurate basis for medium term budget settlements is available. In the meantime, SNHs business plan and its financial planning recognise the challenging financial climate and the need to deliver its key priorities against a backdrop of cuts in funding, staff reductions and service choices while, at the same time, meeting its performance requirements.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of SNH. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of SNH.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that SNH understands its risks and has arrangements in place to manage these risks. The Board and Accountable Officer should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to SNH and the Auditor General and should form a key part of discussions with audit committees, either prior to or as soon as possible after the formal completion of the audit of the financial statements. Reports should be made available to stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration by SNH.
6. The management of SNH is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. SNHs financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. We are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of the expenditure and income.
9. We review and report on, as appropriate, other information published with the financial statements, including the management commentary, statement on internal control and the remuneration report. We also review and report on the Whole of Government Accounts return. This section summarises the results of our audit on the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of SNH for 2010/11 give a true and fair view of the state of the body's affairs and of its net operating cost for the year.
11. SNH financial statements require to be properly prepared in accordance with IFRS as interpreted and adopted by the 2010/11 Government Financial Reporting Manual (the FReM). We confirm that the financial statements have been properly prepared in accordance with the FReM.

Regularity

12. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.

Remuneration report and statement on internal control

13. In our opinion, the audited part of the remuneration report has been properly prepared and the remaining elements of the remuneration report and management commentary are consistent with the financial statements.

14. We also confirm that we have no issues to report to you on the statement of internal control and its compliance with Scottish Government guidance.

Accounting issues

Accounts submission

15. The financial statements were submitted for audit on 10 June 2011, a short delay of 10 days from the pre-agreed timetable. The submission was delayed due to problems with SNHs server. The statements submitted were substantially complete and the supporting working papers were of a good standard. The audit fieldwork was completed on 24 June and matters arising from this work was reported to the Director of Corporate Services on 28 June in accordance with the pre-arranged timetable.

Presentational and monetary adjustments to the unaudited accounts

16. There were no changes made or required to the financial statements that impacted the operating cost statement or the statement of financial position, hence we did not include a schedule of unadjusted errors in the ISA 260 report. A few presentational changes were required to the annual report and accounts as a result of our review of the disclosures required by the FReM.

Prior year adjustments

17. HM Treasury removed the cost of capital charge from budgets and accounts from 1 April 2010. This is a change in accounting policy under IAS 8 and prior year comparatives for 2009/10 have therefore been restated. This had no impact in the statement of financial position in 2009/10. The only impact is to reduce net cost in the operating cost statement by £0.935m and the removal of the add back of cost of capital charge of £0.935m in the general reserve. This, therefore, has no impact on the previously reported balance.
18. The Deer Commission for Scotland (DCS) merged with SNH from 1 August 2010. SNH have accounted for DCS as though they had always reflected DCS activities in their accounts. This is in accordance with statutory guidance. The restatement of 2009/10 figures to reflect the merged activities is fully explained in note 3 to the financial statements.

Heritage Assets

19. With effect from 1 April 2010, Financial Reporting Standard (FRS) 30 requires SNH to identify and value its heritage assets; and disclose these accordingly in the financial statements. SNH identified two types of heritage assets: heritage land, which are not included in the statement of financial position; and antiques and works of art, which are included in the statement of financial position. Further details regarding the nature of these assets, together with how they are recorded in the financial statements are included at accounting policy note 1.5 and notes 15.1 and 15.2 of the financial statements. We are satisfied that this treatment is in accordance with FRS 30.

Provisions

20. The financial statements contain three categories of provision. These are: provision for dilapidations and onerous leases; provision for payment of pension to early retirees; and provision for relocation liabilities and charges. There was an increase of £0.560 million in the provision for payment of pension to early retirees during the year due to the voluntary severance schemes in operation in 2010/11. Full provision has been made for the costs of pension payments to the voluntary early retirees up to normal retirement age.

Whole of government accounts/ consolidation packs

21. The whole of government accounts (WGA) is the consolidated financial statements for all branches of government in the UK. Most central government bodies (and local authorities) are required to provide information to their auditors. SNH was required to submit a consolidation pack by 31 July. We received the pack for audit within this deadline and have no significant issues to report. The audited return was completed by the audit deadline of 31 August 2011.

Outlook

22. The main change in the financial reporting framework (FReM) next year (2011/12) is that grants and donated assets should be recognised immediately, unless there is a condition that the recipient had not satisfied that would lead to repayment. Most grants and donated assets should be recognised as income, but grants from a sponsoring department to an NDPB should be credited to general reserves. As a consequence, the government grant reserve and donated asset reserve will no longer exist. This is unlikely to have an impact on SNH.
23. Looking further ahead, from 1 January 2013 changes to international financial reporting standards (IFRSs) will become effective. This includes the introduction of:
 - IFRS 9 - financial instruments (replacing IAS39)
 - IFRS 10 - consolidated financial statements (replacing IAS27)
 - IFRS11 - joint arrangements (replacing IAS31)
 - IFRS12 - disclosure of interest in other entities (replacing IFRS12)
 - IFRS 13 - fair value
24. Revisions to the FReM for 2013/14 are included in the Financial Reporting Advisory Board (FRAB) forward work programme for 1 December 2011.

Audit appointment for 2011/12

25. Audit appointments are made by the Auditor General, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment. The procurement process for the next five years was completed in May 2011. As Audit Scotland will again be appointed as the auditor for SNH, we look forward to continuing the good working relationship that exists and thank officers and members of the board and committees for their assistance during the last five years.

Financial position

26. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
27. Auditors consider whether audited bodies have established adequate arrangements and examine:
- financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
28. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for SNH.

Financial results 2010/11

29. SNH is required to work within its resource budget set by the Scottish Government. SNH is expected to ensure that, taking one year with another, income from Grant in Aid and other revenue streams equals expenditure. For 2010/11 SNH used £64.051 million of Grant in Aid allocation towards the operating costs of the organisation, against a total budget of £64.351million. Capital costs of £2.199 million were £0.183 million less than the budget of £2.382 million. As a result SNH did not have to draw down its full operating grant-in-aid entitlement. This is more fully explained in Exhibit 1 below.

Exhibit 1 - Performance against resource budget 2010/11 (£ million)

Limits	Budget £ million	Actual Outturn £ million	Difference £ million
Net operating costs - cash	61.271	61.354	(0.083)
Net operating costs – non-cash	3.080	2.697	0.383
Total Operating Costs	64.351	64.051	0.300
Capital costs – cash	2.382	2.199	0.183
Total Capital Costs	2.382	2.199	0.183
Total	66.733	66.250	0.483

30. Staff costs totalling £30.192 million were incurred during the year. This accounts for 45.9% of total expenditure (2009/10 £28.149 million - 42.2%). This increase was due to a net 2.8% increase in staff numbers post merger with DCS, together with the costs of voluntary severance and early retirement packages. A breakdown of staff costs are recorded at notes 10 and 11 to the financial statements.
31. Operating costs of £23.717 million were incurred during the year. This accounts for 36.1% of total expenditure (2009/10: £25.474 million - 38.2%). This decrease was due to reductions in partnership funding and due to a one off capital grant of £0.750 million in 2009/10. A breakdown of operating costs are recorded at note 13 to the financial statements.
32. A profile of expenditure prepared for management demonstrates loading of expenditure towards the end of the year. This has improved from 2009/10; however, 58% of expenditure was incurred in the second half of 2010/11, with 34% being incurred in the final quarter. Management have highlighted this and have set actual spend targets of 75% and 90% for the second and third quarter respectively in 2011/12.
33. 2010/11 was the third and final year of the Efficient Government Programme. A target of 2% cash-releasing savings per annum was set, which equated to £3.598 million over the three year programme. SNH have reported savings of £3.695 million, which could rise following the completion of further efficiency measures.

Financial position at 31 March 2011

34. SNH's statement of financial position at 31 March 2011 shows net assets of £27.264 million (2009/10: £25.348 million). This increase is mainly due to the recognition of heritage assets valued at £2.192 million from 2010/11. The net current liabilities (excluding assets held for sale) of £3.714 million is broadly similar to previous years.

Capital investment and performance 2010/11

35. The capital budget for 2010/11 was £2.382m. Actual capital expenditure was 7.7% less than the budget at £2.199 million. This was spent on a variety of items, with the most significant being £0.328 million incurred on a battery inverter to help restore the energy supply in cases of emergency to the community of the Isle of Rum. Slippage occurred on two projects due to late tender changes by the supplier in one case; and cancellation in the other case due to financial concerns regarding the supplier. Since the latter project was scheduled to carry through into the new financial year, SNH have taken steps to adjust the 2011/12 capital programme accordingly.

Financial planning to support priority setting and cost reductions

36. SNH recognise that significant cuts will impact their budget over the next few years. In forming the 2011/12 budget they carried out scenario planning based on varying degrees of anticipated cuts in funding levels; and considered how the organisation might become smaller,

smarter and more influential. Profiling of budgets is based on 10/5/5/5% reductions in budget from 2011/12 to 2014/15.

37. These budget reductions are supported by policies designed to reduce property costs, procurement, and employee costs.

Asset management

38. SNH completed a strategic review of all its properties between August and November 2010. The objectives of this were to: ensure the portfolio remains fit for purpose; achieve a more cost effective portfolio; provide significant reductions in carbon emissions; and support improved shared services and occupancy. A thorough review of all properties was carried out including annual running costs, size, area, usage, and planned maintenance costs. All properties were given an overall rating and relative ranking.
39. Following this, a report was issued identifying the potential to reduce the number of offices over the next three years, achieve running cost savings of £0.853 million, attain capital receipts of £0.620 million, and reduce CO2 emissions by 572,303kg. An action plan is in place to address this. Some properties are currently being marketed for sale.

Procurement

40. In July 2009, the Scottish Government introduced a new assessment tool - the procurement capability assessment (PCA) - to monitor how far public bodies adopt good purchasing practice and as a basis for sharing best practice and promoting continuous improvement across the public sector. To achieve conformance a public body must attain a score of 25%.
41. In the first PCA conducted in 2009 SNH was assessed as conformant with a score of 38%. A second PCA was carried out in late 2010. SNH improved its rating to "improved performance" (50%). Management attribute the improvement during 2010 to the creation of a Procurement Framework and associated Procurement Implementation Plan 2010-13, delivery of the Purchase to Pay (P2P) project, including the roll-out of i-Buy and a more pro-active approach to collaborative procurement.
42. We are generally satisfied that SNH has good procurement practices in place and that they are taking steps to continue the improvement made over the last year. We highlighted two issues regarding the need to ensure that the findings from the 2nd PCA are incorporated into SNHs procurement improvement plan; and to ensure that the Board and/or the ARMC are kept aware of progress in achieving the aims of the improvement plan. Both of these have now been addressed.

Workforce reduction

43. As a means of addressing the reduction in funding, SNH implemented a voluntary severance/ approved early retirement policy in 2010. The voluntary severance scheme was open to employees under 50 at the date their employment terminates; the approved early retirement was open to employees who were already 50. The criteria for approval included the relevance

of the post considering the long term needs of SNH, the impact of the loss of the applicants skills and knowledge, and whether the work undertaken by the post holder can be incorporated into another post. We carried out audit work during the year to confirm that proper procedures were being followed in respect of the voluntary severance schemes.

44. During 2010/11 there were 42 employee departures under these arrangements. The total cost of the exit packages was £1.231 million. This included £0.589 million in respect of future pension costs payable to employees retiring in the current year. Savings of £1.160 million per annum are projected.
45. Subject to approval from the Scottish Government and the Cabinet Office, SNH plan to run a further voluntary severance scheme in 2011/12 as part of its requirement to achieve further efficiency savings. If funding is provided, it is projected that scheme costs will be in the region of £0.5 million to £1.7 million with maximum paybill savings of around £1.5 million per annum.

Outlook

2011/12 budget

46. Project bids were reviewed and capital bids prioritised based on programmes, in forming the 2011/12 budget. Each programme sets out what is to be achieved, what cannot be delivered and the degree of risk. This was set against a challenging background of reductions in budgets. The budget recognises the need to manage recruitment and achieve savings of £0.560 million against the paybill; and plans to make savings in other operating costs from fleet, property and other support services.
47. The overall budget approved for 2011/12 (including capital of £1.600 million) is £60.674 million. This represents a £6.059 million (9.1%) reduction from 2010/11 and is within the budgeting model used by SNH prior to the 2011/12 funding allocation being determined.
48. The 2011/12 budget provides for an over-commitment of £0.315 million against 2011/12 grant in aid. SNH past experience of managing multi - partner projects suggests that this level of over-commitment is too low given the potential for slippage. To address this risk, further projects have been identified to bring the level of over-commitment up to £1.523 million.

Financial forecasts beyond 2011/12

49. The Scottish Government provide only a one year financial settlement, hence SNH are not aware of their budget beyond 2011/12. As mentioned earlier, SNH have based future planning on the basis of 5% cuts in funding for each of the three years from 2012/13 to /2014/15. In the absence of future funding levels and detailed financial plans there are risks that savings required to balance future budget may not be met.

Refer Action Plan No. 1

50. SNH plans to achieve the longer term savings required to meet the anticipated 5% funding cuts through a variety of means including:
 - scenario planning

- prioritising activity and determining impact in terms of reductions, changes, or cessation of activities
- vacancy management and recruitment freeze with further potential for voluntary exit schemes
- reduce cost of transactional processing by 25% by end of 2014/15
- continue implementation of strategic property review recommendations
- implement workforce planning project.

Governance and accountability

51. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
52. Through its chief executive, SNH is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements.
53. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.

Corporate governance

Processes and committees

54. Effective scrutiny is central to good governance, with a significant role for the non executive board members to scrutinise performance, hold management to account and support change or improvements. Overall, SNHs Audit and Risk Management Committee (ARMC) is effective and complies with CIPFA's good practice principles for audit committees. Members of the ARMC serve a three year appointment with the possibility of this being extended to a second term.
55. The ARMC also fulfils a scrutiny function by requesting follow up work in relation to areas of concern. It considers performance issues such as risks highlighted by performance reports, the economic evaluation of the DCS merger, and the strategic property review. The ARMC considers all internal and external audit reports for the year including the initial plans and the final reports on performance for the year.
56. SNH carried out a review of Board performance and governance in the latter half of 2010. This also addressed the main issues arising from the Audit Scotland report - The Role of Boards. This review reinforced the Board's view that they are performing effectively. However, some issues arose that the Board considered require further review and development. These were aimed at enabling the Board to perform as effectively as possible in a climate which will require increasing levels of accountability and a greater sense of joint ownership of problems and solutions.

Internal control

57. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In his annual report for 2010/11 the Head of Audit and Consultancy services provided his opinion based on the internal audit work undertaken during the year, and concluded that the programme of internal audits in 2010/11 has offered reasonable assurance that SNH continues to have a broadly sound framework of internal controls.
58. As part of our audit we reviewed the high level controls in a number of SNH systems that impact on the financial statements. Our overall conclusion was that key controls were operating effectively and that SNH has adequate systems of internal control in place. We did identify a couple of minor areas where controls could be strengthened and agreed an action plan of improvements with management. This will be followed up in 2012.
59. The Statement on Internal Control provided by SNH's Accountable Officer reflected the main findings from both internal and external audit work. This recorded management's responsibility for maintaining a sound system of internal control and set out SNH's approach to this. Attention was drawn in the statement to some specific issues.
- Weaknesses were identified in the health and safety arrangements and the monitoring of benefits brought by foreign travel.
 - Guidance in the Policy and Advice Directorate has not been regularly reviewed and could, therefore, be out of date or no longer required by internal or external users.
 - Weaknesses in project management arrangements whereby a small number of projects were not effectively closed since staff had not complied with closure procedures. This resulted in procedures not being assessed and no conclusive record of whether the project achieved its aims.
60. Each of these areas will be subject to formal follow up by internal audit during 2011/12 to determine how these risks are being managed and reduced.

Internal Audit

61. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2010/11 audit we assessed whether we could place reliance on SNH's internal audit function.
62. We concluded that the internal audit service operates in accordance with the Government Internal Audit Manual. Whilst there was no financial systems audit work planned by internal audit that we could place reliance on in forming our opinion on the 2010/11 financial statements, there were a number of governance areas where we did place reliance on their work during 2010/11. These areas were highlighted in our annual audit plan.

Prevention and detection of fraud and irregularities

63. SNH are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Based on our review of the documentation and procedures in place, SNH has appropriate arrangements to prevent and detect fraud, and to address inappropriate conduct and corruption, should these arise, including policies and codes of conduct for staff and Board members.

Standards of conduct and arrangements for the prevention / detection of bribery and corruption

64. SNH are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. We have concluded that the arrangements in SNH are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Best Value, use of resources and performance

65. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.
66. The Auditor General may require that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where no requirements are specified for auditors in a period they may, in conjunction with their audited bodies, agree to undertake local work in this area.
67. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
68. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.
69. This section includes a commentary on the Best Value/ performance management arrangements within SNH. We also note any headline performance outcomes/measures used by SNH and comment on any relevant national reports and the body's response to these.

Management arrangements

Best Value

70. In March 2011, the Scottish Government issued new guidance for accountable officers on Best Value in Public Services. The new guidance, in essence, required public bodies to take a systematic approach to self-evaluation and continuous improvement.
71. The guidance identifies the themes which an organisation needs to focus on in order to deliver the duty of Best Value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.
72. The five themes and two cross-cutting themes (some of which we have commented on earlier in this report) are:
 - vision and leadership
 - effective partnership

- governance and accountability
- use of resources
- performance management
- equality (cross-cutting)
- sustainability (cross-cutting).

73. SNH has continued to embrace the Best Value approach as part of its commitment to continuous improvement and to be "smaller, smarter, and more influential". Using the revised guidance, SNH plan to liaise with the Scottish Government to confirm what is required of them. They also intend to co-ordinate and manage an inclusive process to update their self-assessment process; and implement recommendations from the Best Value self-assessment into the SNH change requirement.

Performance management

74. SNH's corporate plan 2008-11 sets out in detail what is planned against specific objectives, measures of success and the resources assigned against them. This framework sets out SNH's 5 strategic priorities:

- Caring for nature
- Responding to climate change
- Delivering health and well being
- Supporting the Scottish economy
- Delivering a high quality public service

75. The corporate plan is underpinned by an annual Business Plan, which sets out the business planning programmes and identifies, at a business unit level, actions to deliver on the strategic priorities including planned outcomes and milestones to achieving these.

76. Following the merger with the Deer Commission Scotland (DCS) in July 2010 a Baseline Statement 2010/13 was prepared to reflect the merger of the two organisations and account for its activities as a unified body.

77. The Corporate Plan 2008-11 expired at the end of the 2010-11 financial year. However, as SNH only have a one year budget settlement the Corporate Plan 2011-14 has not yet been prepared. Instead, SNH prepared its Business Plan 2011-12 to reflect SNH's new structure. This has been agreed with SNH's sponsor body within the Scottish Government and will provide the basis for reporting and performance for 2011-12. SNH will produce its new three year corporate plan and corporate strategy in 2012 once a more accurate basis for medium term budget settlements are available.

Community/user engagement

78. SNH have adopted the National Standards for Community Engagement and are well aware of the need to engage with the community. SNH consult on their plans, policies, strategies and

projects. These are all published on SNH's website, showing items open for consultation, closed items and an archived history.

79. Another key element of SNH's work is advising Government and other bodies on a wide range of issues. SNH provide advice on the development of policy and legislation that relates to nature and landscapes. This advice can take the form of consultation responses. These are also published on SNH's website.

Overview of performance in 2010/11

80. In 2010/11 SNH achieved 8 out of its 9 high level indicators of success agreed with the Scottish Government. Achievements against targets were reported for these indicators:
- SNH advice on development proposals
 - Biodiversity
 - Visits to the countryside
 - Marine protected area network
 - Marine renewable energy proposals
 - Merger of SNH and the Deer Commission Scotland
 - Efficient Government Programme
 - Reduction in Carbon Emissions
81. The remaining key target (site condition) is: to increase to 95% the proportion of features in favourable or recovering condition. The proportion of natural features in favourable condition by the end of March 2011 was 77.2%. As highlighted in previous years there are a number of sites where there is a limit to what site management can be achieved as factors such as climate control are out with the control of SNH. Work is under-way on developing and delivering a successor indicator in agreement with the Scottish Government.
82. SNH delivered a number of significant achievements during 2010/11 including exceeding their carbon dioxide emissions target by 5%. SNH aim to reduce their carbon dioxide emissions by 80% by 2050, representing 4% reduction year on year. SNH achieved a 9% reduction in carbon emissions in 2010/11 by completing a number of energy projects such as new biomass heating systems and energy efficiency works to a number of properties. Each office now has a green office plan to monitor and reduce carbon emissions.
83. On 1 August 2010 the Deer Commission Scotland merged with SNH. This merger introduced an additional 2 units to SNH's existing structure. Efficiencies of over £0.180 million were realised, compared to £0.120 million that had been estimated. An interim evaluation on the success of the merger reported that the cost of the merger was around £440,000 demonstrating that the payback period will be between 2 and 3 years.

National performance reports

84. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports issued in the last year of direct interest are set out in Exhibit 2.

Exhibit 2: A selection of National performance reports 2010/11

- | | |
|--|---|
| <ul style="list-style-type: none"> Improving energy efficiency: a follow-up report Scotland's public finances: responding to the challenges Modernising the planning system | <ul style="list-style-type: none"> The role of boards Role of boards: a summary for non-executive board members Management of the Scottish Government's capital investment programme |
|--|---|

Source: www.audit-scotland.gov.uk

Improving energy efficiency; and the role of boards

85. Audit Scotland aim to maximise the impact of its work and raise the profile of its national reports with each of its audited bodies. We note that both reports on "improving energy efficiency" and "the role of boards" have been considered by SNH's senior management and that the findings will help to inform future decisions.

Outlook

86. Following the successful merger with the Deer Commission Scotland and recent restructuring, SNH are working towards reshaping themselves for the future. SNH continue to embrace the Best Value approach as part of its commitment to continuous improvement and continue to seek out opportunities for partnership working with public, private and voluntary organisations and individuals.
87. While SNH is currently making good progress against its objectives and priorities, the coming years will see continued reductions in central funding to SNH as well as its partners across the broader public sector. There will be increased pressures on resources and risks to future performance and delivery of strategic plans. However, SNH should be well placed to manage these risks with an already well established risk management process and performance management monitoring and reporting framework.

Refer Action Plan No. 1

Appendix A: audit reports

External audit reports and audit opinions issued for 2010/11

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan – SNH	21 January 2011	1 February 2011
Review of internal control systems	27 April 2011	7 June 2011
Improving public sector purchasing – Follow up work	6 June 2011	26 July 2011
Report to those charged with governance on the 2010/11 audit	26 July 2011	26 July 2011
Audit opinion on the 2010/11 financial statements	26 July 2011	26 July 2011

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	49 & 87	<p>Outlook - Efficiencies and future funding</p> <p>SNH is facing a period of continuing reductions in funding and cost pressures. While budgets have been agreed for the 2011/12 financial year, longer term financial planning remains uncertain and the related corporate plan has not yet been carried out. This could impact future performance and the delivery of strategic objectives.</p> <p>Risk</p> <p>There is a risk that SNHs future performance and the delivery of strategic objectives could be impacted due to the lack of longer term financial budgets and the next three year corporate plan.</p>	<p>SNH have modelled a number of scenarios covering the next three years in expectation of the Budget announcement. These have been the basis of submissions to Scottish Government to seek to influence thinking on the scale of budget reductions then being considered. Our actual Grant in Aid profile has since been confirmed by Scottish Government, which is within the scenario range we modelled. This along with a refresh of our Corporate Strategy is informing our new Corporate Plan, which will go to our Board for approval.</p>	Chief Executive	April 2012 following approval by Board of the 2012 - 2015 Corporate plan.