

Scottish Natural Heritage

Annual report on the 2011/12 audit



Prepared for Scottish Natural Heritage and the Auditor General for Scotland
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Key messages

2011/12

The financial challenges facing the Scottish public sector are well documented, with public bodies facing deep and prolonged cuts in funding. In 2011/12 we audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

Financial statements

We have given an unqualified audit report on the financial statements for 2011/12. We also reviewed the remuneration report and governance statement (new for 2011/12) and found these to be in line with relevant guidance.

Financial position and use of resources

During 2011/12 operating expenditure was within the grant in aid allocation. Although capital expenditure exceeded the allocation (with approval granted by the Scottish Government) the overall expenditure of £59.436 million was within the total allocation of £59.609 million.

This performance was in the context of a 10.7% reduction in the total grant in aid allocation from the previous year. The first three quarterly budget forecasts (submitted to the Board) over-committed expenditure in order to off-set any potential slippage at year-end.

Proposed areas of shared services with other public bodies have been considered and taken forward, whilst the option of co-location has also been developed as part of the strategic property review.

Procurement performance in terms of the Procurement Capability Assessment (PCA) has shown an improvement from the previous year to 59% which is in the improved performance category. The target is to improve this score further in the upcoming 2012 PCA exercise.

Governance and accountability

As part of our risk assessment we examined the main policies and procedures which Scottish Natural Heritage has in place covering standards of conduct (for both Members and officers) and arrangements for the prevention and detection of fraud and found these to be satisfactory.

We examined the key financial systems underpinning the organisation's control environment and concluded that they operated sufficiently well for us to place reliance on them.

We also reviewed the internal audit function and concluded that reliance could be placed on their work (where relevant to our own).

In addition we carried out a review of Information Systems and Services (ISS) and found this to be a well-managed service.

Performance and best value

All nine indicators for success were met in 2011/12. One of the three national performance indicators however has decreased whilst the other two have been maintained at the same level as in the previous year.

A new Corporate Plan for the period from 2012 to 2015 was developed which identifies twelve new objectives. The Business Plan for 2012/13 takes forward these objectives and assigns levels of responsibility for each against the eight programmes which should ensure they are successfully embedded.

The new Corporate Plan also recognises the need for change given the upcoming funding reductions and outlines an aim to be smaller, smarter and more influential in the period from 2012 to 2015. This is fed through to the 2012/13 Business Plan where it is referred to as the Change Requirement.

A new team has been developed to take forward best value. An Improvement Programme has been devised which is underpinned by six strategic objectives that flow from the Corporate Plan and Change Requirement.

The Role of Boards follow-up found that the Board is operating effectively and is seeking to continuously improve its performance and ways of working.

Kinloch Castle

There is a requirement to address on-going issues concerning Kinloch Castle on the Island of Rum which is owned by Scottish Natural Heritage. These issues include identifying alternative visitor accommodation on the island (other than the Castle) as well as ensuring that the building and its contents are both secure and well maintained.

Outlook

From 2011/12 to 2014/15 the budget is set to reduce by 11%, with a 3% reduction in 2012/13.

The 2012/13 Business Plan maps out what steps will require to be taken within the year in order to ensure that the body meets its Change Requirement targets by 2015. One key element to this relates to the workforce for which a resource strategy is due to be approved in 2012/13.

The 2012/13 Business Plan also outlines funding allocations to each programme which have been prioritised through dialogue between directors and business managers with the use of a scoring matrix. Further potential savings are anticipated through the asset review, shared services and procurement.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of Scottish Natural Heritage (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 Accountable Officer and members of the Board 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 the Audit and Risk Management Committee (ARMC), 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 the ARMC.
6. The management of the audited body 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 our 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. Audited bodies' 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, governance statement and the remuneration report. This section summarises the results of our audit of the financial statements.

Audit opinions

10. We have given an unqualified opinion that the financial statements of SNH for 2011/12 give a true and fair view of the state of the body's affairs and its net operating cost for the year.
11. SNH is required to follow the 2011/12 Government Financial Reporting Manual (the FReM). We confirmed that the financial statements have been properly prepared in accordance with the FReM. We also confirmed that relevant parts of the remuneration report had been properly prepared and that information given in the management commentary was consistent with the financial statements. We reviewed the governance statement and concluded that it complied with Scottish Government (SG) guidance.

Regularity

12. We confirmed that the expenditure and income in the financial statements was in accordance with applicable legislation and Ministerial guidance.

Accounting issues

Accounts submission

13. SNH provided draft financial statements on Wednesday 31 May 2012, which were substantially complete. Both the draft statements and the working papers provided were of a high standard.

14. Audit fieldwork began on Monday 11 June and was completed on Friday 22 June 2012. Matters arising from this work were reported to the Director of Corporate Services on Wednesday 4 July 2012.

Post balance sheet events

15. The management commentary again refers to the transfer of the responsibility of management of the slipway and pier on Rum to the Highland Council as a post financial position date event. This was also reported as such in 2010/11 and requires input from the SG to determine the nature of the transfer. It is not felt that this has a significant impact on the SNH financial statements.

Accounting errors

16. Overall the level of error found was small. The most significant error related to the untaken annual leave accrual which was over-accrued by £0.079 million following an error in the calculation used. This was as a result of a change in the holiday year and public holidays having been reclassified from fixed to floating. This was corrected in the final accounts. All other errors were mainly presentational in nature and as such have not been detailed here.
17. There was one unadjusted error in the financial statements of £0.003 million relating to the overstatement of a year-end accrual (which also over-stated operating costs by the same amount). This error was subsequently reported in the ISA 260. It was agreed that the small value of this error meant that it was not worthwhile to amend.
18. The overall level of error reflects a strong performance and we thank the officers involved for their efforts.

Outlook

19. There are no significant changes to the 2012/13 FReM that are expected to have an impact on SNH annual financial statements.

Financial position

20. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
21. We 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.
22. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

Annual outturn

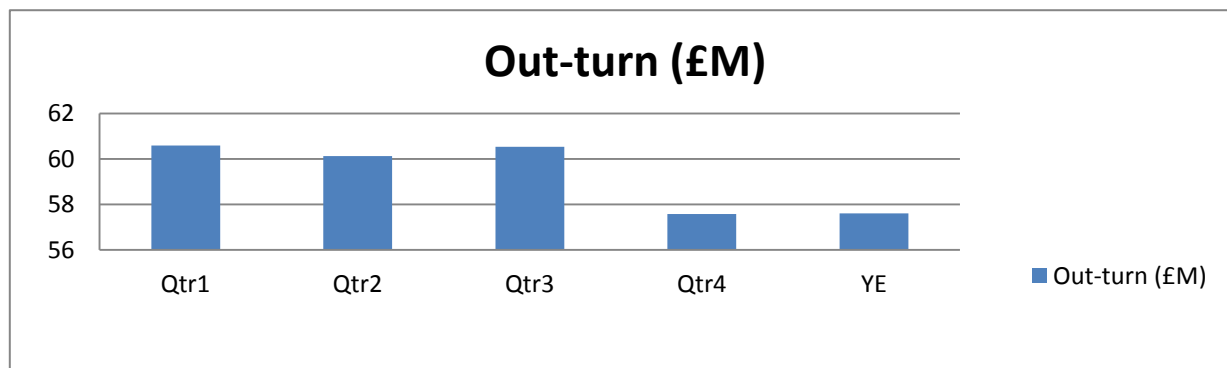
23. Net operating costs during 2011/12 were £58.676 million, less receipts to SG of £1.067 million, which resulted in a grant in aid (GIA) funded out-turn of £57.609 million. In addition, capital expenditure was £1.827 million. This level of capital expenditure exceeded the GIA limit of £1.600 million however was approved by the SG as the overall level of spend (including operational costs) was within the overall GIA allocation.

Budgetary control

24. Following the 2012 Spring Budget Revisions, SNH's original 2011/12 budget of £59.074 million was reduced to £58.009 million. SNH's net operating cost for the year was £58.676 million, although this includes an expenditure item of £1.067 million that related to sale proceeds from an asset disposed of which were returned to the SG. The net operating cost of £57.609 million therefore is within the revised budget of £58.009 million.
25. Budgetary performance is reviewed quarterly by the Board. During the first three quarters, forecast outturn was in excess of budget at £60.588 million, £60.121 million and £60.562 million respectively. The final quarter's figure of £57.573million proved a reasonably accurate forecast of the final out-turn, prior to post year-end adjustments.
26. SNH had intentionally over-committed its forecast outturn during the year in order to off-set the expected year-end slippage which did in fact occur and resulted in expenditure coming in slightly below the GIA allocation. Due to the nature of projects and grants that SNH engages in (often resulting in slippage), there will always be a requirement to use over-commitment as a tool to manage budgets. Management has stated that it 'does not wish to use over-commitment as a tool to support poor forecasting', and have set in place actions in 2012/13 to

improve the timeliness and accuracy of forecasting. The forecast outturn reported over the year compared to the final figure is provided in the chart below.

Exhibit 1: Forecast outturn reported in-year compared to year-end position



Source: Quarterly business performance reports provided to the SNH Board and the SNH Annual Report 2011/12

27. Overall the budget process in place has ultimately delivered expenditure within budget in a difficult period.

Financial position

28. The Statement of Financial Position reports a net assets position of £26.409 million, which is a reduction of £0.754 million from the previous year. This downward movement is due to the revenue performance (inclusive of asset sale proceeds returned to the SG) off-set to some extent by asset revaluations in the year. Overall this presents a healthy financial position in conjunction with continuing to meet GIA targets.

Public reporting

29. The management commentary to the annual accounts provides a good analysis of the in-year financial performance compared to the GIA allocation. It also provides useful information relating to significant new non-current assets and movements in provisions as well as providing some narrative regarding future developments.

Capital investment and performance 2011/12

30. The management commentary in the financial statements notes that the level of capital expenditure in year (£1.827 million) exceeded the budget of £1.600 million. As stated previously, this was agreed with the sponsor department within the SG as the overall limit (covering revenue and capital spend) had not been breached. The last quarterly report submitted to the Board identified a slightly higher figure (£1.842 million) reporting that the variance of £0.015m was due to final measurements in contracts in both Designated Sites and Climate Change Programmes. It will be important to ensure that current close management of capital projects is sustained in future years (a point recognised in the last quarterly report presented to the Board in May 2012).

Financial planning to support priority setting and cost reductions

31. The 2012/13 budget sees a further year-on-year reduction down to £57.800 million from the final allocation (including capital) in 2011/12 of £59.609 million. This represents a 3% reduction. Initial settlements for subsequent years will see further reductions to £55.200 million in 2013/14 and £53.000 million by 2014/15. The cumulative reductions for the period from 2011/12 to 2014/15 represent an 11% downward movement overall.
32. The programme allocations contained within the 2012/13 Business Plan have been based on the use of a scoring matrix to determine spending priorities both from a programme and corporate perspective. This process has involved dialogue between Directors and Business Managers and as such management feel it represents a form of zero-based budgeting.
33. The new Corporate Plan for the period from 2012 to 2015 recognises the need to change the way SNH operates in order to maximise limited resources. It states that 'change at the margins...will not be enough' and that what is required is 'new and better ways of working'. The three broad aims of this change agenda are to be smaller, smarter and more influential in the period to 2015. Given the funding reductions to be implemented in the coming years, the stance being adopted by SNH appears appropriate.
34. The 2012/13 Business Plan identifies various in-year deliverables which work towards achieving the change agenda as mapped out in the Corporate Plan. Some of the actions identified for the coming year include:
 - the development of a resource strategy to tackle workforce planning issues
 - continuing to be involved with other bodies through SEARS (Scotland's Environmental and Rural Services) partnership
 - considering potential shared services options with other bodies
 - continuing to implement the strategic property review by reducing the number/size of property holdings
 - an improved set of performance measures.
35. It will be essential for SNH to ensure that these deliverables are met within the year to ensure that the organisation can achieve its change goals by 2015.

Refer Action Plan no. 1

Workforce reduction

36. During 2011/12 53 staff left under voluntary exit terms at a cost to the body of £2.075 million. This is compared to 42 staff that left under such arrangements in 2010/11 costing £1.231 million.
37. Management have informed us that SNH has a vacancy management process in place, which reviews and manages the pay costs on a month by month basis. The aim on this is to ensure that the budget reductions are achieved whilst also ensuring that staff resources are deployed effectively, utilising skills already available within the organisation to their best effect. The

organisation has a longer term aspiration to begin implementation of a workforce planning process during 2013/14, for which development is currently underway.

Asset management

38. Last year we reported that SNH had carried out a strategic review of its property portfolio. The 2011/12 Annual Report refers to measures undertaken such as consideration of co-locating with other bodies, renting out floor space in current offices (to bodies such as the Crofting Commission) and closing some smaller offices. We are also aware of other co-locations being considered across a number of different sites with several other public sector and charitable bodies.
39. Savings of £0.100 million are reported in-year from this area with a further £1.096 million worth of capital receipts. Other initiatives undertaken include car-pool sharing with the Crofting Commission and with agreement reached with Bord na Gaidhlig to co-locate at Great Glen House in December 2012.
40. We have been informed that SNH's Strategic Property Review remains on track to deliver over £1.500 million of capital receipts and £0.875 million of operating savings, through active co-locations with a broad spectrum of public sector bodies. Co-locations are further supported by space planning and flexible working measures to reduce SNH space requirements, releasing space for sub-letting.

Partnership working

41. SNH has been involved in discussions with Visit Scotland (VS) and Historic Scotland (HS) and latterly both Scottish Enterprise and Highlands and Islands Enterprise concerning the prospect of sharing services. There are a number of shared service proposals being considered (with VS and HS) which include:
 - a shared financial management system (and fixed asset register)
 - the sharing of SNH's Property Asset Management System
 - wider use of SharePoint in order to improve the sharing of information
 - the extension of SNH's Business Planning System and Work Recording/Flexi system to the other bodies
 - a joint project to deliver an agreed portfolio of carbon reduction projects
 - sharing of information services knowledge, resources and good practice.
42. SNH already shares a number of services with other bodies such as providing IT infrastructure and helpdesk to Bord na Gaidhlig, allowing the Crofting Commission to use the SNH financial system as well as involvement with the SEARS partnership (Scotland's Environmental and Rural Services) which aims to improve the experience among land managers by working together to provide an efficient and effective service. Other bodies in SEARS include the Forestry Commission Scotland, the Scottish Environment and Protection Agency (SEPA), both Loch Lomond and Cairngorms National Park Authorities and the Scottish Government Rural Payments and Inspectorate Directorate (SGRPID).

43. Additionally the use of co-location with other bodies is discussed elsewhere in this report (as part of asset management). Therefore it is evident that SNH views partnership working and the use of shared services as a significant factor in order to obtain cost efficiencies in light of funding reductions.

Outlook

2012/13 budget reporting

44. The 2012/13 GIA allocation of £57.800 million is split £56.300 million to revenue and £1.500 million for capital. The first quarterly budget report for 2012/13 forecasts year-end revenue expenditure of £56.866 million. This £0.566 million forecast overspend is an effort to off-set the impact of quarter four slippage. This action has been approved by the Programme Office and Finance and represents the continued use of over-committed budgets to manage slippage in projects prone to weather and third party draw-downs. Management however recognise that forecasts must be accurate in order for this process to be successful.
45. The capital programme forecast year-end position is a £0.531 million overspend. This is largely because the process to create the capital programme had been brought forward from previous years, which allowed some projects to start in 2011/12 to ensure that key projects can be delivered in 2012/13. Management anticipate that slippage later in the year will ensure that year-end expenditure remains within budget.

Governance and accountability

46. 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.
47. Through its chief executive or accountable officer, each body 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. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
48. Consistent with the wider scope of public audit, we 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.
49. In this part of the report we comment on key areas of governance.

Corporate governance

Overall effectiveness

50. We found that overall, corporate governance arrangements operated satisfactorily during 2011/12, although there is scope to make some improvements in the internal controls in place. These were detailed in previous reports to management and are summarised in the following sections on Internal Control and ICT Data Handling and Security.

Processes and committees

51. SNH is led by a Board with Non-Executive Members appointed by SG Ministers. Under normal circumstances, Board Members serve three year appointments however there are occasions where this can be extended to cover a second term (of the same duration). The main objectives of the Board are to:
 - Determine the objectives, strategies and policies of SNH, in light of its statutory obligations and guidance from the SG
 - Provide direction to SNH staff for implementation.
52. There are several committees supporting the Board. Members of these committees are appointed by the Board. The committee structure consists of:
 - the Scientific Advisory Committee (SAC)

- the Protected Areas Committee (PAC)
- a transitional Deer Panel
- the Audit and Risk Management Committee (ARMC).

53. Our main interaction is with the ARMC. As part of our risk assessment we reviewed various aspects of the ARMC such as membership, remit and the reports provided to meetings. We found these to be appropriate. Additionally, through attendance at meetings we can conclude that the standard of questioning and discussion at the ARMC is good and indicates a thorough understanding of its role by Members as well as an awareness and knowledge of the body and the wider environment in general. Other aspects of good practice include performance appraisal and the review and approval of accounting policies in advance of the financial statements being prepared.

Role of Boards follow-up

54. The Role of Boards report was published by the Auditor General in September 2011. This report examined the system of accountability of Scottish public bodies and the performance of boards in the central government sector. During the 2011/12 audit, we undertook follow-up work to assess progress made by SNH against key recommendations in the report. Our findings are listed below.
55. Overall the Board is operating effectively and is seeking to continuously improve its performance and ways of working. The standard and content of reports provided to the Board is appropriate to allow Members to scrutinise the management and performance of the body effectively. The Board has been effective in highlighting issues with the information that it receives in order to improve its scrutiny of the organisation.
56. Although the Board has delegated responsibility for risk management to the ARMC, it receives regular updates from the chair of ARMC, which allows for questioning of the risk management arrangements and process. Additionally, the corporate risk register is reviewed annually by the Board and quarterly performance reports are provided, which outline risks at programme level.
57. An induction day is provided to any new Board Members where the role of a board in the public sector is outlined and a brief on the organisation is provided by the management team. New Members have the opportunity to raise questions throughout this process. On-going support is provided to new Board Members during his first year of service.
58. The Board undertakes two appraisal exercises annually: one for individual Members (360 degree method applied) and another for the Board collectively. Following the collective appraisal of the Board, the Chairman performs a skills assessment to identify any particular training needs.
59. The Board is working to improve the way it structures its agenda. It aims to be more effective in planning for items and to make its agenda more specific. The Board aims to get sight of strategic issues early.

60. Both the management and the Board of SNH are working to improve engagement with key stakeholders. Board members host open meetings across the country to engage stakeholders. Members also attend parliamentary events and other relevant functions. However, in the last Board self-appraisal in November 2011 it was recognised that whilst engagement of rural stakeholders had been successful, more was required to engage with the business community and environmental non-government organisations.

Internal control

61. While we concentrate on significant systems and key controls in support of the opinion on the financial statements, our wider responsibilities require us to consider the financial systems and controls of audited bodies as a whole. The extent of this work is informed by our assessment of risk and the activities of internal audit.
62. Our review of the key controls operating within the main financial systems was essentially a two-step process. Our preliminary evaluation (which involved establishing the main processes and key controls) was performed in February 2012 in Inverness and Perth. This was followed up by more detailed tests of the controls identified from the preliminary review. This work was carried out in March 2012 and involved visits to offices in Inverness, Edinburgh and Clydebank.
63. Our findings from this were formally reported to a meeting of the ARMC in early May 2012. We reported that overall the controls in place are operating effectively. There were, however, three areas for improvement concerning:
- timeliness of management checks to changes of suppliers' bank details in the accounts payable system
 - the length of time taken to raise sales invoices (over four weeks in some cases)
 - evidence of checks by a second officer on ledger reconciliations.
64. An action plan has been agreed with officers in order to ensure that these points are addressed.
65. We reviewed the internal audit arrangements in place (provided by the Audit and Improvement team) as part of our risk assessment. This involved reviewing the technical competence, scope, professional standards and status within the organisation of the internal audit function. This initial review found that the section met with expectations and as such planned reliance was identified for two areas of work.
66. The first of these (corporate governance) was reviewed as part of our review of the governance statement in the annual accounts whilst the second (risk management) was reviewed as a stand-alone exercise using a standard review checklist. From this work we concluded that we could place reliance on the work undertaken by internal audit. In 2012/13 we will continue to look for areas of potential reliance such as a planned review of the new payroll system.

Governance statement

67. In 2011/12 SNH included a governance statement in its annual accounts for the first time. In accordance with SG guidance, this included description and assessment of the essential components of corporate governance and details of any significant risk-related matters arising during the period.
68. As referred to previously when discussing internal audit, we reviewed the processes in place in order to gather sources of assurance when preparing this statement and found these arrangements to be satisfactory.

ICT data handling and security

69. There was also a review of Information Systems and Services (ISS) within SNH undertaken and formally reported to the ARMC in August 2012. This exercise concluded that ISS is a well-managed service that provides access to integrated information used by the whole organisation whilst continuing to expand on the skills and technology available. The review highlighted some areas for improvement covering:
 - the back-up electrical power source (at Great Glen House)
 - using tape for backing-up system data
 - informal software change control processes
 - a delay in developing a revised ISS Strategy
 - documented procedures regarding the Information Security Management System requiring review following the extension of this system to Great Glen House in Inverness.
70. Again an action plan has been agreed with officers in order to take these points forward, with a number of actions already being progressed.

Prevention and detection of fraud and irregularities

71. SNH is responsible for establishing arrangements to prevent and detect fraud and other irregularities. As part of our risk assessment we reviewed SNH's arrangements for the prevention and detection of fraud. This involved reviewing both the Fraud Policy and Response Plan as well as the Whistleblowing Policy which we found to be satisfactory and in line with general good practice.
72. We also noted that staff from the Audit and Improvement team co-ordinated a review of the Fraud Policy and Response Plan in late 2011/12 with a revised version submitted for approval. We will review this updated version as part of our risk assessment process in 2012/13. From the Internal Audit Annual Report for 2011/12 we noted that there were no new instances of fraud discovered in-year.
73. Overall we consider that SNH has robust procedures in place to help prevent and detect fraud and irregularities.

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

74. Audited bodies 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 consider whether bodies have adequate arrangements in place.
75. As part of our risk assessment, we reviewed the Members' Code of Conduct (contained within the SNH Board and Committees and Management Team: Roles and responsibilities, standing orders and ways of working) and found this to be satisfactory. As part of our review of the governance statement we examined the Members' Register of Interests and found no issues.
76. We also reviewed the Standards of Conduct Policy for employees as part of our risk assessment and found this to be satisfactory and covered the appropriate areas. Overall we are satisfied that SNH has adequate procedures in place regarding standards of conduct for both Members and officers as evidenced by the fact that there have been no significant incidents recorded in 2011/12.

Outlook

77. The current environment of significant organisational change, reducing resources and increasing expectations is one in which the organisation's governance and accountability arrangements will be tested. It will therefore be necessary to consider the implications from a governance perspective of the resource strategy (which covers workforce planning issues) and any aspects of shared service or instances of co-location.

Best Value, use of resources and performance

78. Audited bodies have responsibility to ensure that arrangements have been made to secure best value. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of best value. Where such requirements are not specified we may, in conjunction with audited bodies, agree to undertake local work in this area.
79. As part of their statutory responsibilities, the Auditor General may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. We 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.
80. During the course of our audit appointment we also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years. We may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.
81. This section includes a commentary on the best value and performance management arrangements within SNH. We also summarise headline performance measures used by SNH, highlight any relevant national reports and comment on the body's response to these.

Management arrangements

Best Value

82. SG guidance for accountable officers on best value in public services requires a systematic approach to self-evaluation and continuous improvement. The guidance identifies the themes 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.
83. We understand that a new team has been brought together in order to take forward best value. This team includes officers with experience in business improvement and consultancy and has developed the Improvement Programme 2012-2015.
84. Underpinning this programme are six strategic objectives which flow directly from the Corporate Plan and Change Requirement in order to deliver the aim to be smaller, smarter and more influential. These objectives are:

- reducing fragmentation
- sharpening local service delivery
- increasing joint working
- better staff deployment
- enhancing information management
- cost effective asset management.

85. Further narrative was provided for each of these objectives to the Improvement Board which outlined their vision, relevance, context and scope. Also outlined for each was a set of specified improvements which will deliver the overall strategic objective.

Performance management

86. Due to the fact that a one-year financial settlement only was known in 2011, a revised Corporate Plan was delayed until 2012 when medium term budget plans were known. A Business Plan for 2011/12 was however produced, which provided the basis for reporting performance (with the approval of the SG sponsor department).

87. The 2011/12 Business Plan mapped each of its programmes into the SG's priorities, and then set out a series of outcomes for each programme. The plan also set out an indicator for success for each of the nine programmes in addition to three which form part of the national Performance Framework. Progress was reported in-year through the quarterly business performance reports submitted to the board.

88. Year-end performance is reported in the 2011/12 Annual Report. This reports performance against the four aims of the new Corporate Plan (2012-2015). These are:

- High quality nature and landscape that is resilient to change and delivers greater public value
- Nature and landscapes that make Scotland a better place in which to live, work and visit
- More people experiencing, enjoying and valuing our nature and landscape
- Nature and landscape as assets contributing more to the Scottish economy.

89. The new Corporate Plan outlines twelve objectives which are then taken forward in the new Business Plan for 2012/13 identifying the extent to which each of these will be progressed through the current suite of eight programmes (reduced from nine previously). The Business Plan assigns lead responsibility for the delivery of each of these objectives to specific programmes. It also outlines the extent to which each programme is expected to make a contribution towards the achievement of each objective (either from significant, moderate or zero). This should ensure that there is proper ownership of these objectives within the organisation.

90. As per the previous Business Plan, it also outlines key outcomes for each programme. Indicators of success are listed which are mapped to national outcomes but not to the eight

programmes. Again the quarterly business performance reports will allow progress to be monitored against these outcomes and indicators during the course of the year.

91. The first quarterly report for 2012/13 maps both the national performance indicators and the SG indicators for success into the eight programmes, although two of these (Wildlife Management and Supporting Delivery) have no national or SG indicators.
92. Overall performance management arrangements appear satisfactory and allow Members to provide input throughout the process.

Community/user engagement

93. The 2010/11 Annual Audit Report previously reflected upon the arrangements which SNH has in place for obtaining and considering the views of the local community through the established consultation process on behalf of the SG. This involves raising items open for consultation on the SNH website and inviting comments from all members of the community.
94. From the review of papers listed on the SNH website we are aware of the processes undertaken (including local surgeries and public meetings where required), the concerns raised through this and responses and actions taken by SNH in light of these. As such we feel this demonstrates good practice as the opinions from various parties were obtained and suitably addressed.
95. Moreover, the website lists any current consultations, providing detailed guidance and background information, the email address where feedback should be directed and the closing date for the receipt of any such comments.
96. We are also aware of the previous consultation process undertaken regarding the Natural Heritage Futures document which provides guidance on managing the country's nature and landscapes until 2025 and which ultimately helped shape the revised Corporate Plan. In light of these factors it is felt that the arrangements in place appear appropriate and demonstrate good practice.

Kinloch Castle

97. Through the course of our audit work we have become aware of an issue regarding Kinloch Castle on the Island of Rum. This property (currently owned by SNH) is a unique Victorian mansion, which also contains many artworks and antiquities and as such is a major visitor attraction. The Castle is protected as a category A listed building and a section of it also operates as a hostel (the only such accommodation on the island).
98. As the Castle is listed there is also a legal obligation for SNH to maintain it to a required standard. Moreover major investment is required to address issues regarding the general fabric and security of the building. The full cost of such restoration work is, however, out-with the budgetary constraints of SNH and therefore solutions are being sought by officers and discussed by the ARMC. There is a reputational risk attached to this issue as the Castle attracts a good deal of public interest.

99. Whilst the immediate priority is to put in place an alternative visitor accommodation facility (with the option of portable buildings being considered) it is essential that all of the issues concerning Kinloch Castle are debated and a plan to address them agreed with stakeholders.

Refer Action Plan no. 2

Overview of reported performance in 2011/12

100. All nine indicators for success are reported as achieved in the 2011/12 Annual Report. Whilst two of the national performance indicators have been maintained at the same level, the other (The Terrestrial Breeding Bird Indicator) has declined. This is partly explained by the use of a revised baseline figure.
101. Some positive outcomes highlighted by the Annual Report are:
- 198 new land management contracts agreed
 - improvements made to National Nature Reserve visitors facilities/services
 - contribution to the delivery of key milestones for the Land Use Strategy (LUS) Action Plan
 - reduction in the number of non-native mink from the Outer Hebrides
 - the culmination of a 5-year Species Action Framework (SAF) programme providing a variety of benefits to the targeted species such as native wildcats and red squirrels
 - targets met in terms of handling casework enquiries (responded to over 3,000 planning-related enquiries)
 - 4% annual carbon reduction target exceeded.
102. However, there was also an area of concern reported in the failure to increase the number of sites in a favourable condition over the year. Reasons provided include that some sites have simply deteriorated, whilst in other cases damage has been caused by grazing deer and effects of climate change.

National performance reports

103. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Below are a selection of those reports we feel would be of interest and relevance to SNH.

A selection of National performance reports published in 2011/12 and 2012/13

- Scotland's Public Finances - addressing the challenges (published August 2011)
- Reducing greenhouse gas emissions (published December 2011)
- Modernising the planning system (published September 2011)
- Managing ICT Contracts: an audit of three public sector programmes (published August 2012)

Scotland's Public Finances - addressing the challenges (2011/12)

104. This report was written in context of the funding reductions which the public sector in Scotland is currently experiencing. The SG estimate from October 2010 was that its budget for running costs will fall by £3.3 billion in the period from 2010/11 to 2014/15. The report highlighted some key issues which require to be addressed such as strong leadership, better cost information, alternative working patterns, community engagement and accurate workforce planning.
105. This is relevant to SNH as it is to all public bodies in Scotland. The issues raised here have been covered in various sections across this report (particularly financial planning within the financial position section).

Reducing Scottish greenhouse gas emissions (2011/12)

106. This report reviewed the SG's plans to reduce carbon emissions by 42% from 1990 levels by 2020. In order to achieve this, the SG has targeted actions to reduce emissions from vehicles, improve the energy efficiency of homes and buildings and increase the rate of tree planting. The report highlighted difficulties in the calculation of the cost of reducing emissions, but estimated the total cost to be about £10 -11 billion by 2020.
107. The report is primarily aimed at the SG however, as a non-Departmental body, it also has relevance to SNH, particularly given SNH's responsibilities regarding the natural environment and indeed SNH's track record in reducing its own carbon emissions.

Modernising the planning system (2011/12)

108. This report assessed whether recent reform of the planning system is making it more economic, efficient and effective. The report found that, while public bodies involved in planning are now working better together, the time councils take to decide planning applications has not reduced and there is a widening gap between the costs of processing applications and the income councils receive from fees. The report also highlighted that more detailed information on performance and costs is needed in order to identify efficiencies.
109. The SNH Board and management team have formally considered the body's engagement in the planning system during 2012. Part of this involved assessing the recommendations from the national report. Subsequent actions taken include the development of a planning performance framework, representation on the Key Agency Group (KAG) and updating of the development management guidance.

Managing ICT Contracts (published August 2012 - 2012/13)

110. An audit of three public sector information and communication technology (ICT) programmes found significant weaknesses in the management of these costing a combined £133 million. The report (issued in August 2012) highlighted that many of the problems stemmed from a lack of specialised information technology skills and experience. However, there were also weaknesses in basic project management and control. In addition, the 'Gateway Review'

system that the SG uses to provide assurance on the management of projects was also not always effective.

111. This report has relevance to all public sector bodies in relation to the procurement and acquisition of new information systems. The report contains a number of recommendations and includes a checklist that central government bodies are advised to use in order to scrutinise and challenge the management of ICT programmes and projects. We understand that SNH will consider the issues raised in this report in due course in line with the new process regarding national performance reports.

Arrangements to consider national performance reports

112. A guidance note has been prepared in 2012 in light of the requirement of the Scottish Public Finance Manual for the Accountable Officer to consider a proportionate response to any relevant national reports issued by Audit Scotland. This new process involves an initial review by the Heads of both Finance and Internal Audit, issuing of required actions to responsible officers by the Director of Corporate Services and monitoring of progress through the internal audit follow-up system. The ARMC will also receive copies of these reports together with details of planned actions by SNH.
113. The processes outlined in this guidance note are clear and unambiguous. As such we are satisfied that the approach adopted is appropriate and should lead to a proportionate response.

Outlook

114. A new improvement programme has been developed (which incorporates priorities from the Corporate Plan and Change Requirement) in order to take forward the achievement of best value.
115. Issues surrounding the up-keep of Kinloch Castle on the Island of Rum will continue to be an issue which SNH require to manage in 2012/13.
116. In April 2011, the Equality Act 2010 introduced a new public sector 'General Duty' which encourages equality to be mainstreamed into public bodies' core work so that it is not a marginal activity but part and parcel of how public bodies operate. Following on from this the SG consulted on a set of 'Specific Duties' which came into force in May 2012.
117. There are nine specific duties listed which aim to support public bodies to better perform against the 'General Duty,' including the duty to assess the impact of equalities in all policies and decisions as well as the requirement to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013.

Appendix A: audit reports

External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue	Date presented to ARMC
Annual Audit Plan	26 January 2012	2 February 2012
Key financial controls assurance report	23 April 2012	1 May 2012
Review of the ICT Controls	3 July 2012	25 July 2012
Report on financial statements to those charged with governance	17 July 2012	25 July 2012
Audit opinion on the 2011/12 financial statements	25 July 2012	25 July 2012

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	35	<p>Change agenda</p> <p>SNH has outlined a series of actions to be completed during 2012/13 in order to ensure that the change agenda (referred to in the new corporate plan) can be delivered by 2015.</p> <p>Risk - The change agenda is not met in line with timescales with the result that the body cannot deliver its aims within its budget allocation.</p>	<p>The change agenda is embodied in the 6 objectives of the Business Improvement Board, against which business improvement projects are undertaken. Further measures to deliver cash and time efficiencies are tracked and reported alongside spend against budget and programme progress reports. These are reviewed quarterly, alongside the Corporate Risk Register.</p>	<p>Ian Jardine (Chief Executive)</p> <p>On-going</p>
2	99	<p>Kinloch Castle</p> <p>Kinloch Castle (a listed building on the Island of Rum) requires significant investment in order to maintain and secure the property appropriately.</p> <p>Risk - There is a risk to SNH's reputation if the Castle is allowed to slip into a state of dis-repair.</p>	<p>SNH have a prioritised conservation plan that is used to plan maintenance and essential repairs to the Castle. In agreement with Scottish Government we are reviewing with stakeholders options to secure the Castle's future.</p>	<p>Joe Moore (Director of Corporate Services)</p> <p>On-going</p> <p>Andrew Bachell (Director of Operations)</p> <p>Q2 2013/14</p>