

Scottish Natural Heritage

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for Scottish Natural Heritage

January 2018

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non – executive board chair, and two non – executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world – class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

Contents

Risks and planned work	4
Audit risks	4
Reporting arrangements	6
Audit fee	7
Responsibilities	7
Audit scope and timing	8
Financial statements	8
Materiality	8
Internal audit	10
Audit dimensions	10
Independence and objectivity	12
Quality control	12
Adding Value	13

Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Audit risks

3. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Scottish Natural Heritage. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p>2 Risk of fraud over income</p> <p>Scottish Natural Heritage receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>A Budget Management Policy and Delegated Financial Authority (DFA) Policy underpins how expenditure/income is incurred and how this is monitored.</p> <p>EU funding is subject to detailed monitoring to allow allocation of income to relevant projects.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>

Audit Risk	Source of assurance	Planned audit work
	<p>Processes are in place to issue invoices and receipt of income.</p> <p>Income is received either directly by BACs, cheque or via credit/debit card.</p> <p>Segregation of duties between individual project managers and the treasury management function is in place.</p>	
<p>3 Risk of fraud over expenditure</p> <p>ISA240 and the Code of Audit Practice require auditors to consider the risk of fraud over certain types of public sector expenditure. This includes grants and other claims made by individuals and organisations on the public purse. Scottish Natural Heritage incurs significant expenditure on grants and research and so there is an inherent risk of fraud over this expenditure.</p>	<p>A Budget Management Policy and Delegated Financial Authority (DFA) Policy is in place and DFA is only granted on completion of an in-house finance training package.</p> <p>Grant payments are receipted on i-buy and confirmed by the Funding Team. The Funding Team monitors claims and this is further monitored within weekly, monthly and quarterly scrutiny of financial spend.</p> <p>All NFI matches recommended for follow up action are fully investigated with appropriate comment entered on the NFI website. Outcomes of the NFI exercises are reported to the Audit and Risk Committee.</p>	<p>Walk-through of controls over the processing and payment of grants.</p> <p>Substantive testing of grant expenditure.</p> <p>Final review of the National Fraud Initiative exercise to ensure that all recommended matches from the prior year have been investigated and concluded.</p>
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account area of non-current assets. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Desk top valuations will be undertaken by the District Valuer on 20% of land and buildings every year and a full valuation every 5 years.</p>	<p>Completion of 'review of the work of an expert' programme for the professional valuer.</p>
<p>5 Changes in key finance staff</p> <p>There have been a number of changes in finance staff's responsibilities following the resignation of the capital accountant in August 2017. There is a risk that these changes will impact on the finance team's ability to deliver the accounts and working papers to the required quality and within the agreed timescale.</p>	<p>Training has been provided to the new incumbent. The situation is being monitored and additional support will be provided if necessary from within the team. A resource gap remains and as a result we have had to review our control schedule but still undertake the same level of detailed checking. Where appropriate, the frequency of these checks has been reduced.</p>	<p>Liaise with key financial staff to assess any ongoing issues in respect of capacity and the impact these may have on the preparation of the financial statements.</p>

Audit Risk	Source of assurance	Planned audit work
Wider dimension risks		
<p>6 Financial sustainability</p> <p>As part of the Corporate Plan 2017/22, SNH considered the financial sustainability of the organisation over a five year period. Scenario planning was used to consider the impact of alternative financial funding settlements on the baseline budget along with the implications for ongoing work and SNH's capacity to take on new challenges and initiatives. Uncertainties over future financial settlements and additional financial pressures, such as the removal of the public sector pay cap, present risks to the board's continued financial sustainability.</p>	<p>Scenario planning was undertaken during July 2017 based on information requests from the Scottish Government. Whilst the budget settlement for 2018/19 was more favourable than anticipated, we continue to plan based on scenarios with this work being refreshed on a regular basis dependent upon Scottish Government requests / intelligence.</p>	<p>Review and assessment of additional scenario planning and the implications on SNH's capacity to deliver its objectives.</p> <p>Attendance at appropriate board meetings to observe financial sustainability discussions.</p>
<p>7 Workforce capacity</p> <p>Increasing financial pressures have led to an increase in the use of vacancy management as a means of balancing the budget. Good workforce planning is essential to ensure that SNH has the right people, in the right place, at the right time to deliver its objectives. Although progress has been made in developing workforce planning, workforce capacity remains a risk area for SNH.</p>	<p>In a time of reducing budgets, capacity will continue to be an issue. Vacancies will continue to be managed through our well established Vacancy Panel on a monthly basis and the development of a workforce plan continues.</p>	<p>Monitor progress in embedding workforce planning arrangements at SNH including review of internal audit's work in this area.</p>

Reporting arrangements

4. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

5. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

6. We will provide an independent auditor's report to Scottish Natural Heritage, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2

2017/18 Audit outputs

Audit Output	Target date	Audit and Risk Committee date
Management Report	18 April 2018	2 May 2018
Annual Audit Report	12 July 2018	26 July 2018
Independent Auditor's Report	26 July 2018	N/A

Audit fee

7. The agreed audit fee for the 2017/18 audit of Scottish Natural Heritage is £55,850 (£55,020 in 2016/17). In determining the audit fee we have taken account of the risk exposure of Scottish Natural Heritage, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 31 May 2018.

8. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

Audit and Risk Committee and Accountable Officer

9. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

10. The audit of the financial statements does not relieve management or the Audit and Risk Committee, as those charged with governance, of their responsibilities.

Appointed auditor

11. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the auditing profession's ethical guidance.

12. Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Financial statements

13. The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Scottish Natural Heritage and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Scottish Natural Heritage will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

14. We will give an opinion on the financial statements as to:

- whether they give a true and fair view of Scottish Natural Heritage's financial position and its 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.

Materiality

15. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the auditor's report.

16. We calculate materiality at different levels as described below. The calculated materiality values for Scottish Natural Heritage are set out in [Exhibit 3](#).



Exhibit 3

Materiality values

Materiality level	Amount
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2018 based on the latest budget information contained within the 2017/18 Business Plan.	£553,000
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 75% of planning materiality.	£415,000
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 4% of planning materiality.	£22,000

Source: Audit Scotland



17. We review and report on other information published with the financial statements including the performance report, governance statement, and remuneration and staff report. Any issue identified will be reported to the Audit and Risk Committee.

Timetable

18. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit and Risk Committee dates.

Exhibit 4

Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts with complete working papers package	31 May 2018
Latest date for final clearance meeting with Head of Finance	5 July 2018
Agreement of audited unsigned annual accounts, and issue of Annual Audit Report including ISA 260 report to those charged with governance	12 July 2018
Independent auditor's report signed	26 July 2018

Internal audit

19. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by Scottish Natural Heritage's in-house Internal Audit team supported by a co-sourcing contract with BDO to provide specialist and additional resources as required. Audit arrangements are overseen by the Head of Internal Audit.

Adequacy of Internal Audit

20. Our review of Internal Audit concluded that the internal audit service is effective, operates in accordance with the Public Sector Internal Audit Standards (PSIAS), and has sound documentation standards and reporting procedures in place. An independent third party review was completed in September 2015 and the Head of Internal Audit has recently completed a self-assessment of compliance against the revised standards.

Areas of reliance

21. To support our wider dimension audit responsibilities we plan to consider the following areas of internal audit work:

- Corporate Governance Arrangements
- Risk Management System
- Workforce Plan Project Management
- Management Agreements.

Audit dimensions

22. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#). As part of our responsibility to report on the four audit dimensions, we have identified specific areas of audit work for 2017/18 and these are outlined in Exhibit 1 above. We plan to undertake further work on these dimensions over the period of our audit appointment.

Exhibit 5

Audit dimensions



Source: Code of Audit Practice

Financial sustainability

23. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on Scottish Natural Heritage's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether Scottish Natural Heritage can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Financial management

24. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether Scottish Natural Heritage has arrangements in place to ensure systems of internal control are operating effectively
- whether Scottish Natural Heritage can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely financial performance
- how Scottish Natural Heritage has assured itself that its financial capacity and skills are appropriate
- whether Scottish Natural Heritage has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

25. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We will review, conclude and report on the following over our five year appointment:

- whether Scottish Natural Heritage can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

Value for money

26. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on the following over our five year appointment:

- whether Scottish Natural Heritage can provide evidence that it is demonstrating value for money in the use of its resources
- whether Scottish Natural Heritage can demonstrate that there is a clear link between money spent, output and outcomes delivered
- whether Scottish Natural Heritage can demonstrate that outcomes are improving
- whether there is sufficient focus on improvement and the pace of it.

Independence and objectivity

27. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

28. The engagement lead for Scottish Natural Heritage is Maggie Bruce, Senior Audit Manager. Auditing and ethical standards require that any relationships that may affect the independence and objectivity of audit staff are communicated to you. We are not aware of any such relationships pertaining to the audit of Scottish Natural Heritage.

Quality control

29. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

30. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and relevant supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

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

Adding Value

32. Through our audit work we aim to add value to Scottish Natural Heritage. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well Scottish Natural Heritage has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

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