

# Audit Strategy Memorandum

NatureScot

Year ending 31 March 2023



# Contents

- 01** Engagement and responsibilities summary
- 02** Your audit engagement team
- 03** Audit scope, approach and timeline
- 04** Significant risks and other key judgement areas
- 05** Wider scope and Best Value
- 06** Fees for audit and other services
- 07** Our commitment to independence
- 08** Materiality and misstatements
  
- A** Appendix A – Key communication points
- Appendix B – Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

This document is to be regarded as confidential to NatureScot. It has been prepared for the sole use of the Audit and Risk Committee as the appropriate committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Audit and Risk Committee  
NatureScot  
Great Glen House  
Leachkin Road  
Inverness  
IV3 8NW

31 March 2023

Dear Audit and Risk Committee Members

## Audit Strategy Memorandum – Year ending 31 March 2023

We are pleased to present our Audit Strategy Memorandum for NatureScot for the year ending 31 March 2023. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 7 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing NatureScot which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit and explains the implications of the introduction of the new auditing standard for Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019).

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07816354994.

Yours faithfully



Tom Reid (Audit Director)

Mazars LLP

Mazars LLP – 100 Queen Street – Glasgow – G1 3DN

Tel: 0141 227 2400 – [www.mazars.co.uk](http://www.mazars.co.uk)

Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at 30 Old Bailey, London EC4M 7AU.

We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at [www.auditregister.org.uk](http://www.auditregister.org.uk) under reference number C001139861. VAT number: 839 8356 73

Mazars LLP  
100 Queen Street  
Glasgow  
G1 3DN

# 01

Section 01:

**Engagement and  
responsibilities summary**

# 1. Engagement and responsibilities summary

## Overview of engagement

We are appointed to perform the external audit of NatureScot for the year to 31 March 2023. The scope of our engagement is set out in the Code of Audit Practice, issued by the Auditor General and the Accounts Commission available from the Audit Scotland website: [Code of audit practice | Audit Scotland \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk). Our responsibilities are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, as outlined below.

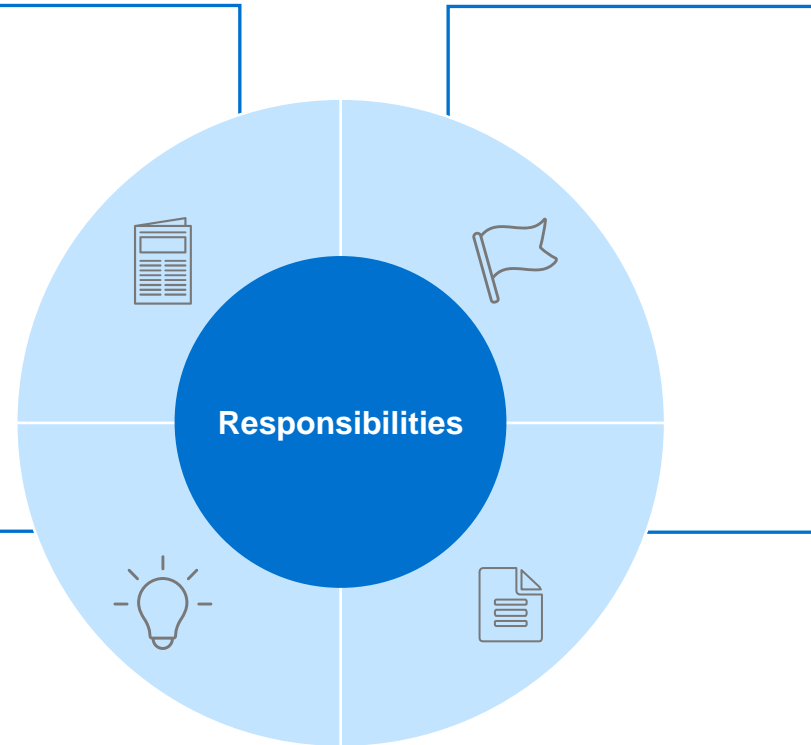
### Audit opinion

We are responsible for forming and expressing an independent opinion on whether the financial statements are prepared, in all material respects, in accordance with all applicable statutory requirements. Our audit does not relieve management or the Audit and Risk Committee, as Those Charged With Governance, of their responsibilities.

NatureScot is responsible for the assessment of whether it is appropriate for the NatureScot to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding and conclude on: a) whether a material uncertainty related to going concern exists; and b) consider the appropriateness of the NatureScot's use of the going concern basis of accounting in the preparation of the financial statements.

### Wider scope and Best Value

We are also responsible for reviewing and reporting on the wider scope arrangements that NatureScot has in place and its arrangements to secure Best Value. We discuss our approach to wider scope and Best Value work further in section 5 of this report.



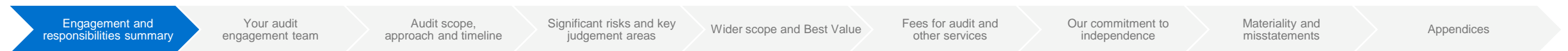
### Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both Those Charged With Governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of Those Charged With Governance, including key management and internal audit as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Our audit, however, should not be relied upon to identify all such misstatements.

### Wider reporting

We report to the National Audit Office on the consistency of NatureScot's financial statements with its Whole of Government Accounts (WGA) submission. The level of auditor assurance required depends on monetary thresholds set by HM Treasury.



# 02

Section 02:

**Your audit engagement team**

# 2. Your audit engagement team

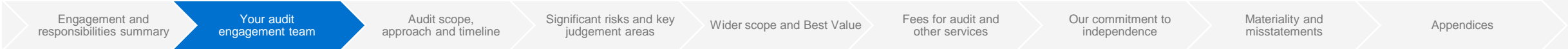
Below is your audit engagement team and their contact details.



**Tom Reid**  
**Engagement Director**  
tom.reid@mazars.co.uk  
07816354994



**Ishana Singh**  
**Engagement Manager**  
ishana.singh@mazars.co.uk  
07814 060 369



# 03

Section 03:

**Audit scope, approach and timeline**



# 3. Audit scope, approach and timeline

## Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your activities which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

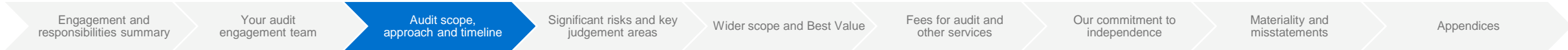
## Audit approach

Our audit approach is risk-based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to the risks identified.

If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise: tests of details (of classes of transactions, account balances, and disclosures); and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram on the next page outlines the procedures we perform at the different stages of the audit.



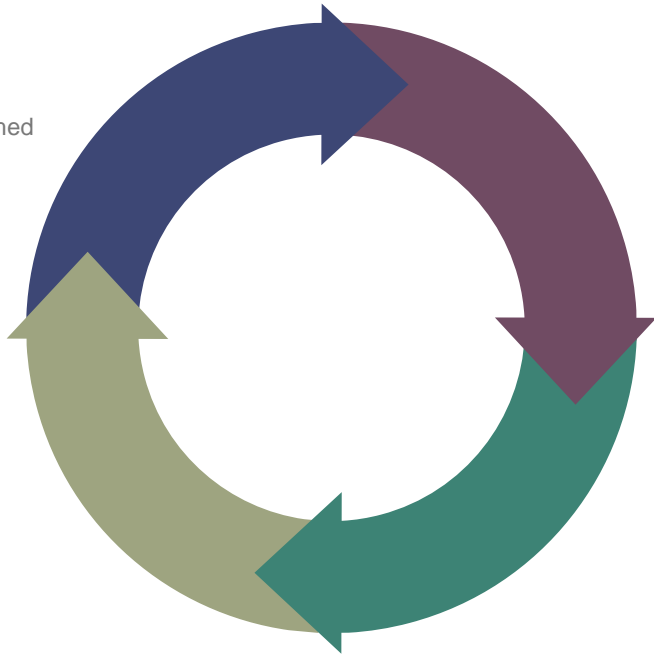
# 3. Audit scope, approach and timeline

## Planning and Risk Assessment (January to April 2023)

- Planning visit and developing our understanding of NatureScot
- Initial opinion and wider scope risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Risk assessment analytical procedures
- Determination of materiality

## Completion (October to November 2023)

- Final review and disclosure checklist of financial statements
- Final director review
- Agreeing content of letter of representation
- Reporting to the Audit and Risk Committee
- Reviewing subsequent events
- Signing the independent auditor's report

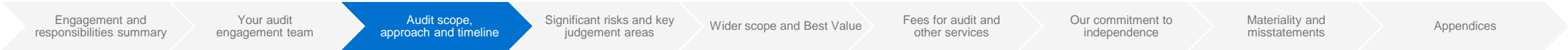


## Interim (March to April 2023)

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

## Fieldwork (September to October 2023)

- Receiving and reviewing draft financial statements
- Delivering our audit strategy starting with significant risks and high risk areas including detailed testing of transactions, account balances and disclosures
- Communicating progress and issues
- Clearance meeting



# 3. Audit scope, approach and timeline

## Reliance on internal audit

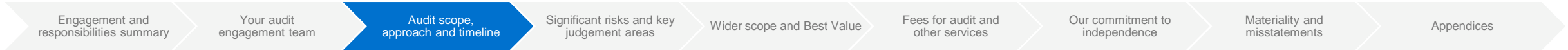
Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit on an ongoing basis to discuss the progress and findings of their work as part of our ongoing assessment of NatureScot’s control environment.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

## Management’s and our experts

Management makes use of experts in specific areas when preparing the NatureScot’s financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management’s expert	Our expert
Cash equivalent transfer values of pensions as disclosed in the Remuneration and Staff Report	Civil Service Pension Scheme	We will consider any relevant information which is available from third parties
Property, plant and equipment	District Valuers of the Valuation Office Agency	We will consider any relevant information which is available from third parties



# 04

Section 04:

**Significant risks and other key judgement areas**

# 4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified risks relevant to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

## Significant risk

Significant risks are those risks assessed as being close to the upper end of the spectrum of inherent risk, based on the combination of the likelihood of a misstatement occurring and the magnitude of any potential misstatement. Fraud risks are always assessed as significant risks as required by auditing standards, including management override of controls and revenue recognition.

## Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

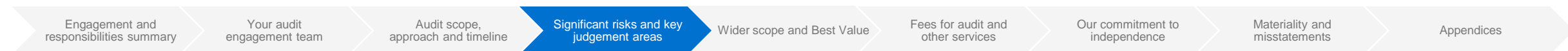
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

## Standard risk

This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

## Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of NatureScot. We have summarised our audit response to these risks on the next page.



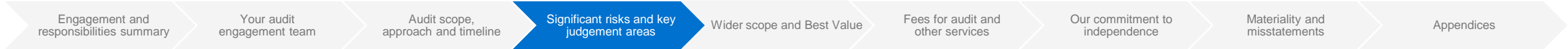
# 4. Significant risks and other key judgement areas

## Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit and Risk Committee.

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
1	<p><b>Management override of controls</b> This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	●	○	○	<p>We plan to address the management override of controls risk by:</p> <ul style="list-style-type: none"> <li>• reviewing the key areas within the financial statements where management has used judgement and estimation techniques and consider whether there is evidence of unfair bias;</li> <li>• examining any accounting policies that vary from the Government Financial Reporting Manual;</li> <li>• testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements; and</li> <li>• considering and testing any significant transactions outside the normal course of business or otherwise unusual.</li> </ul>



## 4. Significant risks and other key judgement areas

### Other key areas of management judgement and enhanced risks

	Description	Fraud	Error	Judgement	Planned response
2	<p><b>Material misstatement from fraud in grant expenditure</b> Funding for the grant schemes NatureScot administers has increased in recent years. As a result NatureScot's grant expenditure has increased significantly. NatureScot's grant expenditure totalled over £16 million in 2021/22 for schemes including Peatlands Action, Nature Restoration Fund, Biodiversity Challenge Fund and Better Places Fund.</p> <p>The resources required to administer and control this material spending increases the risk of material misstatement due to fraud related to expenditure recognition. In 2021/22, auditors identified grant expenditure totalling £109,000 which had been accounted for in the wrong financial year.</p>	●	●	●	<p>We will evaluate the design and implementation of controls NatureScot has in place which mitigate the risk of incorrect accounting for these grants.</p> <p>We will also undertake substantive procedures to ensure grants are recorded appropriately in the financial statements.</p>
3	<p><b>Valuation of property, plant and equipment</b> NatureScot's land and property is fully revalued every five years, with interim reviews of 25% of the portfolio undertaken in each of the intervening four years. The last full valuation was carried out at 31 March 2019. NatureScot held property, plant and equipment with a net book value of over £26 million at 31 March 2022.</p> <p>Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations. NatureScot is also required to satisfy itself that the carrying amounts of those assets not subject to an interim review in 2022/23 are not materially different to their current value. There is therefore a risk that property, plant and equipment is materially misstated in the annual accounts.</p>	○	●	●	<p>We will evaluate the competence, capabilities and objectivity of NatureScot's valuer, District Valuers of the Valuation Office Agency.</p> <p>We will review the management processes and assumptions used for the interim asset valuation reviews.</p> <p>We will ensure any changes in asset values are correctly accounted for in the annual accounts and reflected in the fixed asset register.</p> <p>We will review management's assumptions for any assets not subject to interim review and how it has satisfied itself that the values of these assets are not significantly different to current values.</p>

Engagement and responsibilities summary

Your audit engagement team

Audit scope, approach and timeline

**Significant risks and key judgement areas**

Wider scope and Best Value

Fees for audit and other services

Our commitment to independence

Materiality and misstatements

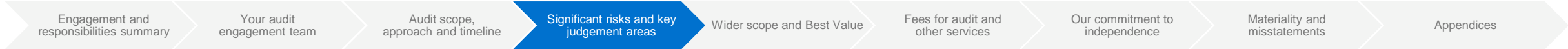
Appendices

# 4. Significant risks and other key judgement areas

## Consideration of risks related to revenue and expenditure recognition

As set out in International Standard on Auditing (UK) 240: The auditor’s responsibilities relating to fraud in an audit of financial statement, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We consider the risk of fraud to be low because the majority of NatureScot’s income (93% in 2021/22) is received directly from the Scottish Government as grant-in-aid and other specific grants that can readily be agreed to funding letters. Other income includes partner funding from other public sector bodies and a relatively small amount of income from provision of services. Therefore, as Audit Scotland has in previous years, we have rebutted this risk and do not propose to include specific work in our audit over and above our standard audit procedures.

Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom highlights that, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure may in some cases be greater than the risk relating to revenue recognition. We have identified a risk of material misstatement from fraud in grant expenditure. NatureScot’s remaining significant expenditure is mostly salaried staff costs which are well controlled and made up of low value individual transactions. Therefore, we will carry out standard audit procedures for all expenditure except grant expenditure.





# 05

Section 05:

**Wider scope and Best Value**

# 5. Wider scope and Best Value

## The framework for wider scope work

The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit. We are required to form a view on the adequacy of the NatureScot's arrangements in four areas:

1. **Financial management**
2. **Financial sustainability**
3. **Vision, leadership, and governance**
4. **Use of resources to improve outcomes.**

## Our approach

Our planned audit work against the four wider scope areas is risk based and proportionate. We need to gather sufficient evidence to support our commentary on NatureScot's arrangements and to identify and report on any significant weaknesses. We will carry out more detailed work where we identify significant risks. Where significant weaknesses are identified we will report these to NatureScot and make recommendations for improvement. In addition to local risks, we consider challenges that are impacting the public sector as a whole.

## Best Value

Ministerial Guidance to Accountable Officers and the Scottish Public Finance Manual explain that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will consider the arrangements put in place by the Accountable Officer to meet their Best Value obligations as part of the wider scope audit work.

<b>Financial management</b>	<p>Financial management means having sound budgetary processes. Audited bodies require the ability to understand the financial environment and whether internal controls are operating effectively.</p> <p>Auditors consider whether the body has effective arrangements to secure sound financial management.</p>
<b>Financial sustainability</b>	<p>Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.</p> <p>Auditors consider the extent to which audited bodies have shown regard to financial sustainability. They look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so that it can continue to deliver services.</p>
<b>Vision, leadership and governance</b>	<p>Audited bodies must have a clear vision and strategy, and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.</p> <p>Auditors consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. They also consider the effectiveness of governance arrangements for delivery.</p>
<b>Use of resources to improve outcomes</b>	<p>Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.</p> <p>Auditors consider the clarity of the arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of equalities, and deliver continuous improvements in priority services.</p>



# 5. Wider scope and Best Value

## Wider scope risks

The Code of Audit Practice requires us to consider the significant audit risks in areas defined in the Code as the wider scope audit.

We have not yet fully completed our planning and risk assessment work in relation to our work on the wider scope audit. We can confirm, however, that we will follow up progress on previous Audit Scotland recommendations and consider national risk areas under scope of audit in 2022/23 which are set out below.

We will report any further identified risks to the Audit and Risk Committee on completion of our planning and risk identification work.

## National risk areas under scope of audit in 2022/23

### Climate change

Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045, and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change. There are specific legal responsibilities placed on public bodies to contribute to reducing greenhouse gas emissions, to adapt to climate change, to act sustainably and to report on progress. A number of public bodies have declared a climate emergency and set their own net zero targets, some of which are earlier than Scotland's national targets.

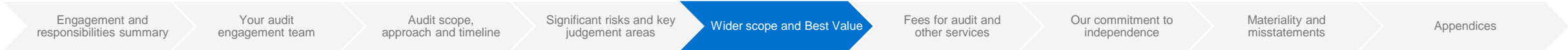
All public bodies will need to reduce their direct and indirect emissions, and should have plans to do so. Many bodies will also have a role in reducing emissions in wider society, and in supporting activity to adapt to the current and potential future impact of climate change. For example, working with the private sector and communities to help drive forward the required changes in almost all aspects of public and private life, from transport and housing to business support.

Public audit has an important and clear role to play in helping drive change and improvement in this uncertain and evolving area of work; supporting public accountability and scrutinising performance; and helping identify and share good practice. The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work. For 2022/23 audits, we are required to gather basic information on the arrangements for responding to climate change in each body.

### Cyber security

There continues to be a significant risk of cyber attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber attack can have on both the finances and operation of an organisation.

For 2022/23 audits, auditors are advised to consider risks related to cyber security at audited bodies. However, the revised ISA (UK) 315 includes enhanced requirements for auditors to understand a body's use of IT in its business, the related risks and the system of internal control addressing such risks. The Auditor General and Accounts Commission consider that meeting these additional requirements is likely to be sufficient consideration of cyber security in 2022/23.



# 06

Section 06:

**Fees for audit and other services**

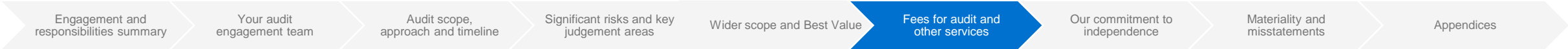
# 6. Fees for audit and other services

## Fees for work as NatureScot’s appointed auditor

At this stage of the audit, we are not planning any divergence from the expected fees set by Audit Scotland. The breakdown of the fee is set out in the table below.

	2022/23 Proposed Fee	2021/22 Actual Fee
Auditor remuneration	£64,960	£47,150
Pooled costs	(£1,030)	£10,900
Contribution to PABV costs	0	0
Audit support costs	£1,850	£2,240
Sectoral cap adjustment	£12,950	0
<b>Total fee</b>	<b>£78,730</b>	<b>£60,290</b>

We have taken account of the risk exposure of NatureScot and the management assurances in place. We have assumed that NatureScot has effective governance arrangements and will prepare comprehensive and accurate accounts and working papers for audit in line with the agreed timetable for the audit. We reserve the right to charge a supplementary fee where our audit cannot proceed as planned. An additional fee will be required for any other significant exercises not within our planned audit activity.



# 07

Section 07:

**Our commitment to independence**

# 7. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the FRC's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

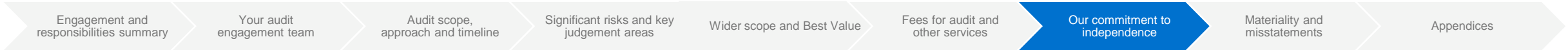
We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team; and
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Tom Reid in the first instance.

Prior to the provision of any non-audit services, Tom Reid will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

Any emerging independence threats and associated identified safeguards will be communicated in our Annual Audit Report.



# 08

Section 08:

**Materiality and misstatements**



# 8. Materiality and misstatements

## Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality	1,350
Performance materiality	947
We assess the Remuneration and Staff Report as sensitive given users' interest in this specific area of the Annual Report. We are proposing to set materiality in this area at 1 band within the tables in the Remuneration and Staff Report, i.e. we would assess an error that moved a disclosure by one band as material.	1 band
Trivial threshold for errors to be reported to Audit and Risk Committee	41

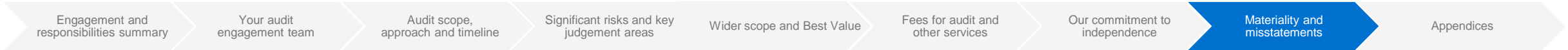
Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Information is considered to be material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.



# 8. Materiality and misstatements

## Materiality (continued)

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of total expenditure. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit and Risk Committee.

We consider that total expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold at 2% of total expenditure. Based on the audited 2021/22 financial statements we anticipate the overall materiality for the year ending 31 March 2023 to be in the region of £1.35 million.

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

## Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. For a first-year audit we have applied 70% of overall materiality as performance materiality.

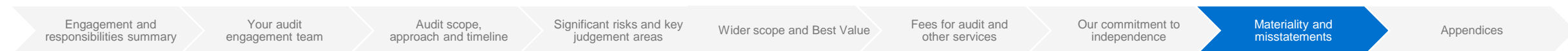
## Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit and Risk Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £41,000 based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Tom Reid.

## Reporting to the Audit and Risk Committee

The following three types of audit differences above the trivial threshold will be presented to the Audit and Risk Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).





# Appendices

A: Key communication points

B: Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

# Appendix A: Key communication points

We value communication with Those Charged With Governance as a two-way feedback process at the heart of our client service commitment. ISA 260 (UK) 'Communication with Those Charged with Governance' and ISA 265 (UK) 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

## Form, timing and content of our communications

We will present the following reports:

- Audit Strategy Memorandum;
- Annual Audit Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

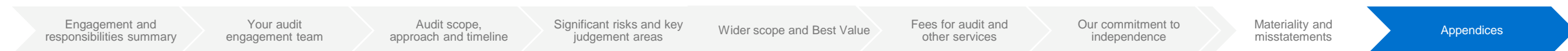
## Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements.
- The planned scope and timing of the audit.
- Significant audit risks and areas of management judgement.
- Our commitment to independence.
- Responsibilities for preventing and detecting errors;

- Materiality and misstatements; and
- Fees for audit and other services.

## Key communication points at the completion stage to be included in our Annual Audit Report

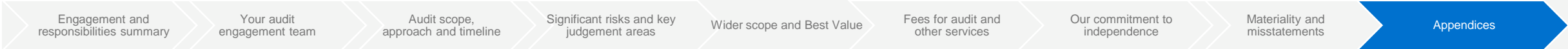
- Significant deficiencies in internal control.
- Significant findings from the audit.
- Significant matters discussed with management.
- Significant difficulties, if any, encountered during the audit.
- Qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
- Our conclusions on the significant audit risks and areas of management judgement.
- Summary of misstatements.
- Management representation letter.
- Our proposed draft audit report.
- Independence.



# Appendix A: Key communication points

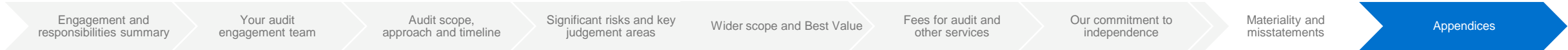
ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: <ul style="list-style-type: none"> <li>• uncorrected misstatements and their effect on our audit opinion;</li> <li>• the effect of uncorrected misstatements related to prior periods;</li> <li>• a request that any uncorrected misstatement is corrected; and</li> <li>• in writing, corrected misstatements that are significant.</li> </ul>	Annual Audit Report
With respect to fraud communications: <ul style="list-style-type: none"> <li>• enquiries of the Audit and Risk Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity;</li> <li>• any fraud that we have identified or information we have obtained that indicates that fraud may exist; and</li> <li>• a discussion of any other matters related to fraud.</li> </ul>	Annual Audit Report and discussion at Audit and Risk Committee meetings, audit planning and clearance meetings



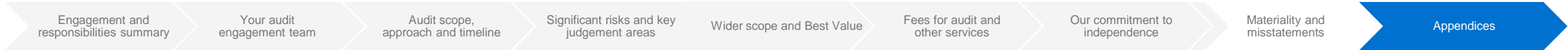
# Appendix A: Key communication points

Required communication	Where addressed
<p>Significant matters arising during the audit in connection with the entity’s related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• non-disclosure by management;</li> <li>• inappropriate authorisation and approval of transactions;</li> <li>• disagreement over disclosures;</li> <li>• non-compliance with laws and regulations; and</li> <li>• difficulty in identifying the party that ultimately controls the entity.</li> </ul>	Annual Audit Report
<p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> <li>• our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;</li> <li>• significant difficulties, if any, encountered during the audit;</li> <li>• significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management;</li> <li>• written representations that we are seeking;</li> <li>• expected modifications to the audit report; and</li> <li>• other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Audit and Risk Committee in the context of fulfilling their responsibilities.</li> </ul>	Annual Audit Report
Significant deficiencies in internal controls identified during the audit.	Annual Audit Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Annual Audit Report



# Appendix A: Key communication points

Required communication	Where addressed
<p>Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Audit and Risk Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Risk Committee may be aware of.</p>	<p>Annual Audit Report and discussion at Audit and Risk Committee meetings</p>
<p>With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• whether the events or conditions constitute a material uncertainty;</li> <li>• whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and</li> <li>• the adequacy of related disclosures in the financial statements.</li> </ul>	<p>Annual Audit Report</p>
<p>Reporting on the valuation methods applied to the various items in the annual financial statements including any impact of changes of such methods</p>	<p>Annual Audit Report</p>
<p>Indication of whether all requested explanations and documents were provided by the entity</p>	<p>Annual Audit Report</p>



# Appendix B: Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

## Background

ISA (UK) 315 (Revised 2019) introduces major changes to the auditor's risk identification and assessment approach, which are intended to drive a more focused response from auditors undertaking work to obtain sufficient appropriate audit evidence to address the risks of material misstatement. The new standard is effective for periods commencing on or after 15 December 2021 and therefore applies in full for NatureScot's 2022/23 audit.

The most significant changes relevant to NatureScot's audit are outlined below.

### Enhanced risk identification and assessment

The standard has enhanced the requirements for the auditor to understand the audited entity, its environment and the applicable financial reporting framework in order to identify and assess risk based on inherent risk factors which include:

- subjectivity;
- complexity;
- uncertainty and change; and
- susceptibility to misstatement due to management bias or fraud.

Using these inherent risk factors, we assess inherent risk on a spectrum, at which the higher end of which lies significant risks, to drive an audit that is more focused on identified risks. Auditors are now also required to obtain sufficient, appropriate evidence from these risk identification and assessment procedures which means documentation and evidence requirements are also enhanced.

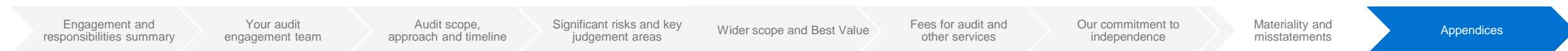
### Greater emphasis on understanding IT

In response to constantly evolving business environments, the standard places an increased emphasis on the requirements for the auditor to gain an understanding of the entity's IT environment to better understand the possible

risks within an entity's information systems. As a result, we are required to gain a greater understanding of the IT environment, including IT general controls (ITGCs).

### Increased focus on controls

Building on the need for auditors to gain a greater understanding of the IT environment, the standard also widens the scope of controls that are deemed relevant to the audit. We are now required to broaden our understanding of controls implemented by management, including ITGCs, as well as assess the design and implementation of those controls.





Tom Reid (Audit Director)

Email: [tom.reid@mazars.co.uk](mailto:tom.reid@mazars.co.uk)

Telephone: 07816 354 994

## Mazars

100 Queen Street  
Glasgow  
G1 3DN

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services\*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

\*where permitted under applicable country laws.

## Follow us:

### LinkedIn:

[www.linkedin.com/company/Mazars](http://www.linkedin.com/company/Mazars)

### Twitter:

[www.twitter.com/MazarsGroup](http://www.twitter.com/MazarsGroup)

### Facebook:

[www.facebook.com/MazarsGroup](http://www.facebook.com/MazarsGroup)

### Instagram:

[www.instagram.com/MazarsGroup](http://www.instagram.com/MazarsGroup)

### WeChat:

ID: Mazars