

Annual Audit Report

NatureScot— Year ended 31
March 2023

October 2023



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

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

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24 October 2023

Dear Committee Members and the Auditor General for Scotland,

Annual Audit Report – Year ended 31 March 2023

We are pleased to present our Annual Audit Report for the year ended 31 March 2023. The purpose of this document is to summarise our audit conclusions and findings from our considerations of the wider scope audit specified in the Code of Audit Practice 2021 namely, financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Annual Audit Plan which we presented on 11 May 2023 to the Audit and Risk Committee. We have reviewed our Annual Audit Plan and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

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

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

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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 under reference number C001139861. VAT number: 839 8356 73

01

Section 01:

Executive summary

1. Executive summary

Audit conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2022/23 is set out in the Audit Scotland's Code of Audit Practice 2021. Our responsibilities and powers are derived from our appointment by the Auditor General under the Public Finance and Accountability (Scotland) Act 2000 and, as outlined in our Annual Audit Plan, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

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

- Management override of controls;
- Material misstatements from fraud in grant expenditure; and
- Valuation of property, plant and equipment.

Misstatements and internal control recommendations

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

Status and audit opinion

We have completed our audit in respect of the financial statements for the year ended 31 March 2023.

Conclusions from our audit testing and audit opinion

We have concluded our audit in respect of the financial statements for the year ended 31 March 2023. Based on our audit work completed to date we have the following conclusions:



Audit opinion

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



Regularity

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



Matters on which we report by exception

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

1. Executive summary (continued)

Conclusions from our audit testing and audit opinion (continued)



Governance Statement and Performance Report

We are required to report on whether the information given in the Governance Statement and Performance Report is materially inconsistent with the financial statements; has not been properly prepared in accordance with the Natural Heritage (Scotland) Act 1991 and directions made thereunder by the Scottish Ministers; or is materially misstated.

We have no matters to report in respect of the Governance Statement or the Performance Report.



Other information

We are required to report on whether the other information (comprising of the Performance Report and the Accountability Report and the unaudited parts of the Remuneration and Staff Report), is materially inconsistent with the financial statements; has not been properly prepared in accordance with the Natural Heritage (Scotland) Act 1991 and directions made thereunder by the Scottish Ministers; or is materially misstated.

No inconsistencies have been identified and we have issued an unmodified opinion in this respect.



Whole of Government Accounts (WGA)

We have not yet received group instructions from the National Audit Office in respect of our work on the NatureScot's WGA submission. We are unable to commence our work in this area until such instructions have been received.

1. Executive summary (continued)

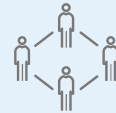
Wider Scope conclusions

As auditors appointed by the Auditor General of Scotland, our wider scope responsibilities are set out in the Audit Scotland's Code of Audit Practice 2021. The Code requirements broaden the scope of the 2022/23 audit and allows us to use a risk-based approach to report on our consideration of the NatureScot's performance and make recommendations for improvement and, where appropriate, conclude on NatureScot's performance.

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

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

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



Wider Scope

We anticipate having no risks in arrangements to report in relation to the financial management and vision, leadership and governance arrangements that NatureScot has in place. We have identified risks relating financial sustainability (see page 35) and use of resources to improve outcomes (see page 43).

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

02

Section 02:

Status of the audit

2. Status of the audit

Our work is complete and there are currently no matters of which we are aware that would require modification of our audit opinion.

03

Section 03: **Audit approach**

3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in March 2023. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

Our provisional materiality at the planning stage of the audit was set at £1,526k using a benchmark of 2% of total expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors, is £1,525k using the same benchmark.

Service organisations

There have been one change to the use of service organisations as set out below.

Item of account	Service organisation	Audit approach
Cash equivalent transfer values of pensions as disclosed in the Remuneration and Staff Report	MyCSP	<p>We reviewed the source data NatureScot provided to MyCSP and agreed this to NatureScot payroll records.</p> <p>We reviewed reports provided by MyCSP to NatureScot and agreed these to the pension disclosures included in the Remuneration and Staff Report.</p> <p>We made use of the Deloitte report provided by Audit Scotland (commissioned by the National Audit Office) on 8 September 2023 to obtain assurance over the operation of the CETV calculator used to provide values to organisations where CETV figures are included in Remuneration and Staff Report disclosures i.e. where individuals are members of the Civil Service Pension Scheme. We also considered Deloitte's recommendations, disclosed in its report, in relation to control improvements.</p>

04

Section 04: **Significant findings**

4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding other significant risks and key areas of management judgement outlined in the Annual Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 18 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

4. Significant findings (continued)

- Significant risks

Management override of controls

Description of the risk

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

How we addressed this risk

We addressed this risk by;

- 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;
- examining any accounting policies that vary from the Government Financial Reporting Manual;
- testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements; and
- considering and testing any significant transactions outside the normal course of business or otherwise unusual.

Audit conclusion

Our work has provided the assurance we sought in this area and has not highlighted any material issues to bring to your attention.

4. Significant findings (continued)

- **Enhanced risk**

Material misstatement from fraud in grant expenditure

Description of the risk

Funding for the grant schemes NatureScot administers has increased in recent years. As a result, NatureScot’s grant expenditure has increased significantly. As a result, 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.

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.

How we addressed this risk

We addressed this risk by;

- evaluating the design and implementation of controls NatureScot has in place which mitigate the risk of incorrect accounting for these grants; and
- undertaking substantive procedures to ensure grants are recorded appropriately in the financial statements.

Audit conclusion

Our work has provided the assurance we sought in this area and has not highlighted any material issues to bring to your attention.

4. Significant findings (continued)

Key areas of management judgement

Valuation of property, plant and equipment

Description of the management judgement

NatureScot's land and property is fully revalued every five years, with interim reviews of 25% of the portfolio undertaken in each of the intervening four 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.

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.

How our audit addressed this area of management judgement

We addressed this risk by:

- evaluating the competence, capabilities and objectivity of NatureScot's valuer, District Valuers of the Valuation Office Agency;
- reviewing the management processes and assumptions used for the interim asset valuation reviews;
- ensuring any changes in asset values are correctly accounted for in the annual accounts and reflected in the fixed asset register;
- reviewing 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.

Audit conclusion

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

4. Significant findings (continued)

Qualitative aspects of the NatureScot's accounting practices

We have reviewed NatureScot's accounting policies and disclosures and concluded they comply with the Government Financial Reporting Manual (FRoM) 2022/23, appropriately tailored to the NatureScot's circumstances.

We recommended updating the accounting policy covering IFRS 9 to provide more detail on the judgements, assumptions and estimates of management with respect to expected credit loss and impairment of financial assets.

The unaudited annual report and accounts were received from NatureScot on 6 September 2023 and were of a good quality.

Significant matters discussed with management

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

- **First year audit procedures.** Auditing standards require us to carry out additional specific procedures in the first year of an audit. These include: seeking professional clearance confirmations from the predecessor auditor, reviewing the predecessor auditor's working papers and reports and specific additional procedures over brought forward balances. As part of this work, we discussed controls in place for key information systems with management.
- **Recoverability of grant income.** We discussed NatureScot's recognition and measurement of income and receivables from European Union (EU) Funding. We discussed whether receivables meet the classification criteria as a financial instrument in accordance with IFRS 9 – Financial Instruments and require an Expected Credit Loss (ECL) provision. The receivables arose from a grant programme rather than from the ordinary activities of NatureScot and therefore meet the criteria for recognition as a government grant under IAS 20 – Accounting for Government Grants. This means only the management costs NatureScot is entitled to for administering the EU funding programmes should be recognised in accordance with IFRS 9 and IFRS 15 – Revenue from Contracts with Customers and the ECL model should only be applied to these costs.

- Management estimates that 96.6% of its receivables from claims due from European funding sources are collectible. This estimate is based on its experience of disallowed claims under the previous EU funding programme. Management has agreed to adjust the claims due from European funding sources as at 31 March 2023, disclosed as trade and other receivables, and the corresponding income from EU funding by £233k to account for the portion of income it estimates may not be received.
- Management has been in communication with the Scottish Government, the managing authority for the funding programme, and is preparing to submit final claims. NatureScot has been assured by the Scottish Government that it will continue to provide a cash advance mechanism to help manage the impact on NatureScot's cash flow. The Scottish Government has also confirmed that all eligible claims will be paid.
- Management should continue to monitor the situation and ensure EU funding income and receivables adequately reflects the funding it expects to receive.

Significant difficulties during the audit

During the audit, we did not encounter any significant difficulties and we have had the full co-operation of management.

4. Significant findings (continued)

Wider responsibilities – statutory reporting

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

- Section 22 of the Public Finance and Accountability (Scotland) Act 2000 allows us to prepare a report to bring to the attention of the Scottish Parliament and the public, matters of public interest arising during the audit of NatureScot.
- Section 23 of the Public Finance and Accountability (Scotland) Act 2000 allows us to initiate an examination into the economy, efficiency and effectiveness with which NatureScot and their officeholders have used their resources in discharging their functions.

We confirm that no such reports have been prepared or any examinations have been initiated.

Reporting to the National Audit Office (NAO) in respect of Whole of Government Accounts (WGA) consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data.

At the time of issuing this report, we have not yet received guidance from the NAO on the 2022/23 WGA exercise.

05

Section 05:

Internal control recommendations

5. Internal control recommendations

As part of our audit of the financial statements, we obtained an understanding of internal controls sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to the Audit and Risk Committee any significant deficiencies identified during the course of our work.

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

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	1
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	0

5. Internal control recommendations (continued)

Other deficiencies in internal control – Level 2

Description of deficiency

Related parties' transactions

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

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

Potential effects

Incorrect or incomplete disclosure of related party transactions.

Recommendation

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

Management response

Members of the NatureScot Board and Committees regularly complete a register of interests. Details of these registerable interests are then published on our [website](#). Board Members also comply with our Code of Conduct for Board Members of NatureScot, details of which are also available [online](#). The relationship of a Board Member with Annandale Estates had been published on our website and its omission from the first draft of the 2022/23 annual report and accounts was an oversight. It has been included in the final 2022/23 annual report and accounts.

The note on Related Party Transactions has since been shared with the Executive Office who manage the Register of Interests, to verify the disclosure for 2022/23. In future, this check will be added in to the annual accounts project plan at an earlier stage.

06

Section 06:

Summary of misstatements

6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £46k.

Adjusted misstatements

The table below outlines the misstatements that have been adjusted by management during the course of the audit.

		Comprehensive Income and Expenditure Statement Debit (£'000)	Comprehensive Income and Expenditure Statement Credit (£'000)	Balance Sheet Debit (£'000)	Balance Sheet Credit (£'000)	Description of adjusted misstatement
1	Debit: Income - European Union funding	185				
	Debit: Expense- ECL charges	60				
1	Credit: Trade and other receivables – Claims due from European funding sources				(233)	
1	Credit : Trade receivables				(12)	
	Total adjusted misstatements	(245)			(245)	

Unadjusted misstatements

None Identified.

6. Summary of misstatements (continued)

Disclosure amendments

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

- **Remuneration and staff report:**- Inclusion of additional information to cover disclosures required by the FReM:
 - Board members remuneration to be presented in bands of £5,000.
 - Updating salaries and allowances bandings due to change in pension benefits from negative brackets to nil figures as required by the FReM.
 - Updating the fair pay disclosure to include additional information required by the FReM.
- **Accounting policies:**- Amendments made in response to the following points:
 - Updating the depreciation policy for Right of Use assets recognised under IFRS 16 Leases.
 - Updating its policy for grants and management agreements to reflect its revised accounting treatment of EU funding.

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

07

Section 07: **Wider scope**

7. Commentary on Wider Scope

Overall summary



7. Commentary on Wider Scope

Wider scope summary



As auditors appointed by the Auditor General of Scotland, our wider scope responsibilities are set out in the Audit Scotland’s Code of Audit Practice 2021. The Code requirements broaden the scope of the 2022/23 audit and allows us to use a risk-based approach to report on our consideration of NatureScot’s performance and make recommendations for improvement and, where appropriate, conclude on NatureScot’s performance.

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

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

Overall summary by reporting criteria

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

	Reporting criteria	Commentary page reference	Identified risks?	Actual risks identified?	Other recommendations made?
	Financial management	29	No	No	No
	Financial sustainability	32	No	Yes	Yes – see commentary on page 35
	Vision, leadership and governance	36	No	No	No
	Use of resources to improve outcomes	40	No	Yes	Yes – see commentary on page 43

7. Commentary on Wider Scope

Financial management

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



7. Financial management

Our overall assessment

Area assessed	Our findings	Our judgements	Risks identified
Financial management culture	<p>NatureScot's system of internal control is based on a continuous process designed to identify the principal risk to NatureScot achieving its policies, aims and objectives, to evaluate the extent of those risks and to manage them effectively, efficiently and economically.</p> <p>To achieve this, NatureScot's governance structure operates at four levels; Scottish Government, Board, Senior Leadership Team and Employees.</p>	<p>NatureScot has appropriate and effective financial management in place.</p> <p>There are sufficient financial skills, capacity, and capability in NatureScot.</p>	No significant issues identified.
Accountability	<p>NatureScot has a clear process for budget setting. This is detailed in its Budget Management Policy. The process starts when the Grant-In-Aid is confirmed by the Scottish Government. NatureScot manages the budget allocation by aligning it to its delivery plans.</p> <p>The annual Business Plan confirms key deliverables for each Delivery Plan and sets out how each business area contributes to delivery of the Corporate Plan objectives. Strategic Resource Management meetings are held monthly and involve delivery plan leads and representatives from the finance and people and organisational development teams. Delivery plan leads are responsible for reviewing their current financial position and trend analysis before assessing the confidence level in their forecasts and agreeing any changes.</p> <p>NatureScot's budget information is reported fortnightly to the Allocations Group in detail and monthly, at a higher level, to the Senior Leadership Team (SLT). Progress against planned savings is also reported to the SLT. All savings are required to be approved by the SLT along with any reallocations.</p>	<p>NatureScot reports financial performance to the Board and its SLT who monitor the delivery of corporate and business plans on a timely basis, reviewing financial performance regularly and making adjustments as required.</p>	No significant issues identified.

7. Financial management

Our overall assessment

Area assessed	Our findings	Our judgements	Risks identified
Accountability (continued)	<p>NatureScot achieved financial balance for its administrative budget with an underspend of £0.798 million. NatureScot has several natural heritage projects ongoing and the Scottish Government's agenda for maintaining and preserving the nation's natural habitat means it continues to make funding available to NatureScot. This mitigates the risk of financial balance not being achieved by NatureScot.</p>		No significant issues identified.
Arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption	<p>NatureScot has an up-to-date fraud policy and response plan which sets out staff responsibilities for the prevention of fraud and corruption. Its response plan includes a flow chart covering the procedure to be followed in investigating suspected or actual fraud and other irregularities. This also set out the expected actions by each officer involved in the process. NatureScot also has a whistleblowing policy which provides a guide for employees to follow.</p> <p>NatureScot has a Code of Conduct for Members which covers policies and procedures for general conduct, registration of interests and declaration of interests.</p> <p>It also publishes Codes of Practice on its website for its Board members and guidance for its various infrastructure projects.</p>	<p>NatureScot's anti-fraud and corruption policy statement, fraud response plan and whistleblowing policy are up to date and communicated to staff and contractors. It continues to monitor the effectiveness of these policies and respond to any identified deficiencies.</p>	No significant issues identified.

7. Financial management (continued)

Follow up of previously-reported recommendations

In December 2022, Audit Scotland reported one recommendation to NatureScot to address risks identified from its wider scope audit of financial management. As part of our work in 2022/23, we followed up the progress made by NatureScot against the recommendation made and determined whether the risk remained during the year.

	Financial management finding as reported by previous auditor	Management response and implementation timeframe	Work undertaken and judgements made in 2022/23	Conclusions reached
1	<p>Grant payments in advance Grant payments totalling £109,00 had been made to third parties for work that had not been completed by 31 March 2022. These payments were processed by staff outwith the Funding team.</p> <p>NatureScot should ensure that all staff involved in processing grant payments are aware of the need for work to be completed before payment is made.</p>	<p>Management Response: Finance have had discussions with the individual involved to develop their understanding and to ensure that they do not repeat this scenario. The Finance and Fundings Teams will be issuing guidance to all staff who are involved in similar grant projects during Q4 of 2022/23 to reinforce this point. The budget management policy is currently being reviewed and will act as a resource and opportunity to communicate our guidance on payment in advance of need to all staff when it is published and highlighted to colleagues in Q4 of 2022/23.</p>	<p>Progress against the recommendation Mazars performed substantive procedures on payments made to third parties during the year to ensure they are for ongoing projects and are not a payment in advance.</p> <p>Enquiries of NatureScot also indicated that the Finance, Planning & Performance Team performed similar checks prior to the preparation of the financial statements.</p> <p>No adverse findings.</p>	<p>Conclusions Complete</p>

7. Commentary on Wider Scope

Financial sustainability

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



7. Financial sustainability

Our overall assessment

Area assessed	Our findings	Our judgements	Risks identified
Financial planning	<p>NatureScot has a clear approach to determine its administrative budget requirements. It has reasonable arrangements in place for identifying and assessing savings.</p> <p>The Finance team is responsible for identifying potential savings. These are considered by officers at Senior Leadership Team meetings. Directors are responsible for final sign off of their budgets so ensuring that any savings agreed upon are reflected in budget returns.</p> <p>While core grant-in-aid has remained static in recent years, new funding opportunities have arisen in support of NatureScot’s opportunities. NatureScot prepares a longer-term financial plan covering four years with scenarios reflecting possible increases and reductions to core grant-in-aid and other income streams. Officers review the plan on an annual basis as part of budgetary arrangements.</p>	<p>NatureScot prepares financial forecasts for a four-year period for its administration budget with annual reviews.</p>	<p>No significant issues identified.</p>

7. Financial sustainability

Our overall assessment

Area assessed	Our findings	Our judgements	Risks identified
<p>EU funding</p>	<p>NatureScot acts as a principal for the EU Structural Funds Programme. In this programme, grantees are paid by NatureScot for works performed after verification of supporting documents. NatureScot then submits these claims in addition to its management costs to the Managing Authority, the Scottish Government.</p> <p>At 31 March 2023, claims amounting to £6.86m had been paid by NatureScot or incurred management costs and were to be submitted to the Scottish Government. Since then, NatureScot has had claims totalling £9.3m relating to the Green Infrastructure Strategic Intervention and the Natural & Cultural Heritage Strategic Intervention, rejected by the Managing Authority.</p> <p>These outstanding claims may put pressure on NatureScot’s 2023/24 budget as there is a risk that it cannot recover all of the amounts claimed as the final claim from NatureScot must be submitted by 31 January 2024. At the time of this report, the value of the final claim, including the previously rejected component, will be £24.2 million.</p>	<p>NatureScot has adjusted its grant receivable balance in line with IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance, to reflect what it estimates it has reasonable assurance of collecting. However, there is a risk that a significant portion of the funding claimed may not be received from the Managing Authority.</p> <p>Officers confirmed that they are engaging fully with the Managing Authority to ensure compliance with the programme procedures. They have confirmed they are working with the Scottish Government to ensure timely consideration and approval of the final claim.</p>	<p>Funding risk from outstanding grant claims – Level 1</p> <p>There is a risk that NatureScot’s outstanding EU funding claim is rejected in part, or in full, by the Managing Authority. This would have a significant impact on its funding position for the 2023/24 financial year.</p>

7. Financial sustainability (continued)

Identified risks in financial sustainability arrangements and recommendations for improvement

As a result of our work we have identified risks in the NatureScot’s financial sustainability arrangements. These identified risks have been outlined in the table below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action; see Appendix E for further details.

Financial sustainability risks identified	Recommendation for improvement	NatureScot response and implementation timescale
<p>1 Funding risk from outstanding grant claims– Level 1</p> <p>There is a risk that NatureScot’s outstanding EU funding claim is rejected in part, or in full, by the Managing Authority. This would have a significant impact on its funding position for the 2023/24 financial year.</p>	<p>NatureScot should ensure it obtains assurances from the Managing Authority that the claims will be paid before the closure of the programme.</p> <p>In addition, NatureScot should continue to assess the collectability of these receivables to ensure that the carrying amount of trade and other receivables in the 2023/24 financial statements is not materially misstated.</p>	<p>Management’s response</p> <p>We continue to engage fully with the Managing Authority in preparing the final claims and have escalated the risk and need for assurance to key contacts within Scottish Government. We are adding to the team in order to deal with the final claims process and are drawing expertise from other Lead Partners and from Audit Scotland.</p> <p>We continue to assess the collectability of the receivables and will be able to reflect the reimbursement of the final claim, which is due by 30 June 2024, when preparing the 2023/24 financial statements.</p> <p>Responsible officer Deputy Director of Nature & Climate Change</p> <p>Implementation date June 2024 (the deadline for final reimbursement of the final claim from the Managing Authority)</p>

7. Commentary on Wider Scope

Vision, leadership and governance

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



7. Vision, leadership and governance

Our overall assessment

Area assessed	Our findings	Our judgements	Risks identified
<p>Clarity of plans to implement the vision</p>	<p>NatureScot has a corporate plan covering 2022 to 2026. This focuses on three key priorities;</p> <ul style="list-style-type: none"> - Protecting Nature by expanding protected areas, regulating species management, and delivering effective planning advice on land and sea. - Restoring Nature through a new biodiversity strategy, restoring peatlands, aiding nature’s recovery and transforming farming. - Valuing nature so that the many benefits it provides to society can in turn attract public, private and social enterprise financing for both protection and restoration. For each of the above priorities, the plan clearly states the problems, the strategies for combating the issues and what success will look like. <p>NatureScot has a business plan which is aligned to the corporate plan and clearly sets out its objectives and budget for 2023/24.</p>	<p>NatureScot's corporate plan sets out a clear vision and strategy for the organisation. It has a clear set of three key priorities.</p>	<p>No significant issues identified.</p>

7. Vision, leadership and governance (continued)

Our overall assessment (continued)

Area assessed	Our findings	Our judgements	Risks identified
Strategy and priorities	<p>NatureScot's corporate plan sets out the vision and strategy for the organisation. Strategies and priorities are set through the corporate planning process every four years and the annual business planning process. NatureScot's plans are guided by the National Performance Framework, Programme for Government, Bute House Agreement and ministerial commitments. Discussions on prioritisation are also held with Scottish Government through its Sponsor Team, other Directorates and ministers and their advisors.</p> <p>During the year, priorities can be adapted with NatureScot's response being managed through a 90-day planning cycle. This includes processes for reallocating resource to priority areas.</p>	<p>NatureScot's strategy and priorities are clearly set out in its corporate plan.</p>	<p>No significant issues identified.</p>
Governance arrangements	<p>NatureScot's governance framework and relationship with the Scottish Government is set out in a joint framework agreement.</p> <p>The Board is the Chair and 11 other non-executive members. The role of the Board is to shape and set NatureScot's strategic direction. It also sets NatureScot's risk appetite and risk management framework and provides oversight and scrutiny of the organisational and financial performance. Board members come from a range of public and private sector backgrounds.</p> <p>The Board is supported by the Scientific Advisory Committee (SAC), the Protected Areas Committee (PAC) and the Audit and Risk Committee (ARC). During the year, there were seven Board meetings, two PAC meetings and five ARC meetings held, and these include open sessions which the public could attend.</p>	<p>The governance framework agreed between NatureScot and the Scottish Government appears appropriate.</p> <p>We found evidence of effective scrutiny, challenge and transparency of decision making at the Audit and Risk Committee. We have confirmed that the Board provides oversight and scrutiny of NatureScot's organisational and financial performance.</p>	<p>No significant issues identified.</p>

7. Vision, leadership and governance (continued)

Our overall assessment (continued)

Area assessed	Our findings	Our judgements	Risks identified
Financial and performance information	<p>Resources are allocated through the Business Plan, which sets high level budgets for the year in respect of pay, projects and capital spend. The business planning process, which usually concludes in March once the budget settlement from Scottish Government is known, confirms expenditure as agreed by strategic resource managers and the Senior Leadership Team.</p> <p>Budgets are based on individual plans for each corporate and business plan objective which are prepared by NatureScot Objective Leads. During the year, there was flexibility for the Objective Leads to reallocate resource to meet or improve their strategic outcomes. Where additional resource is needed, this is considered by the Allocations Group.</p> <p>NatureScot has a range of performance measures in place to assess how well it is delivering its objectives i.e., meeting the needs of service users. These are reported on a quarterly basis to the SLT and Board. NatureScot ensures continuous improvements in priority services through its 90-day planning process and in its transformation work, which focusses on its strategic objectives.</p>	<p>The regular performance reports presented to the Board and the SLT provide clear and regular information on NatureScot's performance against benchmarks and targets for its main operations.</p> <p>Information is provided on a quarterly basis which allows the SLT to benchmark against the previous quarter and recommend improvements where needed.</p>	<p>No significant issues identified.</p>

7. Commentary on Wider Scope

Use of resources to improve outcomes

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



7. Use of resources to improve outcomes

Our overall assessment

Area assessed	Our findings	Our judgements	Risks identified
<p>Resources deployed to improve strategic outcomes</p>	<p>NatureScot has a quarterly performance report to measure how its resources are deployed in improving strategic outcomes. Every three months, the Strategic Resources Managers evaluate the information received and report to the SLT on the progress and risks to delivering the corporate and business plans. The quarterly performance reports also include NatureScot’s current financial position, so that progress can be reviewed alongside spending. Corrective steps in managing the budget are undertaken to ensure that NatureScot stays on course to meet its outcomes and targets.</p> <p>The workforce plan 2018- 22 sets out NatureScot’s approach to and priority actions for workforce planning. It aims to ensure NatureScot:</p> <ul style="list-style-type: none"> • uses its existing capacity to best effect, and • develops its staff resources to respond rapidly and positively to new work areas and changing priorities. <p>NatureScot’s workforce plan expired in 2022 and management is in the process of developing the 2023-2026 plan. This plan will set out NatureScot’s performance and project management framework and demonstrate how training and management of staff resources can help deliver strategic outcomes.</p> <p>Internal audit has previously identified that NatureScot is yet to develop suitable measures to know how effective its learning and development framework has been in delivering its strategic outcomes.</p>	<p>NatureScot does not have a current workforce plan since the expiration of the 2018-22 plan.</p>	<p>Workforce planning – Level 3</p> <p>There is a risk that NatureScot is unable to ensure it has the resources and capacity to achieve its strategic objectives and respond to changing priorities.</p>

7. Use of resources to improve outcomes

Our overall assessment

Area assessed	Our findings	Our judgements	Risks identified
Needs of service users being met	<p>Helping communities to care for local nature assets is a priority for NatureScot and the Scottish Government. NatureScot invites communities to come to its Board meetings where they can contribute to conversations on managing Scotland's protected areas. It has produced a guide to the contributions that nature can make to community planning outcomes.</p> <p>NatureScot has several completed and upcoming surveys to draw input from individuals and communities. Some of NatureScot's surveys include;</p> <ul style="list-style-type: none"> - Scottish Adder Survey - Beaver Survey: To begin soon - Community-led Marine Survey Data - Biodiversity Site Survey and Audit - Public Perception Survey of Wilderness. 	<p>NatureScot carries out a range of surveys to obtain the views of individuals and communities on the services it provides. The results are used by NatureScot to measure performance and help inform strategic decision making.</p>	<p>No significant issues identified.</p>
Arrangements to deliver continuous improvements in priority services	<p>NatureScot's governance and accountability arrangements have clear lines of responsibility and reporting and systems for decision-making, budget and risk management.</p> <p>Monitoring of performance is tracked throughout the year and reported quarterly to the Senior Leadership Team and Board to ensure NatureScot is meeting its targets and outcomes.</p> <p>There is quarterly reporting to the Board on progress against the annual business plan. The reports give a snapshot of each of the business plan projects to allow Board members to assess whether projects are on track. The projects are grouped under each strategic priority and the information is clearly displayed in a table.</p>	<p>NatureScot provides Board members and the public with clear information on operational performance and progress against business plan improvement projects.</p>	<p>No significant issues identified.</p>

7. Use of resources to improve outcomes (continued)

Identified risks in use of resources to improve outcomes arrangements and recommendations for improvement

As a result of our work we have identified risks in the NatureScot's use of resources to improve outcomes arrangements. These identified risks have been outlined in the table below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action; see Appendix E for further details.

Use of resources to improve outcomes risks identified	Recommendation for improvement	NatureScot response and implementation timescale
<p>1 Workforce planning– Level 3</p> <p>NatureScot's workforce plan expired in 2022 and management is in the process of developing the 2023-2026 plan. There is a risk that NatureScot is unable to ensure it has the resources and capacity to achieve its strategic objectives and respond to changing priorities.</p>	<p>NatureScot should work to complete its new workforce plan. It should ensure the plan allows it to measure how effectively it is managing its resources.</p>	<p>Management's response</p> <p>The new People Strategy and associated People Programme now encompass the key elements of the Workforce Plan 2018-2022, and builds on the progress made to date. The People Strategy was approved in early 2023/24 by Senior Leadership Team, and is due to be soft launched to the organisation in Q3 2023/24.</p> <p>Responsible officer</p> <p>Marie Hernandez, Head of People & Organisational Development</p> <p>Implementation date</p> <p>December 2023</p>

7. Use of resources to improve outcomes (continued)

Follow up of previously-reported recommendations

In December 2022, Audit Scotland reported one recommendation to NatureScot to address risks identified from its wider scope audit of use of resources to improve outcomes. As part of our work in 2022/23, we followed up the progress made by NatureScot against the recommendation made and determined whether the risk remained during the year.

	Use of resources to improve outcomes finding as reported by previous auditor	Management response and implementation timeframe	Work undertaken and judgements made in 2022/23	Conclusions reached
1	<p>Resourcing accounts preparation process There were delays in preparing and auditing the annual report and accounts due to staffing and system issues at NatureScot. We also note that that the Financial Accountant, who oversees preparation of the accounts, intends to retire at the end of this year.</p> <p>Risk: the annual report and accounts are not certified by the statutory deadline of 31 December.</p>	<p>Management Response: The delays were the result of exceptional resourcing challenges within the Financial Accounts team. This was further exacerbated by system issues at a key time. We have now recruited to all vacant roles including the Financial Accountant role allowing for a handover period. We have also developed greater resilience with skills and capacity developed in the wider Finance, Planning and Performance activity for system support and transaction processing. We propose to adjust the timeline for the external audit and annual report and accounts production to ensure that deadlines are not affected by any future shortfalls in resourcing. We will continue to monitor resourcing closely to ensure that future agreed deadlines can be met and that the team is adequately resourced and supported.</p>	<p>Progress against the recommendation We received the unaudited annual report and accounts in line with the agreed timetable for the audit.</p>	<p>Conclusions Complete</p>

7. Commentary on Wider Scope

Climate Change



7. Climate Change

In October 2021, the Scottish Government issued 'Public Sector Leadership on the Global Climate Emergency' guidance. This recommended that public bodies should consider climate risk and adaptation; reporting to external frameworks; and climate change performance linked to their objectives to ensure clear accountability on performance.

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.

Our commentary of the NatureScot's climate change arrangements

NatureScot has progressed its climate change agenda in 2023 by developing a Climate Change Adaptation Plan. It aims to publish this in Autumn 2023. The plan will focus on NatureScot's organisational culture, processes and capacity, but it will also align with the Scottish Climate Change Adaptation Programme, due for publication in January 2024. It will also align with the Climate Change Plan, particularly options for land use in the transition to net zero, and the Scottish Biodiversity Strategy's Delivery Plan. NatureScot expects significant overlaps between these plans where they deal with choices in how land and sea are used and managed and the associated distribution of costs, risks and benefits.

NatureScot's first Climate Change Adaptation Plan will provide insights into the status and readiness across NatureScot to address climate change. This includes the need for consideration and actions on governance, leadership and resourcing. A key focus will be on ensuring NatureScot's risk management reflects the challenges of climate change and communicates climate risks. NatureScot also has a key role in ensuring stakeholders are aware of the move to a climate risk-led approach and in demonstrating the key role Nature Based Solutions play in reaching net zero and adapting to climate change.

NatureScot took part in Scotland's Climate Week in Autumn 2022. This is an annual event that raises awareness of the global climate emergency and encourages climate action across the country. The event is aimed at 'normalising climate change conversations' and raising awareness and knowledge amongst employees. NatureScot organised a full week of sessions for employees covering 5 major topics: Adaptation, Circular economy, Climate change key facts, Impacts on nature and Bike 2 work sessions.

Over 250 colleagues from across NatureScot have now completed the Climate Literacy for Procurers training provided by the Scottish Government. This is a part of its plan to increase the consideration of sustainability and potential carbon impact in procurement decision making. This will also help NatureScot to establish the costs associated with the impact of and adaptation to climate change.

7. Climate Change

Our commentary of the NatureScot's climate change arrangements (continued)

NatureScot's corporate emissions data covers 2021/22 in line with the latest data submitted for the Annual Climate Change Duties Report (ACCDR) in November 2022. The 2022/23 data will not be available until after the 2022/23 ACCDR has been submitted (due 30 November 2023) and reviewed and published on the [Sustainable Scotland Network website](#).

In 2021/22 NatureScot emissions were 842 tonnes CO₂. This is 9.5% higher than the previous year (769 tonnes CO₂). Whilst there was a slight decrease in helicopter use, there were increases in travel and building emissions. Travel emissions increased slightly as employees started to travel again. The increase in building emissions was mainly due to a hydro scheme not functioning fully during the year.

NatureScot is continuing to replace its petrol and diesel car and van fleet with electric vehicles and plan to have this completed by 2025 (currently 73% of its cars and vans are fully electric, along with some plug-in hybrid vehicles). This is in line with the Scottish Government's plans to phase out petrol and diesel cars and vans. It is continuing to roll out electric vehicle charging points and these now cover 21 of the sites where NatureScot is based.

NatureScot has identified a programme of works for an externally funded application for the Scottish Government's Energy Efficiency Fund. If successful, NatureScot will compress the 10-year plan and deliver projects over a period of two to three years.

NatureScot has completed two off-grid projects on Rum and the Isle of May and energy efficiency work on the Golspie Office. This building has an EPC rating of A+ which means Net Zero or better. Monitoring of this project's performance will continue for a year to confirm that this is the body's first Net Zero Office in building emissions. The Great Glen House Photo Voltaic panel and battery bank project has commenced. NatureScot estimates that these projects should deliver a reduction of around 44 tonnes CO₂ to the overall estate carbon footprint.

Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

E: Wider scope and Best Value ratings

Appendix A: Draft management representation letter

Tom Reid
Mazars LLP
100 Queen Street
Glasgow
G1 3DN

2 November 2023

Dear Tom

NatureScot – Audit for the Year Ended 31 March 2023

This representation letter is provided in connection with your audit of the financial statements of NatureScot for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the Natural Heritage (Scotland) Act 1991 and UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Government Financial Reporting Manual (the 2022/23 FReM).

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

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Natural Heritage (Scotland) Act 1991 and UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Government Financial Reporting Manual (the 2022/23 FReM).

My responsibility to provide and disclose relevant information

I have provided you with:

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

I confirm as Accountable Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Appendix A: Draft management representation letter

Accounting records

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

Accounting policies

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

Accounting estimates, including those measured at fair value

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

I confirm that the carrying value of claims from EU Funding included in trade and other receivables is an accurate estimate of the amount the body will receive from the managing authority. I confirm this estimate is based on management's assessment of the likelihood that claims will be approved and paid by the managing authority. We have applied all the conditions of IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance in arriving at this estimate.

Contingencies

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

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

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

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Body have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Natural Heritage (Scotland) Act 1991 and UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Government Financial Reporting Manual (the 2022/23 FReM).

Laws and regulations

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

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

Appendix A: Draft management representation letter

Fraud and error

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

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

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

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Natural Heritage (Scotland) Act 1991 and UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Government Financial Reporting Manual (the 2022/23 FReM).

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

Impairment review

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

Charges on assets

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

Future commitments

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

Valuation of land, buildings and dwellings

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

Appendix A: Draft management representation letter

Right of Use assets and lease liabilities

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

Ultimate parent company

I confirm that the ultimate parent company for NatureScot is the Scottish Government.

Other Matters

I confirm in relation to the following matters that:

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

Going concern

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

Performance related allocations

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

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which Natural Heritage (Scotland) Act 1991 and UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Government Financial Reporting Manual (the 2022/23 FReM) require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Governance Statement

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

Appendix A: Draft management representation letter

Annual Report

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

Other Representations

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

Unadjusted misstatements

I confirm that there are no uncorrected misstatements.

Yours faithfully

Francesca Osowska
Chief Executive and Accountable Officer

Appendix B: Draft audit report

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

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements in the annual report and accounts of NatureScot for the year ended 31 March 2023 under the Natural Heritage (Scotland) Act 1991. The financial statements for NatureScot comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and Notes to the accounts, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Government Financial Reporting Manual (the 2022/23 FReM).

In our opinion the accompanying financial statements:

- give a true and fair view of the state of the body's affairs as at 31 March 2023 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 FReM; and
- have been prepared in accordance with the requirements of the Natural Heritage (Scotland) Act 1991 and directions made thereunder by the Scottish Ministers.

Basis for opinion

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

Conclusions relating to going concern basis of accounting

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

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

Appendix B: Draft audit report

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

Risks of material misstatement

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

Responsibilities of the Accountable Officer for the financial statements

As explained more fully in the Statement of Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Accountable Officer is responsible for assessing the body's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the body's operations.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using our understanding of the central government sector to identify that the NatureScot (Scotland) Act 1991 and directions made thereunder by the Scottish Ministers are significant in the context of the body;
- inquiring of the Accountable Officer as to other laws or regulations that may be expected to have a fundamental effect on the operations of the body;
- Inquiring of the Accountable Officer concerning the body's policies and procedures regarding compliance with the applicable legal and regulatory framework;

Appendix B: Draft audit report

- discussions among our audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

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

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

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

Reporting on regularity of expenditure and income

Opinion on regularity

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

Responsibilities for regularity

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

Reporting on other requirements

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

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

Appendix B: Draft audit report

Other information

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

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

We have nothing to report in this regard.

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

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

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

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

Matters on which we are required to report by exception

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

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

Appendix B: Draft audit report

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of our report

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

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

Mazars LLP

100 Queen Street

Glasgow – G1 3DN

Appendix C: Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

Appendix C: Independence (continued)

Fees for work as NatureScot's auditor





We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit and Risk Committee on 11 May 2023. We were appointed as auditors for NatureScot in the 2022/23 financial year therefore no comparatives have been provided in the below table. Having completed our work for the 2022/23 financial year, we can confirm that our fees are as follows:

Area of work	2022/23 fees
Auditor remuneration	£64,960
Pooled costs	(£1,030)
Contribution to PABV costs	£0
Audit support costs	£1,850
Sectoral cap adjustment	£12,950
Total fees	£78,730




Fees for other work

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

Appendix D: Other communications

Other communication	Response
 <p>Compliance with Laws and Regulations</p>	<p>We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations.</p> <p>We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.</p>
 <p>External confirmations</p>	<p>We did not experience any issues with respect to obtaining external confirmations.</p>
 <p>Related parties</p>	<p>We did not identify any significant matters relating to the audit of related parties.</p> <p>We will obtain written representations from management confirming that:</p> <ul style="list-style-type: none"> a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
 <p>Going concern</p>	<p>We have not identified any evidence to cause us to disagree with the Accountable Officer that NatureScot will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.</p> <p>We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.</p>

Appendix D: Other communications (continued)

	Other communication	Response
	<p>Subsequent events</p>	<p>We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.</p>
	<p>Matters related to fraud</p>	<p>We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition, we have assessed the adequacy of NatureScot’s arrangements for preventing and detecting fraud or other irregularities as part of the wider scope audit and concluded that they are sufficiently designed and implemented.</p> <p>We will obtain written representations from management, and Those Charged With Governance, confirming that:</p> <ol style="list-style-type: none"> a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; b. they have disclosed to the auditor the results of management’s assessment of the risk that the financial statements may be materially misstated as a result of fraud; c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: <ol style="list-style-type: none"> i. Management; ii. Employees who have significant roles in internal control; or iii. Others where the fraud could have a material effect on the financial statements; and d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.
	<p>National Fraud Initiative</p>	<p>The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland and overseen by the UK’s Cabinet Office, designed to prevent and detect fraud. The NFI uses data analytics to compare information held on individual by different public bodies to highlight the existence of fraud or error.</p> <p>NatureScot submitted creditors and receivables data for the 2022/2023 exercise and received matches for investigation in January 2023. We have monitored NatureScot’s participation and progress during the 2022/23 audit. NatureScot have made good progress, processing 100% of their matches across all categories which totalled 768 items within the year. This included 1 very high-risk match which was closed and agreed as satisfactory.</p>

Appendix E: Wider scope and Best Value ratings

We need to gather sufficient evidence to support our commentary on NatureScot’s arrangements and to identify and report on any risks. We will carry out more detailed work where we identify significant risks. Where significant risks are identified we will report these to NatureScot and make recommendations for improvement. In addition to local risks, we consider challenges that are impacting the public sector as a whole.

We have assigned priority rankings to each of the risks identified to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. The table below describes the meaning behind each rating that we have awarded to each wider scope area based on the work we have performed.

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

Tom Reid (Audit Director)

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.

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