

Highlands and Islands Enterprise

Management Report 2017/18



 AUDIT SCOTLAND

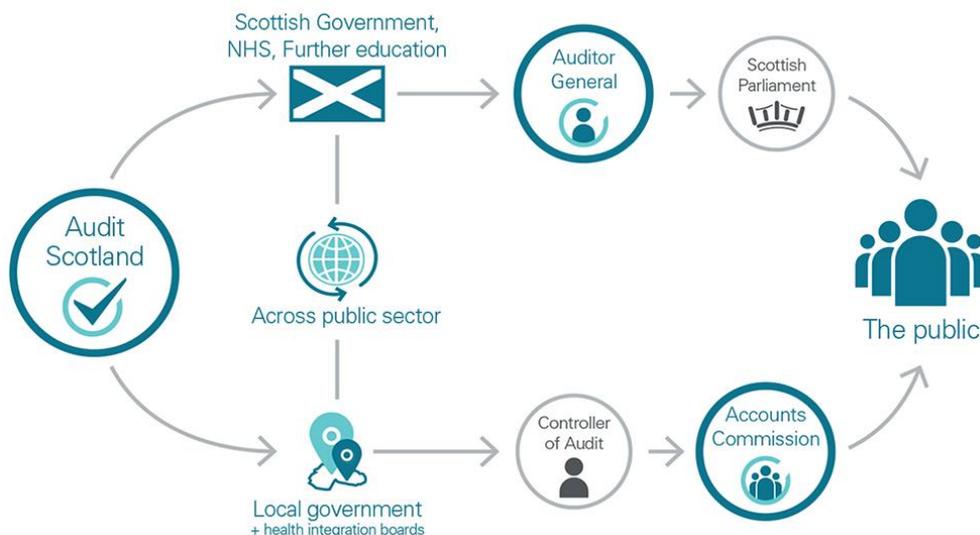
Prepared for Highlands and Islands Enterprise

May 2018

Who we are

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

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



About us

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

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

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

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Audit findings

Introduction

1. This report summarises the key issues identified during the interim audit work at Highlands and Islands Enterprise. This work included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the financial statements. We will use the results of this testing to inform our approach during the 2017/18 financial statements audit.
2. It is the responsibility of management to decide on the extent of the internal control system appropriate to Highlands and Islands Enterprise. Our responsibilities under the [Code of Audit Practice](#) require us to assess the system of internal control put in place by management. We seek to gain assurance that the audited body:
 - has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
 - has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
 - complies with established policies, procedures, laws and regulations.
3. In addition, we carried out interim substantive testing on material accounts areas including income, expenditure and staff costs.
4. Under the [Code of Audit Practice](#), we carried out work on the wider dimension audit, focussing on financial management (budget setting/monitoring and the National Fraud Initiative). We will carry out our follow up work on financial sustainability, including the use of scenario planning, as part of the annual accounts audit and report the results of this work in our Annual Audit Report.
5. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.
6. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

Conclusions

7. Based on the interim audit work undertaken, we have concluded that the key controls within Highlands and Islands Enterprise's main financial systems are operating satisfactorily, and as a result we can take our planned assurances for our audit of the 2017/18 financial statements.
8. No issues arose from the interim substantive testing of income, expenditure and staff costs.
9. In terms of our wider dimension audit work, we concluded that appropriate budget setting and monitoring arrangements are in place; and that Highlands and Islands Enterprise responded well to the 2016/17 National Fraud Initiative with all recommended matches now investigated and closed.

Work summary and findings

10. In accordance with *ISA 330: the auditor's response to assessed risk*, our audit judgements are based on current year testing of controls and where appropriate prior year results. Our risk based audit approach allows us to take a three-year cyclical approach to controls testing. This approach enables us to place reliance on previous years' audit work where controls remain unchanged and no significant weaknesses had been identified.

11. During our 2017/18 interim audit we undertook the following audit work:

- walkthrough of the key controls identified for each of Highlands and Islands Enterprise's main financial systems (general ledger, payroll, cash & bank, accounts payable and accounts receivable) to assess whether the controls were operating as intended
- testing of the key controls in operation within these systems including bank and feeder system reconciliations, controls over IT access and changes to standing data, and the controls in place to prevent and detect fraud in respect of grant payments
- substantive testing of income, expenditure and some elements of staff costs covering the first ten accounting periods of the 2017/18 financial year
- review of the adequacy of the processes in place for financial budgeting including budget monitoring reports prepared for the Board
- review of progress made in investigating the matches recommended for follow up as part of the 2016/17 National Fraud Initiative.

12. We did not identify any key control weaknesses from our walkthrough and testing of the key controls in operation within Highlands and Islands Enterprise's main financial systems. Our interim substantive testing did not identify any issues. Additional substantive testing will be undertaken as part of our audit of the 2017/18 financial statements.

13. Our review of the Board's budget monitoring and control processes concluded that effective arrangements are in place. Budget monitoring reports are regularly presented to the Board, monthly management accounts are prepared and Highlands and Islands Enterprise's progress against budget and its financial position are discussed at every meeting of the Senior Management Team. We will undertake our follow up work on financial sustainability, including the use of scenario planning, as part of the annual accounts audit and report the results of this work in our Annual Audit Report.

14. Highlands and Islands Enterprise responded well to the National Fraud Initiative exercise and all recommended matches have been investigated and closed. No frauds were identified in the course of the investigations but scope was identified for improving controls through the review of creditor standing data. The work was effectively recorded and a final report on the exercise was presented to the Risk and Audit Committee in September 2017.

Reliance on internal audit

15. We plan to rely on Internal Audit's work on significant transactions and travel and subsistence to support our audit opinion on the financial statements. At the time of drafting this report, Internal Audit have not yet completed this work and so we will review these areas as part of our financial statements audit work.

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