

Highlands and Islands Enterprise

2017/18 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Highlands and Islands Enterprise and the Auditor General for Scotland

13 August 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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Key messages

2017/18 annual report and accounts

- 1 The financial statements of Highlands and Islands Enterprise and its group give a true and fair view of its financial position and their net expenditure.
- 2 Expenditure and income in the financial statements were incurred and applied in accordance with applicable enactments and guidance.
- 3 The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with legal requirements.

Financial management

- 4 Highlands and Islands Enterprise has effective overall financial management arrangements. It remained within its overall resource budget for 2017/18.
- 5 Systems of internal control operated effectively during 2017/18.

Financial sustainability

- 6 A comprehensive review of Highlands and Islands Enterprise's approach to financial planning began in 2017/18. Good progress has been made and once complete the revised model will provide a firm basis for financial planning and sustainability in the longer term.
- 7 There are no specific concerns about the overall financial position of Highlands and Islands Enterprise.

Governance and transparency

- 8 Highlands and Islands Enterprise has effective governance arrangements in place that support scrutiny of decisions made by the Board.
- 9 Highlands and Islands Enterprise is open and transparent in the way it conducts its business with scope to develop its approach further.

Value for money

- 10 Highlands and Islands Enterprise has a well-developed performance management framework in place.

Introduction

1. This report summarises the findings from our 2017/18 audit of Highlands and Islands Enterprise.

2. The scope of our audit was set out in our Annual Audit Plan presented to the March 2018 meeting of the Risk and Assurance Committee. This report comprises the findings from:

- an audit of Highlands and Islands Enterprise's annual report and accounts
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: *Code of Audit Practice 2016*

3. The main elements of our audit work in 2017/18 have been:

- review Highland and Islands Enterprise's main financial systems
- an audit of Highland and Islands Enterprise's 2017/18 annual report and accounts including the issue of an independent auditor's report setting out our opinions
- consideration of the four audit dimensions.

4. Highlands and Islands Enterprise has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers. Highlands and Islands Enterprise's annual report and accounts includes the following:

- performance report
- accountability report (which includes the corporate governance report, remuneration and staff report, and parliamentary accountability report)
- financial statements and supporting notes.

5. Highlands and Islands Enterprise is also responsible for establishing effective arrangements for governance, propriety and regularity that enable the Board to successfully deliver its objectives.

6. Our responsibilities as independent auditor are outlined in the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK.

7. As public sector auditors we give independent opinions on the annual report and accounts. We also review and provide conclusions on the effectiveness of the performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

8. This report raises matters from the audit of the annual report and accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to their attention during our normal audit work, and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

9. Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

10. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and, therefore, the 2017/18 audit fee of £133,490 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

11. Our aim is to add value to Highlands and Islands Enterprise by increasing insight into, and offering foresight on, financial sustainability, risk and performance, by identifying areas of improvement and by recommending and encouraging good practice. In so doing, we aim to help the Board promote improved standards of governance, better management and decision making and more effective use of resources.

12. This report is addressed to both the Board and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

13. We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2017/18 annual report and accounts



Main judgements

The financial statements of Highlands and Islands Enterprise and its group give a true and fair view of the financial position and of their net expenditure for the year.

Expenditure and income were incurred and applied in accordance with applicable enactments and guidance.

The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with legal requirements.

Audit opinions on the annual report and accounts

14. The annual report and accounts for the year ended 31 March 2018 were approved by the Risk and Assurance Committee on 13 August 2018. We reported within our independent auditor's report that in our opinion:

- the financial statements give a true and fair view and were properly prepared
- expenditure and income were incurred and applied in accordance with applicable enactments and guidance
- the performance report, governance statement, and the audited part of the remuneration and staff report were consistent with the financial statements and properly prepared in accordance with the accounts direction.

15. Additionally, we have nothing to report in respect of misstatements in the other information presented with the financial statements, the adequacy of accounting records or the information and explanations we received.

Submission of annual report and accounts for audit

16. We received the unaudited financial statements on 15 June 2018 in line with our agreed audit timetable. This was a week earlier than in previous years and as agreed as part of the accelerated process to deliver the audited accounts three weeks earlier than last year.

17. The working papers provided with the unaudited financial statements were of a good standard and finance staff provided support to the audit team which helped ensure the final accounts audit process ran smoothly.

Whole of Government Accounts

18. In accordance with the WGA guidance we will complete the required assurance statement and submit it to the National Audit Office (NAO) by the 30 September 2018 deadline.

The annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

Risk of material misstatement

19. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process. These risks had the greatest effect on the overall audit strategy, the allocation of staff resources to the audit and directing the efforts of the audit team. Also included within the appendix are wider audit dimension risks, how we addressed these and conclusions.

Materiality

20. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.

21. Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit. We assess the materiality of uncorrected misstatements, both individually and collectively.

22. On receipt of the annual report and accounts we reviewed our materiality bases and concluded that they remained appropriate. We updated the materiality amounts as shown in [Exhibit 2](#).

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality	£920,000
Performance materiality	£368,000
Reporting threshold	£18,000

Source: Audit Scotland

How we evaluate misstatements

23. Presentational and monetary adjustments to the accounts identified during the audit were discussed with senior finance staff who agreed to amend the financial statements. There are no unadjusted misstatements.

24. The net effect of adjustments processed was to reduce group net expenditure by £25,000, reduce other comprehensive income by £29,000, and reduce net assets and taxpayers' equity by £1.620 million. These adjustments reflect a number of compensating amounts, some of which are discussed in [Exhibit 3](#) below. They also include a late adjustment, found as a result of planned internal audit activity, which increased expenditure and creditors, and reduced the general reserve by £32,000.

Significant findings from the audit in accordance with ISA 260

25. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

26. These findings include our views about significant qualitative aspects of Highlands and Islands Enterprise's accounting practices including:

- | | |
|---|---|
| • accounting policies | • accounting estimates and judgements |
| • significant financial statements disclosures | • timing of transactions and the period in which they are recorded |
| • the impact on the financial statements of any uncertainties | • the effect of any unusual transactions on the financial statements |
| • misstatements in the annual report and accounts | • disagreement over any accounting treatment or financial statements disclosure |

Exhibit 3

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Consolidation of Orkney Research and Innovation Campus (ORIC)</p> <p>ORIC was set up as a joint venture between Highlands and Islands Enterprise and Orkney Islands Council during 2017/18 and was consolidated as a subsidiary within the group accounts presented for audit. ORIC does not meet the definition of a subsidiary and as a result, group net expenditure was overstated by £13,000 and net assets and taxpayers' equity were overstated by £1.7 million.</p>	<p>Management agreed to amend the accounts to correct this misstatement.</p> <p> Recommendation 1</p>
<p>2. Provision for VAT liability</p> <p>Highlands and Islands Enterprise overclaimed VAT recovery in previous years. The accounts include an accrual of £2.2 million plus a provision of £322,000 in relation to this VAT liability. This provision was incorrectly included within the bad debt provision in both the group and HIE accounts presented for audit and as a result, trade and other receivables and trade payables and other current liabilities were both understated by £322,000.</p>	<p>Management agreed to amend the accounts to correct this misstatement.</p> <p> Recommendation 1</p>
<p>3. Soft loans prior year adjustment</p> <p>The accounts presented for audit included prior year adjustments to financial assets and the general reserve in relation to loans provided interest free or at preferential rates (soft loans). These adjustments were not required and arose due to a misunderstanding of the required accounting entries. As a result, other comprehensive income was overstated by £29,000, and financial assets and the general reserve were understated by £69,000 in both the group and HIE accounts presented for audit. Net assets and taxpayers' equity figures as at 31 March 2017 and 2016 were</p>	<p>Management agreed to amend the accounts to correct this misstatement.</p> <p> Recommendation 1</p>

Issue	Resolution
<p>also overstated by £98,000 and £147,000 respectively.</p>	
<p>4. Gain on sale of shares</p> <p>The gain on sale of shares disposed of during the year was incorrectly accounted for in accounts presented for audit. As a result, the surplus on disposal of investments and the provision for irrecoverable debts and losses were understated by £41,000 in both the group and Highlands and Islands Enterprise accounts presented for audit. There is no impact on net assets or taxpayers' equity.</p>	<p>Management agreed to amend the accounts to correct this misstatement.</p> <p> Recommendation 1</p>
<p>5. Minority Interests</p> <p>The change in minority interests disclosed in the group statement of comprehensive net expenditure was overstated by £44,000 in the accounts presented for audit. As a result, group net expenditure and the minority interest balance in the group statement of financial position were overstated and the general reserve was understated by £44,000.</p>	<p>Management agreed to amend the accounts to correct this misstatement.</p> <p> Recommendation 1</p>

Source: Audit Scotland

Other findings

27. We have highlighted below other matters identified during our audit.

Over-recovery of VAT

28. As reported in Exhibit 3, Highlands and Islands Enterprise over-recovered VAT in connection with the construction of its new main office building, An Lochran, in previous years. Highlands and Islands Enterprise sought and received advice from its tax advisers in prior years but this had not been followed up due to an oversight. As the final position has yet to be agreed with HMRC, we will review this area further as part of our 2018/19 audit.

29. VAT and PAYE processes have been reviewed by both the Director of Finance & Corporate Services and independent advisers to ensure that, going forward, there are appropriate arrangements in place. The advisers' report includes recommendations to improve the VAT/PAYE knowledge within the finance team. We have been advised that key staff have been on training courses to enhance their knowledge in these areas.

Remuneration Report

30. The Remuneration Report provides details of the remuneration paid to the Leadership Team including retirement benefits. These are provided by the actuary as part of the year end processes. Finance staff recalculated the pension benefit disclosures for inclusion in the accounts presented for audit. These calculations were incorrect and overstated the pension benefits of the Leadership Team by £22,000. The correct retirement benefits disclosures, as provided by the actuaries, were included in the audited accounts.

Financial investments

31. Note 10 of the financial statements refers to investments held at fair value of £0.511 million. Highlands and Islands Enterprise holds investments (loans and shares) in 35 companies at an original cost of £1.2 million (prior to revaluation) and excludes any interests which are consolidated. Highlands and Islands Enterprise acts as a passive investor and does not exercise control over these companies. As a consequence, they are not consolidated in the group accounts, but carried as investment assets which reflect Highlands and Islands Enterprise's aim to use investment to drive economic growth.

32. During 2017/18, Highlands and Islands Enterprise wrote-off a number of debts including investment write-offs of £0.6 million. The Scottish Government were advised of any write-off in excess of £250,000 in accordance with agreed procedures.

33. The Accounts Direction (replicated on pages 74 and 75 of the annual report and accounts) requires additional disclosures in relation to investments. This additional information is disclosed at note 10 of the accounts.

Follow up of prior year recommendations

34. We reviewed progress made in implementing the agreed action included in our 2016/17 annual audit report, and summarised our findings in [Appendix 1](#) (identified by the prefix b/f (brought forward)) and paragraphs 51 to 54 in Part 3 of this report.

35. Overall, Highlands and Islands Enterprise has made satisfactory progress in implementing this action. For actions not yet implemented, revised responses and timescales have been agreed with management, as set out in [Appendix 1](#).

Part 2

Financial management



Main judgements

Highlands and Islands Enterprise has effective financial management arrangements in place. It has remained within its overall resource budget for 2017/18.

Systems of internal control operated effectively during 2017/18.

Financial performance in 2017/18

36. The main financial objective for Highlands and Islands Enterprise is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

37. Highlands and Islands Enterprise reported an outturn of £70.1 million remaining within its overall budget for 2017/18 with an underspend of £1.5 million. The financial performance against Departmental Expenditure Limits (DEL) is shown in [Exhibit 4](#). The majority of the underspend relates to the non-cash budget which covers depreciation, amortisation and impairment and has been historically set in excess of Highlands and Islands Enterprise's needs. This budget was reduced during the year but was still underspent at the year end.

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

Exhibit 4

Performance against DEL in 2017/18

Performance	Initial budget £000	Final budget £000	Actual outturn £000	Overspend/ (underspend) £000
Resource DEL	29,500	30,030	30,007	(23)
Capital DEL	26,200	39,500	39,475	(25)
Total cash DEL	55,700	69,530	69,482	(48)
Non-cash DEL	11,047	2,047	640	(1,407)
Total DEL	66,747	71,577	70,122	(1,455)

Source: June 2017 Grant In Aid Letter; June 2018 Spring Budget Revision Grant in Aid Letter; Highlands and Islands Enterprise 2017/18 Annual Report and Accounts

Budgetary processes

38. A number of adjustments were made to the original budget: inclusion of £8 million in respect of funding for Wave Energy Scotland, and £5.3 million for energy manufacturing (both capital DEL), £0.421 million for the strengthening communities programme, and £0.109 million for the food and drink collaborative innovation fund (both Resource DEL).

39. Highlands and Islands Enterprise did not receive notification of the additional £5.3 million allocation until December 2017. We are satisfied that Highlands and Islands Enterprise used the additional funds to bring forward projects which had already been approved. Late notification of additional funding presents challenges to any organisation and increases the risk that projects are progressed because they are ready to proceed rather than on the basis of more in-depth analysis of options and business priorities.

40. 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 Leadership Team.

Systems of internal control

41. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that Highlands and Islands Enterprise has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

42. Our findings were included in the management report presented to the Risk and Assurance Committee on 5 June 2018. We concluded that the controls tested were operating effectively. No significant internal control weaknesses were identified during the audit which could affect Highlands and Islands Enterprise's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

ICT review

43. Our ICT audit work this year focussed on cyber resilience (reported at paragraphs 85 to 87). We also followed-up points raised in last year's ICT overview report. There were four risks raised in the 2016/17 ICT overview report. Progress made against each of the four points can be summarised as follows:

- the project to complete documented procedures within Enterprise Information Systems (EIS) is still in progress
- a single security policy across the EIS partnership is not yet in place. We note that work has progressed in some areas to unify security practices, such as a standardised approach to the Office 365 project across the partnership
- EIS has engaged with the partners' business requirements to prepare an Information Technology Strategy (the EIS strategy) and EIS Development Plan
- Highlands and Islands Enterprise has put in place an improvement plan with EIS and progress on this is reported at each Risk and Assurance Committee meeting.

44. As Highlands and Islands Enterprise does not control its information technology provision directly, assurance on the managed delivery of technology services (installation management, application development and support and desktop services) are obtained through the commissioning of an ISAE 3402 report (International Standard on Assurance Engagements). Use of the standard allows the reviewer to issue a report for use by user organisations and their auditors on the controls at a service organisation that are likely to impact or be a part of the user organisation's system of internal control over financial reporting.

Financial management capacity

45. Over the first two years of our appointment we have noted that Highlands and Islands Enterprise uses external resources to supplement its finance team's preparation of the annual accounts with a number of areas, including the preparation of the cash flow statement, undertaken by an accountancy firm. The nature of its business means that Highlands and Islands Enterprise needs to account for a number of complex transactions including loans made at preferential interest rates, VAT, corporation tax and the consolidation of subsidiaries and associated companies.

46. As noted above at paragraphs 28 and 29, Highlands and Islands Enterprise identified issues, during 2017/18, with how it had administered VAT in previous years. Our audit identified a number of issues with how some transactions were accounted for (see Exhibit 3) and some disclosures (see paragraph 30) were included in the accounts presented for audit. Given these findings, the expectations for earlier completion of accounts, the new ways of working (e.g. joint ventures) being introduced and Highlands and Islands Enterprise's ambitions for longer term strategic financial planning, we would recommend that a review is undertaken to ensure that there are sufficient financial skills and capacity within Highlands and Islands Enterprise.



Recommendation 2

Highlands and Islands Enterprise should review its financial management capacity to ensure that it has sufficient financial skills and capacity to meet its needs.

Part 3

Financial sustainability



Main judgements

A comprehensive review of Highlands and Islands Enterprise's approach to financial planning began in 2017/18. Good progress has been made and once complete the revised model will provide a firm basis for financial planning and sustainability in the longer term.

There are no specific concerns about the overall financial position of Highlands and Islands Enterprise.

2017/18 financial position

47. The Statement of Financial Position summarises what is owned and owed by Highlands and Islands Enterprise. This shows taxpayers' equity – an accounting measurement of the amount invested that has continuing public benefit. It shows how much of this has arisen from the application of revenues and that which has resulted through changes over time in the value of physical assets.

48. The annual accounts show that Highlands and Islands Enterprise and its group:

- has net assets of £0.8 million. This is an increase of £13.7 million compared to the previous year and is largely attributable to a decrease in pension liabilities (£17.3 million) and increased investment in associates and joint ventures (£1.5 million) offset by increased trade payables (£0.5 million) and decreases in property, plant and equipment (£1.8 million), cash and cash equivalents (£2.4 million), and assets held for sale (£0.3 million)
- the pension schemes are in deficit with liabilities exceeding assets by £39 million (2016/17: net liability £56.3 million). The Highlands and Islands Enterprise pension scheme accounts for most of this deficit with an excess of liabilities over assets of £34.7 million as at 31 March 2018 (£50.2 million as at 31 March 2017). Following the 2012 triennial valuation, Highlands and Islands Enterprise implemented a recovery plan, including lump sum employer contributions and increasing members' contribution rate, to address the deficit on its pension scheme. Highlands and Islands Enterprise made additional lump sum contributions totalling £1.6 million to its pension scheme during 2017/18.

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

Financial planning

49. The Board approved the 2018/19 budget in April 2018. Highlands and Islands Enterprise has received an initial grant in aid allocation for 2018/19 of £56.7 million, of which £30.5 million relates to resource allocation, and £26.2 million to capital allocation. The budget also anticipates income from other sources of £11.5 million: £5 million from European Funding, £2.8 million from property disposals and loan repayments, and £3.7 million from revenue receipts.

50. A programme of expenditure has been agreed across the business objectives to match the total anticipated income (£68.2 million). This is an increase of £2.3 million (3.5%) compared to the amount originally budgeted for 2017/18. The increase results mainly from increased grant in aid (£1 million) and forecast increases in capital (£0.8 million) and revenue (£0.5 million) receipts. In addition to its own budget, Highlands and Islands Enterprise also manages budgets for Wave Energy Scotland (£8.5 million), superfast broadband (£12.1 million) and City Deals (£1.2 million).

Longer term financial planning

51. We reviewed the financial planning systems and assessed how effective they are in identifying and addressing risks to financial sustainability in the longer term. Last year we recommended that Highlands and Islands Enterprise's rolling five-year plan should include scenario plans (best, worst, most likely) including a clear assessment of the impact of budget assumptions on Highlands and Islands Enterprise's activity and any residual risks.

52. In response, the Director of Finance & Corporate Services has begun to review Highlands and Islands Enterprise's approach to longer term financial planning. Three broad areas are being covered:

- identification of the financial outlook in the medium term, recognising the changing landscape (especially Scottish Government's increasing reliance on variable tax revenue rather than block grant) and the comparatively recent creation of the Scottish Fiscal Commission and its analysis of the economic outlook
- development of a simple scenario planning model that allows the impact of variables to be modelled in a dynamic way (and within this a test of financial sustainability)
- how Highlands and Islands Enterprise can use past experience to better inform options for future investment.

53. Good progress has already been made with discussions at Leadership Team and Board level focussing on the medium to longer term financial outlook and the development of a scenario planning model. We recognise that the third area is more ambitious and hence challenging to deliver. A Board workshop, planned for late summer, will provide an opportunity for members to input to this area.

54. We concluded that Highlands and Islands Enterprise is developing a comprehensive approach to financial planning which will provide a firm basis for financial planning and sustainability in the longer term.

EU withdrawal

55. There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- workforce – the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour
- funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports
- regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.

56. In June 2017, Highlands and Islands Enterprise undertook a risk analysis of the potential impact of the decision to leave the EU on individuals, businesses and communities in the Highlands and Islands. This built on previous reports to the Board and Risk and Assurance Committee and set out actions aimed at mitigating the uncertainty. Key actions include: maximising the use of current EU programmes; working with partners and government to articulate the benefits derived from these programmes and to argue for future participation in these; and strengthening existing and cultivating new relationships with European partners. Given the level of uncertainty around Brexit at this time, this approach appears reasonable.

Part 4

Governance and transparency



Main judgements

Highlands and Islands Enterprise has effective governance arrangements in place that support scrutiny of decisions made by the Board.

Highlands and Islands Enterprise is open and transparent in the way it conducts its business with scope to develop its approach further.

Governance arrangements

57. Highlands and Islands Enterprise is governed by a Board that is accountable to Scottish Ministers. At 31 March 2018, the Board consisted of the chair, ten non-executive members and the chief executive. In 2017/18, there were six Board meetings. In addition, the Board met a further four times: for a strategic planning day, to consider the Enterprise and Skills review project plan and to consider specific papers. The Board has two sub-committees: risk and assurance (RAC), and remuneration.

58. The RAC met five times in 2017/18, including a development day in December 2017. We attend all RAC meetings. Agendas follow a standard format and papers are circulated to members in advance, allowing adequate time for members to review. From attendance at RAC meetings, we are satisfied that members provide appropriate scrutiny of submitted reports.

Enterprise and Skills Review

59. In May 2016, the First Minister announced an end-to-end review of enterprise and skills support. This aims to ensure public agencies are delivering the support Scotland's young people, universities, colleges, training providers, businesses and workers need. The report on the first phase of the review was published in October 2016. It contained ten recommendations focused on ensuring a simpler, more flexible and cost-effective enterprise and skills support system.

60. Phase two of the review commenced in November 2016 with the start of nine projects to take forward the first phase's recommendations. Key actions include:

- creating a Strategic Board to support the coordination of agency activities around shared priorities, and help improve performance
- creating a new enterprise agency for the South of Scotland
- developing a more coherent, collaborative and streamlined system of business support.

61. The Strategic Board met for the first time in December 2017 and has now met four times, including a strategy day in January 2018. The Board has an independent Chair and a membership drawn from the Chairs of each of the enterprise and skills agencies as well as independent non-executive members. The Board's immediate priority has been to develop a Strategic Plan and a measurement and performance framework to underpin the Plan. The Strategic

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

Plan will set out areas of shared focus for the agencies and actions to boost growth and productivity. It is due to be completed later this year. An Outline Strategic Plan was published in June 2018 to inform engagement with stakeholders as part of the development of the Strategic Plan.

62. The Highlands and Islands Enterprise Board has been kept up to date with developments through regular reporting to Board meetings. Board members and senior officers have started working to implement the review's recommendations. This has included exploring potential areas for joint working with the other enterprise and skills agencies. Groups of employees from each of the agencies have met to talk about the implications of the review and identify opportunities to work together. Highlands and Islands Enterprise has been involved in the development of the Outline Strategic Plan.

63. The review gives Highlands and Islands Enterprise a chance to shape the future of enterprise activity. Realising the review's ambitious aims will be challenging and it will require Highlands and Islands Enterprise to work effectively with the other agencies to develop shared priorities designed to make a difference across the enterprise and skills sector. Highlands and Islands Enterprise also needs to manage the expectations of the Strategic Board, Ministers and its own Board.

64. Highlands and Islands Enterprise recognises these challenges and the opportunities offered by the enterprise and skills review. There is evidence of a shared commitment to take forward the review's recommendations. There is consensus that closer working can help the agencies to build on their individual achievements to ensure the enterprise and skills system provides the support users need.

65. We recognise the significance of the enterprise and skills review for Highlands and Islands Enterprise and will continue to monitor progress locally and at a national level.

Transparency

66. Transparency means that the public have access to understandable, relevant and timely information about how the Board is taking decisions and how it is using resources such as money, people and assets.

67. Highlands and Islands Enterprise continues to improve transparency by developing its annual report and accounts. The performance section of the annual report and accounts has been revised to meet the requirements of the 2017/18 FReM. We noted that there was scope to improve the performance analysis and financial commentary in future years and provide a fuller account of Highlands and Islands Enterprise's activities.

68. The FReM requires the performance analysis to explain the link between performance indicators, risk and uncertainty. Our review noted that Highlands and Islands Enterprise had made progress in this area but further improvements could be made to better explain the risks and uncertainty affecting each of its performance measures. Reporting would also be enhanced by more clearly linking how Highlands and Islands Enterprise spends its funding with the outcomes it delivers.



Recommendation 3

Highlands and Islands Enterprise should review its performance analysis and financial commentary to better explain the risks and uncertainties affecting its performance measures and how its funding links to the outcomes it delivers.

69. Minutes of all Board meetings are available on Highlands and Islands Enterprise's website although Board meetings are not held in public. Instead, regular engagement events are held with businesses and communities throughout the Highlands and Islands. Highlands and Islands Enterprise are also proactive in publishing information on its website. An online 'reading room' has been set up to provide public access to a variety of information, including previous Freedom of Information requests, relating to the development and management of Cairngorm Mountain.

70. We concluded that, overall, Highlands and Islands Enterprise conducts its business in an open and transparent manner. There are some areas where there is scope to improve the current arrangements through its annual reporting arrangements.

Risk management

71. As part of our planning work, we reviewed Highlands and Islands Enterprise's risk management arrangements, including the risks identified during the year. We reported last year that the Business Improvement and Internal Audit section were in the process of reviewing the approach to risk identification and management.

72. Given the nature of its business, Highlands and Islands Enterprise recognises the need to clearly articulate its risk appetite. The Board reviews risk management arrangements annually and, in June 2018, approved a paper setting out an approach to risk appetite aimed at creating an environment which supports the delivery of its ambitions. The approach includes risk appetites for the differing risks. The corporate risk register is presented to each meeting of the Risk and Assurance Committee and is managed by the Leadership Team. Each business unit has its own risk register, which feeds into the corporate risk register.

73. We concluded that Highlands and Islands Enterprise's risk management arrangements are effective and reporting arrangements are appropriate.

Internal audit

74. Highlands and Islands Enterprise's internal audit function is carried out by an in-house internal audit function, which is supplemented by a contract with a firm of chartered accountants for the provision of audit services and support for the preparation of the financial statements. As reported in our Annual Audit Plan, we carried out a review of the adequacy of the in-house internal audit function and concluded that, overall, it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. We have been advised that the requirement to comply with PSIAS is built in to all outsourced internal audit services including those jointly tendered with Skills Development Scotland and Scottish Enterprise.

75. PSIAS requires that an independent third-party review of the internal audit service be undertaken at least every five years. We noted in our Annual Audit Plan that Highlands and Islands Enterprise's in-house internal audit service had not been externally assessed since 2010. An independent reviewer has recently completed an assessment of the in-house internal audit function. They concluded that the methodology followed by internal audit is good and is consistent with the overall expectations of the PSIAS. There were a small number of areas where the agreed approach had been inconsistently applied. We will review internal audit's response as part of our ongoing audit work.

76. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2017/18 we placed reliance on the Business Improvement and Internal Audit section's testing of significant transactions, and considered internal audit report findings on travel and subsistence, certificates of assurance and governance statements, state aid compliance and the Risk and Assurance Committee's effectiveness as part of our wider dimension work.

Governance statement

77. HM Treasury's Financial Reporting Manual (the FReM) states that Highlands and Islands Enterprise must prepare an annual governance statement within the annual report and accounts. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the governance statement and provides assurances around the achievement of the organisation's strategic objectives.

78. The SPFM does not prescribe a format for the annual governance statement but sets out minimum requirements for central government bodies. The process undertaken by management included conducting an assurance mapping exercise and working to an assurance plan that assessed the evidence underpinning the preparation of the governance statement.

79. We discussed a small number of amendments to the draft governance statement to better reflect the position throughout the year which management agreed to implement. We concluded that the 2017/18 governance statement complies with the guidance issued by the Scottish Ministers and, based on our knowledge and work performed, presents a comprehensive picture of governance arrangements and related matters.

National Fraud Initiative

80. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

81. Our 2017/18 management report noted that Highlands and Islands Enterprise responded well to the National Fraud Initiative exercise and all recommended matches had been investigated and closed. No frauds were identified by the exercise but there was scope 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 Assurance Committee in September 2017

Standards of conduct for prevention and detection of fraud and error

82. We have reviewed the arrangements in place to maintain standards of conduct including the staff and members' Codes of Conduct. We also reviewed the whistleblowing policy, and the counter fraud, bribery and corruption strategy and policy. We concluded that there are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

83. Given the nature of its business, Highlands and Islands Enterprise requires all staff and Board members to complete a register of interest declaration to highlight any circumstances which may pose the potential for a conflict of interests. Staff are required to update their disclosures if changes occur during the year. Board members and directors are formally asked to update their declarations every six months.

84. As part of its conflicts of interest policy the Board operates a 'prior approval process' which requires the Chief Executive to provide approval in advance of any transaction between Highlands and Islands Enterprise and any organisation in which the HIE Chairman, HIE Board members or Executive Grade staff have a 'high-risk' interest. The Business Improvement and Internal Audit section review a sample of transactions falling into this category each year to ensure that the process has been followed. We consider that the arrangements for recording and monitoring conflicts of interest represent good practice.

Cyber security

85. The Scottish Government issued a Public Sector Action Plan on Cyber Resilience in November 2017. This requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate.

86. We concluded that Highlands and Islands Enterprise, through its membership of the shared service Enterprise Information Services (EIS) arrangement that is managed by Skills Development Scotland (SDS), is actively reviewing and strengthening its cyber resilience arrangements and is participating in the cyber catalyst group of champions. EIS has undertaken a gap analysis of relevant information security standards which has been subject to review by SDS's internal audit. This analysis has identified that some remedial work is required before Cyber Essentials accreditation can be achieved. This will require capacity in EIS to deliver, alongside business as usual commitments.

87. In addition to the EIS activity, Highlands and Islands Enterprise has also procured additional external cyber security expertise and has provided regular reports on this topic to the Risk and Assurance Committee. Investment has been made in staff awareness training and included a webinar, held in May 2017, which was recorded and made available to staff on the Intranet. Tips on cyber security are published on the Intranet, including how to deal with cyber attacks and the risks of social engineers. Cyber security requirements are also embedded in tender documentation, requiring suppliers of technology to be certified to an appropriate standard.

General Data Protection Regulation

88. The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998 (DPA). As a Regulation, all EU member states must implement it in the same way. GDPR sets out more requirements than the DPA and has introduced new and significantly changed data protection concepts.

89. GDPR introduces a wide range of new rights for individuals in respect of their personal data. These include the right to be forgotten, the right to object to certain processing activities and to decisions taken by automated processes. Failure to comply with new GDPR data handling arrangements could result in Highlands and Islands Enterprise incurring significant fines.

90. Highlands and Islands Enterprise was pro-active in identifying the implications of the new regulation and the changes required. A project team was set up and the Board's legal advisers were engaged to undertake an assessment of data protection practices and prepare an action plan to enable compliance with GDPR. Progress against the action plan was reported regularly to the Leadership Team and Risk and Assurance Committee.

Good practice: review of conflict of interests

91. As noted above at paragraphs 83 and 84 we noted well-established processes for recording and monitoring potential conflicts of interests for staff and Board members. We consider that these arrangements reflect good practice.

Part 5

Value for money



Main judgements

Highlands and Islands Enterprise has a well-developed performance management framework in place.

Performance management

92. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where such requirements are not specified we may, in conjunction with Highlands and Islands Enterprise agree to undertake local work in this area.

93. Highlands and Islands Enterprise's performance framework is derived from the Scottish Government's National Performance Framework, and Scotland's Economic Strategy. Eight key performance measures are included in the 2017-18 Operating Plan, which covers the four main themes which have been established as the main drivers of growth in the Scottish economy: innovation, internationalisation, investment and inclusive growth. Progress against these measures is regularly reported to the Board and key highlights are included in the 2017/18 annual report and accounts. As in previous years, all the key measures were achieved in 2017/18 ([Exhibit 6](#)) with the majority exceeding the top of the target range. This indicates a strong performance in year but also suggests there is scope to review the target ranges to ensure that these remain stretching.

Value for money is concerned with using resources effectively and continually improving services.

Exhibit 6

Key performance measures 2017-18

Performance measure	Range	Out-turn
Forecast increase in turnover by supported businesses (£m)	80-100	101.5
Forecast increase in international sales by supported businesses (£m)	30-40	40.3
Jobs supported (created/retained) FTE	700-900	981
- Of which in fragile areas	125-175	139
Average salary from jobs supported (£)	25,000	26,120
Forecast increase in turnover in the social economy (£m/year 3)	3.0-4.5	5.1
- of which generated by community-owned assets (£m/year 3)	1.5-2.0	1.6
New/improved income generating assets	25-30	39

Source: Highlands and Islands Enterprise's End of Year Review 2017/18

2018/19 Operating Plan

94. The recently created Strategic Board for Enterprise and Skills (paragraphs 59 to 65) is due to develop a Strategic Plan, which will include a shared measurement and performance framework for the enterprise and skills organisations and encourage greater collaborative working. Highlands and Islands Enterprise has, therefore, developed a transitional one-year 2018-19 operating plan, rather than a longer-term plan with the intention of aligning its operating plan with the Strategic Plan from 2019/20 onwards.

95. The 2018-19 Operating Plan sets out four priorities (Accelerating Business Growth; Strengthening Communities; Supporting Growth Sectors; and Developing Regional Attractiveness) for Highlands and Islands Enterprise, and notes that a key focus for 2018/19 will be to inform and deliver the collaborative actions agreed by the Strategic Board. Other work that will influence their approach during 2018/19 includes:

- the development of a shared measurement and performance framework for organisations involved in supporting economic development
- an emerging regional partnership model to more effectively align delivery across Scotland's regions
- a programme of work to join up support services to make it easier for companies across Scotland to access information, advice and funding in a way that suits them
- a new integrated marketing approach for Scotland, Scotland is Now, which will align and increase the impact of organisations engaging audiences overseas about Scotland as a place to live, study, visit or do business in
- the development of the new Scottish National Investment Bank.

96. The 2018-19 Operating Plan sets out the same eight performance measures (including target ranges) as the 2017-18 Operating Plan. Progress against these measures has been regularly reported to the Board in 2018/19.

97. We concluded that Highlands and Islands Enterprise has an effective performance management framework in place which supports the achievement of value for money and continuous improvement in the way services are delivered.

Superfast broadband for Scotland: a further progress update

98. In November 2015 and August 2016, we published national performance audit reports on the roll-out of superfast broadband in Scotland. The 2016 report concluded that, at the time of writing the report, the Scottish Government and Highlands and Islands Enterprise had made good progress in the roll-out of fibre broadband in Scotland although it was noted that most of the roll-out has been concentrated on easier-to-reach areas.

99. Audit Scotland is currently undertaking a further performance audit which will examine:

- whether the Scottish Government achieved its target of providing access to a fibre network to 95 per cent of Scottish premises by 31 December 2017
- the progress being made with the Scottish Government's plans to ensure 100 per cent of premises can access speeds of 30Mbps, as part of its vision to have world-class digital infrastructure.

100. The report is due to be published in Autumn 2018.

Other national performance audit reports

101. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2017/18 several reports were published which are of direct interest to Highlands and Islands Enterprise. These are outlined in [Appendix 3](#).

102. Highlands and Islands Enterprise has processes in place to ensure that all relevant national performance reports are considered by the Risk and Assurance Committee.

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Accounts preparation and financial capacity</p> <p>We identified a number of errors in how transactions were accounted for within the unaudited financial statements.</p> <p>There is a risk that the accounts do not give a true and fair view of Highlands and Islands Enterprise's group financial position and net expenditure.</p>	<p>Accounts preparation processes should be reviewed prior to the preparation of the 2018/19 annual report and accounts.</p>	<p>Agreed.</p> <p>Responsible officer: Director of Finance & Corporate Services</p> <p>Agreed date: 31 March 2019</p>
2	<p>Financial management capacity</p> <p>Highlands and Islands Enterprise uses external resources to supplement its finance team's preparation of the annual accounts. Issues have been identified with the administration of VAT in previous years. In addition, our audit identified a number of issues with how transactions had been accounted for and disclosures made within the accounts.</p> <p>There is a risk that Highlands and Islands Enterprise does not have sufficient financial skills and capacity to meet its needs.</p>	<p>Highlands and Islands Enterprise should review its financial management capacity to ensure that it has sufficient financial skills and capacity to meet its needs.</p>	<p>HIE reviewed its arrangements for preparing the annual accounts following a recommendation from Audit Scotland in their 2012/13 annual audit report. The actions agreed by HIE in its response to this audit included a commitment to review capacity during the final accounts process. Since then we have supplemented our capacity at year-end in a planned way and we view this as good management of resources. However, we agree it is now time to review these arrangements in light of changing circumstances.</p> <p>Responsible officer: Director of Finance & Corporate Services</p> <p>Agreed date: 31 March 2019</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
3	<p>Transparency</p> <p>The performance section of the annual report and accounts was improved to meet the requirements of the 2017/18 FReM but there is scope to further improve the performance analysis and financial commentary in future.</p> <p>There is a risk that the annual report does not provide a clear picture of how resources spent link to outcomes achieved and the risk and uncertainties impacting on performance.</p>	<p>Highlands and Islands Enterprise should review its performance analysis and financial commentary to better explain the risks and uncertainties affecting its performance measures and how its funding links to its outcomes.</p>	<p>As part of the 2018/19 annual report process HIE will review how it further aligns performance reporting into the annual report.</p> <p>Responsible officer: Director of Finance & Corporate Services</p> <p>Agreed date: 30 June 2019</p>

Follow up of prior year recommendations

b/f	<p>Medium to long term financial planning</p> <p>Although Highlands and Islands Enterprise has a rolling five-year financial plan, it is not based on different funding and cost scenarios for the business. This information would support management decision-making and consideration of its financial sustainability.</p>	<p>We recommend that the rolling five-year plan should include scenario plans (best, worst, most likely) including a clear assessment of the impact of budget assumptions on Highlands and Islands Enterprise's activity and any residual risks.</p>	<p>A comprehensive review of Highlands and Islands Enterprise's approach to financial planning began in 2017/18. Good progress has been made and once complete the revised model will provide a firm basis for financial planning and sustainability in the longer term.</p> <p>Conclusion: ongoing</p>
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Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating to our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Accelerated timetable for accounts preparation and audit completion</p> <p>The timetable for the preparation of the financial statements has been brought forward by a week and the date for signing the audited accounts by 3 weeks at the request of the Scottish Government. There is a risk that the finance team will not have the capacity to deliver the accounts and working papers to the required quality by the agreed date. In addition, there is a risk that information provided by external parties (e.g. pensions information, taxation calculations, subsidiaries audited accounts) will not be available prior to the target date for the completion of the audit of the accounts.</p>	<p>Agreement of a detailed timetable for the preparation of the unaudited accounts and associated working papers with the Director of Finance & Corporate Services.</p> <p>Regular meetings with the Director of Finance & Corporate Services to identify any issues in respect of the finance team's capacity and the impact these may have on the preparation of the financial statements.</p> <p>Regular meetings with the Director of Finance & Corporate Services to discuss emerging issues from the audit process.</p>	<p>We reported our findings on the submission of the annual report and accounts in part 1 of this report. The unaudited accounts and working papers were delivered by the agreed date, including the information provided by external parties. There were a number of amendments required to the unaudited accounts and these are set out in part 1 (Exhibit 3 and paragraph 30) of this report.</p>
<p>2 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of year-end payables and receivables.</p> <p>Substantive testing of income and expenditure to ensure that these have been recognised in the correct financial year.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>We did not identify any issues, as a result of our audit work, that would indicate management override of controls affecting the year-end position.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>3 Risk of fraud over income and expenditure</p> <p>Highlands and Islands Enterprise receives a significant amount of income (£7.1 million) in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p> <p>In public sector audit there is also a risk of fraud over aspects of expenditure for public sector bodies which have an overall net expenditure. Highlands and Islands Enterprise and its group recorded net expenditure of £69m in 2016/17.</p> <p>The Code of Audit Practice requires auditors to consider the risk of fraud over certain types of public sector expenditure. This includes grants and other claims made by individuals and organisations on the public purse. Highlands and Islands Enterprise provided grants of £29m to third parties in 2016/17.</p>	<p>Analytical procedures on income streams.</p> <p>Substantive testing of income transactions focusing on the areas of greatest risk.</p> <p>Review of property income which is managed by a third party.</p> <p>Controls testing of key expenditure systems including reliance on internal audit's work on travel and subsistence claims.</p> <p>Substantive testing of expenditure transactions with reliance on internal audit's work on significant transactions.</p> <p>Assessment of the results from Highlands and Islands Enterprise's participation in the National Fraud Initiative (NFI), which will contribute to Audit Scotland's National Report on NFI.</p>	<p>Our controls testing did not identify any issues with Highlands and Islands Enterprise's revenue recognition procedures or expenditure.</p> <p>We substantively tested a sample of income and expenditure transactions, and no issues were identified.</p> <p>Our review of property income processes did not identify any significant matters arising.</p> <p>We reported our findings on Highlands and Islands Enterprise's participation in the NFI at part 4 of this report. No significant matters were noted.</p>
<p>4 Accounting estimates and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of land and buildings (£38m), pension liability (£56m) and investments (£3m) which are revalued at the year end.</p> <p>There is an inherent risk that the financial statements are materially misstated due to the degree of subjectivity in the measurement and valuation of these significant areas.</p>	<p>Review the work of an expert for the professional valuers (pensions liabilities and non-current assets).</p> <p>Focused substantive testing of year end balances.</p>	<p>We reviewed the valuations of land, buildings and pensions, and the tax calculations prepared by management's experts.</p> <p>We found these judgements to be sound and, as such, we could place reliance on the experts' valuations/calculations.</p> <p>We substantively tested the valuation of investment balances at the year end and concluded that they were fairly stated in the accounts.</p>

Audit Risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>5 Financial sustainability</p> <p>In our 2016/17 Annual Audit Report we recommended that the rolling five-year financial plan should include scenario planning (best, worst and more likely positions) and should include a clear assessment of budget assumptions on activity and any residual risks.</p> <p>Without scenario planning, there is a risk that Highlands and Islands Enterprise is not fully prepared for potential changes in its funding levels and that opportunities and risks may not be fully realised/mitigated.</p>	<p>Review Highland and Islands Enterprise's developments in long term financial planning, including scenario planning.</p>	<p>As noted in part 3 of this report, the Director of Finance & Corporate Services has begun to review Highlands and Islands Enterprise's approach to longer term financial planning. Good progress has been made and plans are in place to hold a workshop for Board members to discuss key questions arising from the review.</p> <p>We concluded that Highlands and Islands Enterprise is developing a comprehensive approach to financial planning which will provide a firm basis for financial planning and sustainability in the longer term.</p>
<p>6 Governance and transparency</p> <p>The Scottish Government's Enterprise & Skills review led to the creation of a Strategic Board to provide strategic direction to the work of the four enterprise agencies, including Highlands and Islands Enterprise. A new South of Scotland agency is also to be established.</p> <p>There is a risk of lack of clarity about roles, responsibilities and accountabilities as the new arrangements develop and a risk that this impacts on Highlands and Islands Enterprise's effectiveness.</p>	<p>Review the impact of the changes on Highlands and Islands Enterprise, including impact on the operation of the Board.</p>	<p>We met with the Chair and Chief Executive to discuss the impact of the Strategic Board on Highlands and Islands Enterprise.</p> <p>As noted in part 4 of this report, the Enterprise and Skills Review provides both challenges and opportunities for Highlands and Islands Enterprise. We will continue to monitor progress locally and at a national level.</p>

Appendix 3

Summary of national performance reports 2017/18

		 2017/18 Reports	
		Apr	
		May	
Common Agricultural Policy Futures programme: further update		Jun	 Scotland's colleges 2017
		Jul	 NHS workforce planning
Self-directed support: 2017 progress report		Aug	
Equal pay in Scottish councils		Sept	
Transport Scotland's ferry services		Oct	 NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov	
		Dec	
		Jan	
Early learning and childcare		Feb	
Managing the implementation of the Scotland Acts		Mar	

Central Government relevant reports

[Common Agricultural Policy Futures programme: further update](#) – June 2017

[Transport Scotland's ferry services](#) – October 2017

[Early learning and childcare](#) – February 2018

[Managing the implementation of the Scotland Acts](#) – March 2018

Highlands and Islands Enterprise

2017/18 Annual Audit Report

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