

Scottish Enterprise

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for Scottish Enterprise
January 2019

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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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit.
2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

Adding value

3. We aim to add value to Scottish Enterprise through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In doing this, we intend to help Scottish Enterprise promote improved standards of governance, better management and decision-making and more effective use of resources.

Audit risks

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

Exhibit 1 2018/19 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Substantive cut-off testing of income and expenditure to ensure that these have been recognised in the correct financial year.</p> <p>Evaluate significant transactions that are outside the normal course of business.</p>

 Audit Risk	Source of assurance	Planned audit work
<p>2 Risk of fraud over income</p> <p>Scottish Enterprise receives a significant amount of income from sources other than Scottish Government grant (£64m per rebased 2018/19 budget). The extent and nature of this income means that, in accordance with ISA 240, there is an inherent risk of fraud.</p>	<p>Effective budget monitoring by management and Board members.</p> <p>Effective fraud and whistleblowing arrangements, including detailed conflicts of interests' procedures.</p> <p>Effective controls over income transactions.</p>	<p>Review Scottish Enterprise's anti-fraud arrangements.</p> <p>Walk-through of controls over receivables.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p> <p>Substantive cut-off testing of income to ensure that it has been recognised in the correct financial year.</p>
<p>3 Risk of fraud over expenditure</p> <p>Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure. Scottish Enterprise recorded gross expenditure of £283m in 2017/18.</p> <p>Scottish Enterprise makes a material level of grant payments to third parties such as Regional Selective Assistance grants, SMART grants and R&D grants as well as a number of small grant payments. Due to the nature of this expenditure there is an inherent risk of fraud over expenditure.</p>	<p>Effective budget monitoring by management and Board members.</p> <p>Effective fraud and whistleblowing arrangements, including detailed conflicts of interests' procedures.</p> <p>Effective controls are in place over expenditure and income transactions.</p> <p>Participation in National Fraud Initiative (NFI).</p>	<p>Walk-through of controls over payables, including grant expenditure.</p> <p>Substantive testing of grant expenditure.</p> <p>Substantive cut-off testing of expenditure to ensure that it has been recognised in the correct financial year.</p> <p>Assessment of Scottish Enterprise's progress towards completing the NFI results. This will be considered for Audit Scotland's national report on NFI in due course.</p>
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of investments (£323m), land & buildings (£117m) and pensions (£92m). Valuation of investments may also be affected by the requirements of IFRS 9 Financial Instruments, which will be introduced in 2018/19.</p> <p>In 2017/18 we identified scope for improvement in the procedures and in the audit trail for large grant accruals (£14m accrual), an area which is subject to management judgement and estimation.</p> <p>The EU accrued income estimate was revised in 2017/18 following a review by management of the assumptions used.</p> <p>The subjectivity in these areas represents an increased risk of misstatement in the financial statements.</p>	<p>Sound arrangements for providing valuation information have been established.</p> <p>Actuary and valuers are established and recognised providers in their field.</p> <p>Controls are in place to ensure that experts are provided with accurate information.</p> <p>Sound arrangements for estimating grant accruals are in place.</p>	<p>Substantive testing of selected year-end valuation reports.</p> <p>Review of the work of management's expert valuers, including a review of the Scottish Investment Bank's processes for valuing investments.</p> <p>Review of management's assessment of the appropriateness of the assumptions used in the valuation of certain assets and liabilities.</p> <p>We will liaise with management to determine the impact of IFRS 9 and test as appropriate.</p> <p>Substantive testing of year-end grant accruals.</p> <p>We shall review the accrued EU income level given the revision in last year's accounts.</p>

 Audit Risk	Source of assurance	Planned audit work
Wider dimension issues and risks		
<p>5 Financial management</p> <p>Scottish Enterprise's rebased budget (October 2018) records that 46% (£147.5m) of expenditure will take place in the final quarter, with 27% (£87.2m) to take place in March 2019.</p> <p>Whilst anticipating a break-even position against its revenue and capital grant in aid budgets, Scottish Enterprise is forecasting a significant underspend in its financial transactions budget.</p> <p>Scottish Enterprise may also find it difficult to meet its target of committing expenditure funded by EU income.</p> <p>There is a risk that:</p> <ul style="list-style-type: none"> management's forecast of final quarter expenditure is not achieved leading to significant underspends Scottish Enterprise will not make full use of its grant in aid allocation (including financial transactions) or EU funding the effectiveness of key controls is compromised due to pressures to achieve budget expenditure may be recognised in the wrong financial year. 	<p>Regular budget monitoring, especially towards year-end.</p> <p>Regular financial performance reports presented to Board and management.</p>	<p>Review management action for the monitoring and phasing of expenditure.</p> <p>Analysis of expenditure profile compared with prior years.</p> <p>Substantive cut-off testing of expenditure.</p> <p>Review management action taken to make full use of the allocated grant in aid budget.</p> <p>Assess the level of EU-funded expenditure.</p> <p>Review internal audit report on financial transactions.</p>
<p>6 Enterprise and Skills Review</p> <p>In October 2018, the enterprise and skills strategic board published its first strategic plan. The plan should clarify the strategic direction of Scottish Enterprise and the enterprise and skills agencies. It aims to increase productivity and drive inclusive and sustainable economic growth in Scotland. Actions set out in the strategic plan require Scottish Enterprise to increase collaboration and alignment with the other enterprise and skills bodies.</p> <p>The creation of a new South of Scotland agency and the Scottish National Investment Bank will directly impact on Scottish Enterprise operations.</p>	<p>On-going engagement with the strategic board and the Scottish Government.</p> <p>The Board is kept apprised of progress through regular updates.</p> <p>Effective financial management and workforce planning arrangements.</p>	<p>Review how Scottish Enterprise is responding to the strategic plan and what impact the new arrangements are having on its:</p> <ul style="list-style-type: none"> governance: clarity around new roles, responsibilities and accountabilities strategic direction and operations: capacity to deliver on the existing and new duties and its income and expenditure performance management: whether appropriate measures are in place to determine and report on the impact of the new arrangements. <p>Review internal audit reports on the transition to Scottish</p>

	Audit Risk	Source of assurance	Planned audit work
	There is a risk that this transition phase has an adverse short-term impact on Scottish Enterprise's business and performance.		Investment Bank and South of Scotland agency.

Source: Audit Scotland

Reporting arrangements

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

6. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the Chief Financial Officer to confirm factual accuracy.

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

Exhibit 2 2018/19 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	26 November 2018	3 December 2018
Management Report	10 April 2019	17 April 2019
Annual Audit Report	By 21 June 2019	24 June 2019
Independent Auditor's Report	By 21 June 2019	n/a

Source: Audit Scotland

Audit fee

8. The agreed audit fee for the 2018/19 audit of Scottish Enterprise is £162,650 [2017/18 agreed fee £159,460]. In determining the audit fee we have taken account of the risk exposure of Scottish Enterprise, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

9. Our audit approach assumes

- receipt of the single entity financial statements; the governance statement, the remuneration and staff report and any performance and accountability report narrative; together with a complete working papers package on Monday 13 May 2019

- receipt of the complete performance and accountability reports by Wednesday 22 May 2019
- the unaudited group annual report and accounts with all relevant working papers as soon as possible thereafter, and by Monday 27 May 2019 at the latest.

10. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Audit and Risk Committee and Accountable Officer

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

12. The audit of the annual report and accounts does not relieve management or the Audit and Risk Committee, as those charged with governance, of their responsibilities.

Appointed auditor

13. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

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

Audit scope and timing

Annual report and accounts

15. The annual report and accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

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

16. We will give an opinion on:

- whether the financial statements give a true and fair view of the financial position of Scottish Enterprise and its Group and their expenditure and income
- whether the financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- whether the information included in the performance and accountability reports meets requirements for their preparation and is consistent with the financial statements
- the regularity of the expenditure and income.

Other information in the annual report and accounts

17. We also review and report on other information published within the annual report and accounts including the performance report, the governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

18. We also read and consider any information in the annual report and accounts other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.

Materiality

19. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any



characteristics



responsibilities



principal activities



risks



governance arrangements

uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

20. We calculate materiality at different levels as described below. The calculated materiality values for Scottish Enterprise and its Group are set out in [Exhibit 3](#).

Exhibit 3 Materiality values

Materiality	Amount
Scottish Enterprise Annual Accounts	
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the single entity financial statements. It has been set at 1% of gross expenditure based on the latest audited accounts for 2017/18.	£2.710 million
Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 60% of planning materiality.	£1.626 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 3.5% of planning materiality.	£100,000
Group Accounts	
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the group financial statements. It has been set at 1% of gross expenditure based on the latest audited accounts for 2017/18.	£2.829 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 60% of planning materiality.	£1.697 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 3.5% of planning materiality.	£100,000

Source: Audit Scotland

Timetable

21. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

22. The timetable for the financial statements audit is challenging. We do not receive a complete set of unaudited group annual report and accounts at the outset of the audit. For this year's audit, management has agreed to provide the single entity annual report and accounts (including extracts of the performance and accountability reports) at the outset of the audit, with the group financial statements to be provided by 27 May at the latest.

23. There is a risk that delays in the accounts preparation will impact on management's ability to prepare its annual report and accounts in accordance with the agreed timetable. Any delay will also have an impact on the audit process.

Exhibit 4

Annual report and accounts timetable

 Key stage	 Date
Latest submission date of unaudited Scottish Enterprise single-entity financial statements; extracts of draft performance and accountability reports; and a complete working papers package	13 May 2019
Latest submission date of completed performance and accountability report narrative	22 May 2019
Latest submission date of complete unaudited Scottish Enterprise group annual report and accounts with complete working papers package	27 May 2019
Latest date for final clearance meeting with Chief Financial Officer	14 June 2019
Agreement of audited unsigned financial statements Issue of draft Annual Audit Report including ISA 260 report (proposed independent auditor's report and letter of representation) to those charged with governance	By 21 June 2019
Independent auditor's report signed	To be signed as soon as possible following Board approval

Internal audit

24. We reviewed Scottish Enterprise's internal audit function to ensure that it operates in accordance with Public Sector Internal Audit Standards (PSIAS). We concluded that overall, the service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation and reporting procedures in place.

Using the work of internal audit

25. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

26. From our initial review of internal audit's 2018/19 plan, we shall rely on aspects of their work, including:

- income and EU funding
- contract management
- investments.

27. In addition, there are a number of planned internal audits where the final reports will be considered as part of our wider dimension audit responsibilities, including:

- performance measurement
- risk management
- system review – IT

- financial transactions
- Scottish Investment Bank transition
- South of Scotland agency transition.

28. To ensure a joined-up approach, we are also planning to liaise with the Highlands and Islands Enterprise (HIE) and Skills Development Scotland (SDS) auditors on internal audit arrangements for Enterprise Information Systems (EIS) which deliver ICT services to SDS, HIE and Scottish Enterprise. We will consider the internal audit reports on disaster recovery and cyber security as part of our wider dimension audit responsibilities.

Audit dimensions

29. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5 Audit dimensions



Source: Code of Audit Practice

Financial sustainability

30. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on Scottish Enterprise's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will review, conclude and report on the following over our five-year appointment:

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

31. Scottish Enterprise receives a significant level of EU funding. As part of our 2018/19 audit work, we will consider Scottish Enterprise's response to EU withdrawal, including any impact on financial sustainability and the extent to which Scottish Enterprise commits expenditure funded by EU income.

Financial management

32. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on the following over our five-year appointment:

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

33. As part of our 2018/19 review we shall consider whether Scottish Enterprise has any dependency on key suppliers. The collapse of Carillion has brought into focus the risk of key supplier failure and the risk of under-performance in suppliers that are experiencing difficult trading conditions. We will complete an audit questionnaire to assess the risk to Scottish Enterprise.

Governance and transparency

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

- whether Scottish Enterprise can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, or in partnership with, others such as the EIS partnership)
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

Value for money

35. Value for money refers to using resources effectively and continually improving services. Over the course of our five-year appointment, we will review, conclude and report on whether:

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

36. As part of our 2018/19 audit we shall

- assess Scottish Enterprise's equality policies and procedures through the completion of a Best Value toolkit
- consider any actions taken in response to our 2016 national report Supporting Scotland's Economic Growth.

Independence and objectivity

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

38. The engagement lead (i.e. appointed auditor) for Scottish Enterprise is Gordon Smail, Audit Director. Auditing and ethical standards require the appointed auditor, Gordon Smail, to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Scottish Enterprise.

Quality control

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

40. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

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

Scottish Enterprise

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