

Scottish Enterprise

Management report 2019/20



 AUDIT SCOTLAND

Prepared for Scottish Enterprise

May 2020

Audit findings

Introduction

1. This report summarises the key issues identified during the interim audit at Scottish Enterprise. This work included walkthrough and testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the financial statements. We also undertook some early substantive testing of expenditure. We will use the results of this testing to inform our approach to the 2019/20 financial statements audit.

2. Some work relating to the payroll and HR systems remains outstanding and we will complete that as part of our year-end audit. Our work on financial management is ongoing and we will report on this in our annual audit report.

3. Our responsibilities under Audit Scotland's [Code of Audit Practice](#) require us to assess the system of internal control put in place by management. We seek to gain assurance that Scottish Enterprise:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
- complies with established policies, procedures, laws and regulations.

4. Our annual audit plan referred to the wider scope of public audit required under the Code of Audit Practice. As part of our interim audit, we assessed aspects of

- the arrangements to prevent fraud and corruption in procurement
- performance management and reporting, including alignment with the Skills and Enterprise Board's Strategic Plan
- finance team capacity.

5. We also reviewed aspects of performance management and reporting, including alignment with the Skills and Enterprise Board's Strategic Plan. We concluded that there was alignment and we will report further in our annual audit report.

6. Our audit approach may require further revision once we are clearer about the accounting and auditing issues which may emerge as a result of the response to the COVID-19 pandemic.

Conclusion

7. The matters arising from our controls work and early substantive testing are summarised in [Exhibit 1](#) (points 1 to 4), The management actions taken and/or proposed will further strengthen the control environment. Subject to the matters reported and management action, we are content that Scottish Enterprise's control environment is operating effectively. We will carry out additional work, where appropriate, to enable us to take planned assurance for our audit of the 2019/20 financial statements.

8. In terms our wider scope audit work, we concluded that appropriate arrangements were in place in the areas we reviewed. We identified two recommendations for improvement as set out in [Exhibit 1](#) (points 5 and 6).

Work summary

9. Our controls testing covered key controls in several areas including bank reconciliations, payroll validation and exception reporting, authorisation of journals, change of supplier bank details and IT access controls. Additionally, our testing covered budget monitoring and control, feeder system reconciliations, and controls for preventing and detecting fraud in areas such as grant expenditure.

10. Our early substantive testing involved tests on a sample of 'small grants', classified by Scottish Enterprise as grants less than £100,000.

11. Where possible we place reliance on the work of internal audit to avoid duplication of effort. We considered the findings from internal audit's review of expenses and the new HR system and were able to place reliance on aspects of this work. We also considered internal audit's report on Strategic Board Alignment as part of our review of performance management and reporting.

12. Any weaknesses identified represent those that have come to our attention during our audit work undertaken to date, and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to Scottish Enterprise.

13. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The cooperation and assistance we received during our audit is gratefully acknowledged, particularly at a time when public-sector organisations are dealing with the challenges associated with the COVID-19 pandemic.

14. Paragraphs 15 to 27 set out the findings from our early substantive testing and the wider scope elements of our interim audit. Risks identified across all elements of our interim audit are detailed in [Exhibit 1](#).

Findings

Substantive testing – grant expenditure

15. Scottish Enterprise's contract management team is responsible for managing small grants, which are classified as grants below £100,000. The large grants team deals with grants over £100,000.

16. We substantively tested a sample of eight small grants, totalling £464,000. We assessed the evidence supplied by grant claimants in support of their claims. Internal guidance informs contract management staff as to what is acceptable evidence upon which payment or accrual can be made. We found inconsistencies in the type of evidence accepted by contract management staff. Some staff accepted pro-forma invoices or order confirmations and not actual invoices. This is contrary to the guidelines.

17. A grant claim checklist is used by the contract management team to evidence the proper assessment and verification of grant claims. However, management explained that use of this checklist was optional, and it was not used by all staff. The use of this checklist by all staff would provide assurance to management that payment is made in accordance with Scottish Enterprise's policies and grant conditions.

Refer to Exhibit 1, point 4

Arrangements for preventing fraud in procurement

18. We reviewed how Scottish Enterprise manages the risk of fraud in its procurement activities.

19. Scottish Enterprise has a central procurement team. It follows the Scottish Government's Scottish Model of Procurement, which is the procurement process in place throughout the Scottish public-sector. In 2018/19, £36 million of expenditure was procured through the application of this model.

20. Scottish Enterprise has a well-established suite of policies and procedures to govern counter-fraud, whistleblowing, code of conduct and conflicts of interest. Registers of gifts and hospitality are maintained and regularly updated.

21. There is an ongoing programme of training for staff involved in procurement. All new employees are required to undertake mandatory training on bribery. We concluded that staff receive appropriate training to assist them to identify signs of fraud.

22. Within the team, tenders must be approved in line with delegated authority. We noted that the procurement delegation limits are not formally documented in the procurement guidance. Management should formally document the delegated authority limits.

Refer to Exhibit 1, point 5

23. The 2018/19 National Fraud Initiative (NFI) exercise found 26 procurement matches. All of these were investigated by internal audit and no fraud or error was identified.

Finance team capacity

24. There was a significant reorganisation of the finance team during 2019/20. The Head of Financial Accounting and the Chief Finance Officer left Scottish Enterprise in July and September 2019 respectively.

25. As a consequence of these departures and the general reorganisation within the organisation, Scottish Enterprise restructured the Accounting Services team within Financial Accounting, with an increase from three to four posts. As of March 2020, two of these four posts remain unfilled due to delays in the recruitment process. Scottish Enterprise is in the process of recruiting these posts.

26. As we have reported in previous years, the timetable for the preparation and audit of the annual report and accounts is challenging. We recognise that Scottish Enterprise has well-established accounts preparation procedures and there is some continuity in key personnel. However, given the loss of experience and vacant posts, there is a risk that the preparation of the annual report and accounts will be adversely affected although as noted above a recruitment process is ongoing. In addition, the timetable is likely to be adversely impacted by the working restrictions that have been imposed in response to the Covid-19 pandemic and the independent valuers that support the accounts preparation. There is also a wider risk to Scottish Enterprise's ongoing financial management capacity.

Refer to Exhibit 1, point 6

27. In highlighting this point, we appreciate that there is ongoing uncertainty and challenges for Scottish Enterprise as a result of the COVID-19 measures advised by government. We recognise the continuing uncertainty and the potential impact this may have on the annual accounts and audit processes. We will discuss with finance staff a way forward taking account of the implications and practical issues.

Exhibit 1

Key findings and action plan 2019/20

Issue Identified	Management Response	Responsible officer and target date
Audit findings		
<p>1. Property income reconciliation</p> <p>In 2018/19, Scottish Enterprise received £10.6 million in rent and other property income. Scottish Enterprise employs an agent to collect rent and manage its properties. The agent provides management with a monthly statement of the income collected.</p> <p>Scottish Enterprise performs monthly reconciliations between the agent's property income summary statement and the general ledger.</p> <p>We reviewed a sample of three months' reconciliations and identified that there is no second check / review by a more senior member of Finance.</p> <p>Risk: Without evidence of management review, there is a potential risk that the financial statements may be susceptible to fraud or error.</p> <p>Planned audit action: We will review the year-end property control account reconciliation and substantively test a sample of income from the agent's statements.</p>	<p>This is a new reconciliation process that is currently being introduced. The intention is that going forward the GLT team will complete the reconciliation and then this will be reviewed by a member of the Accounting Services Team. Currently due to resourcing constraints within the Accounting Services team the new process has not yet been fully implemented and the 'reviewer' has continued to be the 'preparer'.</p> <p>This will be fully addressed once the current recruitment process has successfully completed.</p>	<p>Clair Alexander, Head of Financial Accounting</p> <p>May 2020</p>
<p>2. Payroll – employee validation</p> <p>Prior to the introduction of the new HR system in Autumn 2019, Scottish Enterprise undertook quarterly employee validation checks to confirm the existence of employees. As part of this check, people managers were required to confirm that their staff listing was valid.</p> <p>We found that in September 2019, this quarterly check did not take place due to the changeover in systems. In addition, there is no longer a process confirming evidence of management review. As such, there is no evidence that</p>	<p>Ghost employee checks are completed on a quarterly basis; during the implementation of SE People Hub (Aug/Sept 2019) this check was missed. This has been rectified and our process of management review remains with quarterly checks in place. This was completed satisfactorily in January 2020 and the next check is due to take place in April 2020.</p> <p>This check will include a request for the People Manager/Leader to confirm the records are accurate. This check will be completed on a quarterly basis.</p>	<p>Maria Bradshaw, Director of People</p> <p>Ongoing</p>

Issue Identified	Management Response	Responsible officer and target date
<p>people managers are checking the staff reporting to them.</p> <p>Risk: Without regular confirmation of the existence of staff, there is a risk of fraud or error in that 'ghost' employees may be included in the payroll, or that leavers may not be removed from the payroll.</p> <p>Planned audit action: We will test the existence of employees during our year-end audit.</p>		
<p>3. SUN General Ledger – user access</p> <p>Robust access controls are essential to ensure the integrity of financial information and segregation of duties within key financial systems.</p> <p>Within Scottish Enterprise, the creation and amendment of user-access to financial systems is managed by the finance team. Requests for new users are emailed to finance by line managers.</p> <p>During our audit, we identified a small number of instances where staff who had left Scottish Enterprise remained on the user access list. We note that there were mitigating controls in place and these staff did not have access to change/approve anything within the key financial systems.</p> <p>Risk: System access controls are essential to ensure the integrity of information in key financial systems. Whilst we note that there are controls over system access, we consider that controls over access procedures could be further strengthened by:</p> <ul style="list-style-type: none"> - introducing a standard form for requesting access to systems. This should include reference to the required level of access and be authorised appropriately - introducing regular review of access rights to ensure that they remain appropriate. 	<p>While we consider the process to be generally sound, we shall review our access procedures to see if improvements can be introduced.</p>	<p>Ailsa Boyle, Finance Centre Manager</p> <p>September 2020</p>

Issue Identified	Management Response	Responsible officer and target date
<p>4. Contract management grant expenditure – supporting documentation</p> <p>We substantively tested a sample of eight grant payments made by contract management and reviewed the evidence provided by claimants in support of their claims.</p> <p>Internal guidelines inform contract management staff as to what is acceptable evidence upon which payment or accrual can be made. We found inconsistencies between the types of supporting evidence accepted by staff. Some staff accepted pro-forma invoices or order confirmations, contrary to guidelines.</p> <p>Some staff use a grant claim checklist to evidence the proper assessment and verification of grant claims. We consider the use of this checklist to be good practice and should be applied consistently by all staff where appropriate.</p> <p>Risk: There is a potential risk of fraud in grant expenditure if it is not validated to original source documentation. This also poses a potential risk to the regularity of this expenditure.</p> <p>Planned audit action: We will perform substantive testing of contract management expenditure, including an assessment of the underlying evidence which supports the payment or year-end grant accrual.</p>	<p>During the early part of 2019 it was clear that more detailed instructions and training was required for those processing Intervention Framework claims. This resulted in a comprehensive Knowledge Base being prepared and released on 1st December. Prior to this, it was not part of any written guidance. This has been further supported by mandatory training for all those processing claims. This new process continues to bed in.</p> <p>The use of the grant claim checklist will be introduced across the contract management team.</p>	<p>Steve Robinson, Head of Contract Management</p> <p>September 2020</p>

Audit dimensions - issues and risks

5. Procurement

Tenders must be approved in line with delegated authority within the procurement team. We found that the procurement delegation limits have not been formally documented in the procurement guidance.

Risk: There is a potential risk that procurement commissions are authorised inappropriately leading to potential error and/or fraud.

The internal procurement guidance will be updated to reflect the delegated limits.

Douglas Colquhoun, Director of Finance

June 2020

Issue Identified	Management Response	Responsible officer and target date
<p>Management should document the delegated authority limits in the internal guidance.</p>		
<p>6. Financial management – finance team capacity</p> <p>Two of the four posts in the financial accounting team are vacant. There has also been a loss of significant experience following the departure of the Head of Financial Accounting in July 2019.</p> <p>Risk: The shortage of staff poses a risk to Scottish Enterprise’s financial capacity. This could adversely impact the preparation of the annual report and accounts and the completion of the audit within the required timescale. This could also affect Scottish Enterprise’s ongoing financial management.</p>	<p>Finance is currently in process of recruiting to fill all vacant posts with the Financial and Management Accounting Teams. The closing date for applications was Tuesday, 7 April 2020. It is anticipated that the recruitment process will be completed by the end of May 2020.</p>	<p>Douglas Colquhoun, Director of Finance</p> <p>May 2020</p>
<p>Source: Audit Scotland</p>		

28. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

Scottish Enterprise

Management report 2019/20

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk