

South of Scotland Enterprise

2020/21 Annual Audit Plan



 AUDIT SCOTLAND

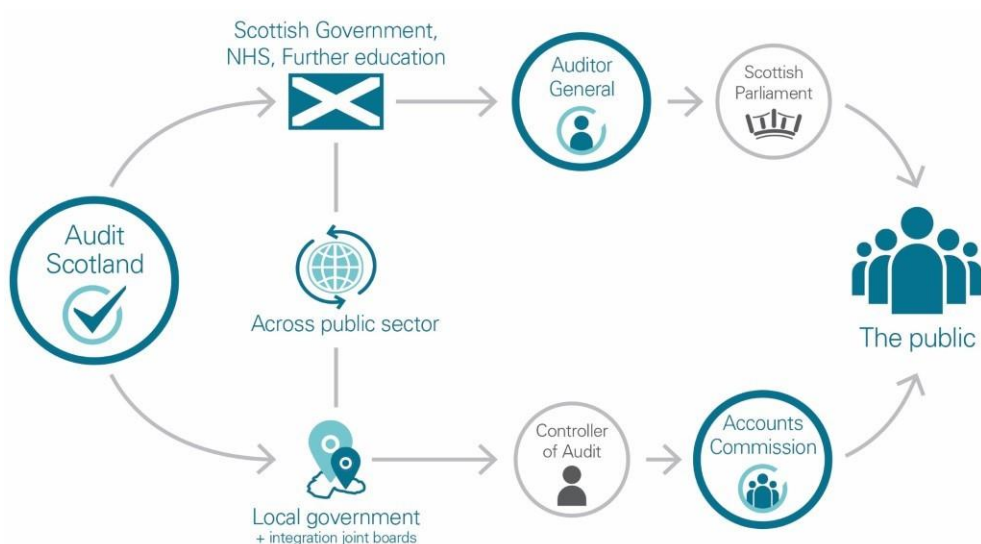
Prepared for South of Scotland Enterprise
March 2021



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 which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and guidance on planning the audit. This plan sets out the work necessary to allow us to provide an independent auditor's report on the first accounts for South of Scotland Enterprise (SOSE) 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.
- 3.** The public health crisis caused by the coronavirus disease (COVID-19) has had a profound effect on every aspect of society. Public services have been affected significantly, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.
- 4.** Public audit has an important contribution to make to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from COVID-19 across the full range of audit work including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, changes to this annual audit plan may be necessary. We will continue to engage with management to discuss this and how we can work together to respond as required.


Adding value


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

Audit risks

- 6.** Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risks for our 2020/21 audit of SOSE. We have categorised these risks into financial statements audit risks and wider dimension audit risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#). We will also consider initial transactions made regarding the establishment of SOSE as this is our first period of audit.

Exhibit 1**Significant audit risks in the 18-month accounting period to 31 March 2021**

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of management override of controls</p> <p>International Auditing Standards (ISAs) require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Testing of accruals and prepayments.</p> <p>Cut-off testing, to confirm expenditure and income is accounted for in the correct financial period.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p>2 Risk of fraud over expenditure</p> <p>As most public-sector bodies are net spending bodies, the risk of fraud is more likely to occur in expenditure than income.</p> <p>Most of SOSE's expenditure is on business support grants. In 2020/21, SOSE forecasts to spend £15.8 million in this area, representing 68 per cent of the total forecast expenditure for 2020/21. Most of these grant payments are COVID-19 grants such as the Scottish Wedding Industry Fund and the Hotel Support Programme.</p> <p>Given the extent, nature and complexity of grant payments, there is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p>	<p>Internal audit's reviews of COVID-19 response.</p>	<p>Review of SOSE's anti-fraud arrangements.</p> <p>Obtain service auditor assurance on controls over payables.</p> <p>Assessment of the key controls in place over COVID-19 grants.</p> <p>Analytical procedures on expenditure streams.</p> <p>Consideration of initial transactions made regarding the establishment of SOSE.</p> <p>Detailed testing of expenditure transactions focusing on areas of greatest audit risk, including:</p> <ul style="list-style-type: none"> • cut-off testing to ensure that expenditure has been recognised in the correct financial period • focussed testing of grant payments to confirm that grants are only paid when the grant conditions have been met. <p>Review of accounting entries/disclosures in relation to areas such as COVID-19 grants.</p> <p>Consideration of internal audit's work on COVID-19 response.</p>

 Audit Risk	Source of assurance	Planned audit work
<p>3 Accounting estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of material account areas, including accruals, pensions and non-current asset valuations.</p> <p>The subjectivity and judgement involved in the valuation of these areas represents an increased risk of material misstatement in the financial statements.</p>	<p>The work of an independent actuary will provide the basis for the pension liability estimate, while the value of transferred non-current assets is supported by work carried out by Scottish Enterprise with supporting input from an accountancy firm.</p>	<p>Assessment of management's controls and procedures over the use of estimations and judgements.</p> <p>Review of the work of management's experts used in the preparation of the annual report and accounts including a review of actuarial assumptions.</p> <p>Review of management's assessment of the appropriateness of the assumptions used in the valuations.</p> <p>Review of information provided by SOSE to management experts.</p> <p>Testing of period-end balances and related disclosures, including accruals and valuations.</p>

Wider dimension risks

<p>4 Governance arrangements, financial planning and performance management framework</p> <p>SOSE is a new organisation which is bedding-in its governance and overall corporate arrangements. At the same time, COVID-19 has had an impact on SOSE's ability to fully establish these arrangements and operations during its first full year. Due to COVID-19, SOSE has an interim framework agreement in place with the Scottish Government and has yet to fully establish its committee structure and delegated authority levels. COVID-19 has also had an impact of SOSE's ability to recruit staff. In addition, SOSE delayed the preparation of its strategic plan until April 2022 to align with the planning cycle of the other enterprise and skills agencies such as Scottish Enterprise. As a result, it has yet to fully develop its longer-term financial planning, workforce planning and performance targets and reporting.</p> <p>While this delay in establishing SOSE's governance and accountability arrangements is understandable in the circumstances, there is a risk to effective governance</p>	<p>Internal audit's review of governance arrangements.</p>	<p>Assessment of the effectiveness of governance arrangements in place and progress with developing these further.</p> <p>Review of disclosures in the performance report and governance statement in the annual report and accounts.</p> <p>Consideration of internal audit's work on governance arrangements.</p>
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	Audit Risk	Source of assurance	Planned audit work
	and resource planning until these arrangements are fully developed.		
5	<p>Governance over COVID-19 related support funding</p> <p>SOSE has had a key role in Scotland's response to COVID-19, supporting jobs and businesses. This includes distributing COVID-19 grants to businesses. Decision-making in a fast-moving environment presents a number of challenges for SOSE and other public bodies. These include maintaining good governance and controls while making decisions quickly, adapting performance measures and ensuring that anti-fraud arrangements remain robust at a time when the risk of fraud is increased.</p>	Internal audit's reviews of COVID-19 response.	<p>Review of the extent and nature of COVID-19 grants distributed by SOSE to businesses.</p> <p>Consideration of the governance and accountability arrangements for distributing COVID-19 grants, including the level of scrutiny and steps taken to minimise fraud and error.</p> <p>Assessment of the key controls in place over COVID-19 grants.</p> <p>Focussed testing of grant payments to assess whether grants are only paid when the grant conditions have been met.</p> <p>Review of performance targets for the efficiency and effectiveness of COVID-19 funding.</p> <p>Consideration of internal audit's work on COVID-19 response.</p>
6	<p>Governance of Cyber security</p> <p>Organisations are increasingly threatened by cyber-attacks as evidenced by recent incidents affecting public bodies. This risk is heightened due to the impact of COVID-19 such as home-working.</p> <p>SOSE has a shared Enterprise Information Service (EIS) IT arrangement with Scottish Enterprise, Highlands and Islands Enterprise and Skills Development Scotland. In its assurance map for EIS IT oversight and assurance activities, internal audit highlighted scope for strengthening cyber security controls. There is a risk that a cyber-attack could disrupt SOSE systems, including key financial systems.</p>	SOSE continues to progress towards Cyber Essentials Plus accreditation.	<p>Assess progress towards improving cyber security including achieving Cyber Essentials+ accreditation.</p> <p>Consider disclosure of cyber security risk in the governance statement within the annual report and accounts.</p>

Source: Audit Scotland

7. As set out in ISA (UK) 240, there is a presumed risk of fraud in income recognition. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted this presumed risk in 2020/21 as SOSE's main source of income is Grant-in-Aid funding from the Scottish Government. We do not consider this income to be subject to significant risk of fraudulent recognition.

Reporting arrangements

8. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs are detailed in [Exhibit 2](#), with indicative target dates for completion (see references to timetable at paragraph 24). These and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

9. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officer(s) to confirm factual accuracy.

10. We will provide an independent auditor's report to SOSE, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide SOSE 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 2020/21 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	11 March 2021	18 March 2021
Independent Auditor's Report	12 August 2021*	19 August 2021
Annual Audit Report	12 August 2021*	19 August 2021

*These dates are indicative and are likely to be subject to change

Source: Audit Scotland

Audit fee

11. The proposed audit fee for the 2020/21 audit of SOSE is £95,000. In determining the audit fee we have taken account of the risk exposure of SOSE, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual report and accounts, with a complete working papers package by 21 May 2021.

12. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, 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

13. 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.

14. 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

15. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

16. 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. In doing this, we aim to support improvement and accountability.

17. As this is our first year of audit, details of our core audit team are included in [Appendix 1](#).

Audit scope and timing

Annual report and accounts

18. 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 SOSE 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 SOSE 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.

19. We will give an opinion on whether the financial statements:

- give a true and fair view in accordance with the South of Scotland Enterprise Act 2019 and directions made thereunder by the Scottish Ministers of the state of affairs of South of Scotland Enterprise as at 31 March 2021 and of its net expenditure for the period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted by the 2020/21 Government Financial Reporting Manual
- have been prepared in accordance with the requirements of the South of Scotland Enterprise Act 2019 and directions made thereunder by the Scottish Ministers.

Statutory other information in the annual report and accounts

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

21. We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

Materiality

22. 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



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

23. We calculate materiality at different levels as described below. The calculated materiality values for SOSE are set out in [Exhibit 3](#).

Exhibit 3 Materiality values

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of the forecast gross expenditure per the December 2020 financial monitoring report.	£234,300
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 55% of planning materiality.	£128,900
Reporting threshold – 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 5% of planning materiality.	£12,000



Source: Audit Scotland.

Timetable

24. 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](#). As stated in [paragraph 4](#) above, we will adopt a pragmatic and flexible approach. While our intention is to work to the target dates set out below, these are subject to potential change due to ongoing developments associated with COVID-19.

25. SOSE will prepare an annual report and accounts for the first time in 2020/21, covering the period from its inception on 16 October 2019 to 31 March 2021. Management should therefore ensure that the capacity of the finance function is appropriate and controls over the accounts preparation are effective. Management should also ensure that the accounts are prepared to the required standard, in accordance with the 2020/21 Government Financial Reporting Manual (FReM) and include all required disclosures. We will continue to liaise with management in this respect.

Exhibit 4 Annual accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual report and accounts with complete working papers package	21 May 2021 (tbc)
Consideration by management of Service Auditors reports	tbc
Latest date for final clearance meeting with Director of Finance	By 30 July 2021*

**Key stage****Date**

Agreement of audited unsigned annual report and accounts

12 August 2021*

Issue of draft annual audit report including ISA 260 / 580 (proposed independent auditor's report and letter of representation) to those charged with governance

Independent auditor's report signed

20 August 2021

*These dates are indicative and are likely to be subject to change

Source: Audit Scotland

Internal audit

26. Internal audit is provided by a shared service arrangement with Scottish Enterprise, Skills Development Scotland and Scottish Funding Council. As part of our planning we carried out an assessment of the internal audit function, concluding that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). In doing so, we liaised with Scottish Enterprise's external auditors. We also considered the internal audit arrangements for Enterprise Information Systems (EIS), which delivers ICT services to SOSE, Scottish Enterprise, Skills Development Scotland and Highlands and Islands Enterprise.

27. Internal and external auditors 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. From our review of the internal audit plan we plan to consider internal audit's work in the following areas:

- COVID-19 response
- Governance
- Key financial controls
- Strategy
- Procurement
- IT partnership audit.

Audit dimensions

28. 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

29. 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 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 progress made by SOSE in developing a clear financial plan and strategy. Once this is in place, we will also review, conclude and report on:

- 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 there are arrangements in place to demonstrate the affordability and effectiveness of funding and investment decisions.

Financial management

30. 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:

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

Governance and transparency

31. 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:

- progress made by SOSE to develop and embed sound governance and accountability arrangements
- whether SOSE can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered in partnership with others such as EIS and the shared internal audit service)
- 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

32. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on:

- progress made in developing SOSE's performance management framework
- SOSE's arrangements in place to support the Accountable Officer in her duty to secure Best Value in line with the Scottish Public Finance Manual
- whether SOSE can demonstrate that it monitors and reports progress towards meeting the Enterprise and Skills Strategic Plan's objectives.

Independence and objectivity

33. 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.

34. The engagement lead (appointed auditor) for SOSE is Gordon Smail, Audit Director. Auditing and ethical standards require the appointed auditor 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 SOSE.

Quality control

35. International Standard on Quality Control 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.

36. 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) has been commissioned to carry out external quality reviews.

37. 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.

Appendix 1: The Audit Team

The core audit team consists of the following staff and might be supported at peak times with additional resources to ensure key reporting deadlines are met:



Gordon Smail

Audit Director

✉ gsmail@audit-scotland.gov.uk ☎ 0131 625 1874

Gordon is the appointed independent auditor, appointed by the Auditor General established under the Public Finance and Accountability (Scotland) Act 2000. Gordon is responsible for a portfolio of financial, and performance audits, mainly in the enterprise and skills sector, and the Code of Audit Practice and guided by the auditing profession's ethical guidance.



Ursula Lodge

Senior Audit Manager

✉ ulodge@audit-scotland.gov.uk ☎ 0131 625 1746

Ursula will have overall control of the delivery and quality of the audit including audit engagement and ensuring the audit is properly planned, resourced and concluded within time. Ursula has fifteen years' experience in public sector audit with Audit Scotland, covering financial audits mainly in central and local government sectors, and performance audits in the public finance and capital investment portfolios.



Stuart Nugent

Audit Manager

✉ snugent@audit-scotland.gov.uk ☎ 0131 625 1938

Stuart will lead the audit team and will be the main contact for the audit. Stuart has been working with Audit Scotland for over 19 years having joined as a graduate trainee and has experience across a range of clients, including many within the central government sector. Stuart has also worked in Performance Audit Best Value working on the annual overview of the college sector.

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