

# Scottish Enterprise

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for Scottish Enterprise

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of Scottish Enterprise (SE). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of SE's 2021/22 annual report and accounts and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Governance Statement and the Remuneration and Staff Report
- consideration of arrangements in relation to the audit dimensions that frame the wider scope of public sector audit: financial management, financial sustainability, governance and transparency and value for money
- consideration of Best Value arrangements
- review SE's participation in the National Fraud Initiative.

## Impact of Covid-19

2. The coronavirus pandemic (Covid-19) has had a significant impact on public finances and the delivery of public services, and the effects will be felt well into the future.

3. Audit Scotland continues to assess the risks to public services and finances from Covid-19 across the full range of our audit work. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

## Adding value

4. We aim to add value to SE 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 will help SE promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit and Risk Committee and actively participate in discussions.

## Respective responsibilities of the auditor and SE

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and the organisations we audit. Key responsibilities are summarised below.

### Auditor responsibilities

6. 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.

7. 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.

### SE responsibilities

8. SE has 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 SE to deliver its objectives.

9. SE is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

## Managing the transition to 2022/23 audits

10. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

# Financial statements audit planning

## Materiality

**11.** Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

### Materiality levels for the 2021/22 audit

**12.** We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for SE are set out in [Exhibit 1](#).

## Exhibit 1

### 2021/22 Materiality levels for SE

Materiality	Amount	Group
<p><b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements.</p> <p>For the single entity, planning materiality has been set at 1% of gross expenditure for the year ended 31 March 2022 based on SE's 2021/22 forecast revenue expenditure in the most recent finance report to the Board.</p> <p>For the group, planning materiality has been set at 1% of gross expenditure based on the latest audited financial statements for 2020/21 adjusted to take account of the significant reduction in Covid business support expenditure in 2021/22.</p>	£2.0 million	£2.2 million
<p><b>Performance materiality</b> – 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 assessed performance materiality at 70% of planning materiality for the single entity and the group.</p>	£1.4 million	£1.5 million
<p><b>Reporting threshold (ie clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.</p>	£100,000	£110,000

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**13.** Our risk assessment draws on our cumulative knowledge of SE, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

**14.** Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

### Exhibit 2

#### 2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> <li>• Assess the design and implementation of controls over journal entry processing.</li> <li>• Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</li> <li>• Test journals at the year-end and post-closing entries and focus on significant risk areas.</li> <li>• Consider the need to test journal entries and other adjustments during the period.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements.</li> <li>• We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> <li>• Substantive testing of income and expenditure transactions around the year-end</li> </ul>

Significant risk of material misstatement	Sources of assurance	Planned audit response
		<p>to confirm they are accounted for in the correct financial year.</p> <ul style="list-style-type: none"> <li>• Focussed testing of accounting accruals and prepayments.</li> </ul>

Source: Audit Scotland

**15.** As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

**16.** We consider the risk of fraud to be low because most of SE's income is grant-in-aid and other grants from the Scottish Government. SE's other sources of income include property income, investment income and EU grant income. This income comes from identifiable sources and SE has adequate arrangements for managing it. Therefore, we have rebutted this risk.

**17.** In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition.

**18.** We have found no evidence to suspect potential material fraud over expenditure for SE's main revenue expenditure streams, which are staff costs, IT costs, property costs and admin costs. These are routine transactions and SE has well established key controls and procedures. SE has effective compliance procedures for more complex areas, such as business grant payments, to validate decisions prior to committing funds.

**19.** In 2020/21, SE was responsible for administering £240 million of Covid-19 business support grants. The value of SE's Covid-19 funding has dropped significantly to around £5 million in 2021/22 and is mainly top up payments to previously approved businesses. This substantially reduces the risk of material misstatement due to fraud in expenditure. Therefore, we have rebutted this risk.

**20.** We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

## Other areas of audit focus

**21.** As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements.

**22.** Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review

as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

**23.** The areas of specific audit focus are:

- Estimations and judgements: Valuation of financial assets.

SE values its unlisted financial assets using in-house experts. There is a risk that inaccurate judgements in the calculation of asset values results in a material misstatement in the financial statements.

- Estimations and judgements: Valuation of pension assets and liabilities.

The valuation of pension assets and liabilities is based on complex calculations using estimates and actuarial assumptions. The subjective nature of these assumptions increases the risk that the pension costs and liabilities in the financial statements will be materially misstated.

- Estimations and judgements: Valuation of land and buildings.

There is a significant degree of estimation and judgement in the valuation of property assets in the accounts. This increases the risk of material misstatement.

## Group Consideration

**24.** As group auditors, we are required under International Standard on Auditing (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

**25.** SE has a group which comprises component entities, including subsidiaries and associates. The audits of the financial information of the components are performed by other auditors. We plan to place reliance on the work of the component auditors. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base our group audit opinion.

## Audit risk assessment process

**26.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available as the audit progresses. Where such changes occur, we will advise management and, where relevant, report them to those charged with governance.

# Audit dimensions and Best Value

## Introduction

27. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

## Audit dimensions

28. The four dimensions that frame our audit work are shown in [Exhibit 3](#).

### Exhibit 3

#### Audit dimensions



Source: Code of Audit Practice

29. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – 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).

- **Governance and transparency** – 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.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

## Duty of Best Value

**30.** [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within SE.

## Audit dimension risks

**31.** We have identified audit risks in the areas set out in [Exhibit 4](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

### Exhibit 4

#### 2021/22 Audit dimension risks

Description of risk	Sources of assurance	Planned audit response
<p><b>1. Financial sustainability</b></p> <p>SE continues to face financial challenges including the impact of Covid-19, rising payroll, pension and running costs, and the loss of European funding. Alongside this SE has a key role supporting Scotland's new national strategy for economic transformation which will place demands on its resources.</p> <p>We reported last year that SE had deferred longer-term financial planning.</p>	<p>SE has an indicative five-year capital budget from the Scottish Government.</p> <p>The Scottish Government is undertaking a Resource Spending Review. The outcome of which will be known in June 2022. This will provide further assurance on medium-term funding.</p> <p>SE is developing an income strategy for non-Scottish Government related income.</p>	<ul style="list-style-type: none"> <li>• Review SE's progress in developing a longer-term financial strategy.</li> <li>• Review SE's progress in developing its income strategy.</li> </ul>

Description of risk	Sources of assurance	Planned audit response
There is a risk that SE does not have enough information to form a longer-term view of its financial position.		

Source: Audit Scotland

**32.** In our 2020/21 annual audit plan we identified the risk that a cyber-attack could disrupt SE's key financial systems. SE has a shared Enterprise Information Service (EIS) IT arrangement with Skills Development Scotland, Highlands and Islands Enterprise and South of Scotland Enterprise. EIS partner bodies (including SE) achieved Cyber Essentials Plus accreditation in June 2021.

**33.** We will review SE's governance of cyber security as part of our 2021/22 governance and transparency work.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

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

**35.** 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 relevant officers to confirm factual accuracy.

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

**37.** [Exhibit 5](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 31 October 2022.

## Exhibit 5 2020/21 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31/03/2022	20/04/2022
Independent Auditor's Report	19/07/2022	27/07/2022
Annual Audit Report	19/07/2022	27/07/2022

Source: Audit Scotland

## Timetable

**38.** To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 6](#) that has been discussed with management.

**39.** Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines.

**40.** We will continue to work in close partnership with management to ensure clear expectations over timescales and the requirement for high quality unaudited accounts and supporting working papers. We will discuss progress with management and finance officers over the course of the audit.

## Exhibit 6 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the single entity unaudited annual report and accounts with complete working papers package.	9 May 2022
Latest submission date for the receipt of the unaudited performance and accountability reports, which includes the governance statement and remuneration and staff report.	18 May 2022
Latest submission date for the receipt of the unaudited group annual report and accounts with all relevant working papers.	23 May 2022
Latest date for final clearance meeting with the Chief Financial Officer	12 July 2022
Issue of Letter of Representation and proposed Independent Auditor's Report	19 July 2022
Issue of Annual Audit Report to those charged with governance.	19 July 2022
Agreement of audited and unsigned annual report and accounts	27 July 2022
Signed Independent Auditor's Report	29 July 2022
Latest date for WGA assurance	To be confirmed

Source: Audit Scotland

## Audit fee

**41.** The proposed audit fee for the 2021/22 audit of SE is £172,150 (2020/21: £168,890). In determining the audit fee, we have taken account of the risk exposure of SE, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

**42.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts or the absence of adequate supporting working papers, 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.

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# Other matters

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## Internal audit

**43.** International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

**44.** We will review internal audit plans to determine if there are any areas where we can place formal reliance on internal audit's work for our financial statements responsibilities. We will also consider the findings of other relevant internal audit work.

## Independence and objectivity

**45.** Auditors appointed by the Auditor General for Scotland or Accounts Commission 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.

**46.** 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.

**47.** The engagement lead (i.e. appointed auditor) for SE is Pauline Gillen, 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 SE.

## Quality control

**48.** International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

**49.** 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.

**50.** 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

## Annual Audit Plan 2021/22

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[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

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