

Highlands and Islands Enterprise

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Highlands and Islands Enterprise

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Contents

Introduction	3
Financial statements audit planning	5
Wider Scope and Best Value	9
Reporting arrangements, timetable, and audit fee	11
Other matters	13
Appendix 1. Your audit team	15

Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of Highlands and Islands Enterprise. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the 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 wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements.

Audit Appointment

2. We are pleased to be appointed as the external auditor of Highlands and Islands Enterprise for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at [Appendix 1](#).

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

Adding value

5. We aim to add value to Highlands and Islands Enterprise through our external audit work by being constructive and forward looking, by attending meetings of the Risk and Assurance Committee and by recommending and encouraging good practice. In so doing, we will help Highlands and Islands Enterprise promote improved standards of governance, better management and decision-making and more effective use of resources.

Respective responsibilities of the auditor and Highlands and Islands Enterprise

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and Highlands and Islands Enterprise. Key responsibilities are summarised below.

Auditor responsibilities

7. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

8. 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 wider scope arrangements in place at Highlands and Islands Enterprise. In doing this, we aim to support improvement and accountability.

Highlands and Islands Enterprise responsibilities

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

10. Highlands and Islands Enterprise 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 them to deliver their objectives.

Financial statements audit planning

Introduction

11. The annual report and accounts are an essential part of demonstrating Highlands and Islands Enterprise's stewardship of resources and its performance in the use of those resources.

12. We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

13. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance that 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 2022/23 audit

14. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for Highlands and Islands Enterprise and its group are set out in [Exhibit 1](#).

Exhibit 1

2022/23 Materiality levels for Highlands and Islands Enterprise and its group

Materiality	Single Entity and Group
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of Highlands and Islands Enterprise's operations. For the year ended 31 March 2023 we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2021/22.	£1.8 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be	£0.9 million

considered. Using our professional judgement, we have assessed performance materiality at 70% of planning materiality.

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.	£90,000
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Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of Highlands and Islands Enterprise, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

16. 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 during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

17. 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

2022/23 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a</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"> Assess the design and implementation of controls over journal entry processing. 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. Test journals at the year-end and post-closing entries and focus on significant risk areas.

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>		<ul style="list-style-type: none"> • Consider the need to test journal entries and other adjustments during the period. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.

Source: Audit Scotland

18. 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.

19. We have rebutted this risk for Highlands and Islands Enterprise because income streams are generally grant in aid funding from the Scottish Government, partner funding from other public sector bodies and rental income from Highlands and Islands Enterprise's property portfolio. We have previously tested the systems for these funding streams and confirmed that the controls operate as expected.

20. 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.

21. We have rebutted this risk for Highlands and Islands Enterprise's main revenue expenditure streams, which include costs relating to staff, IT, property and administration. These are routine transactions supported by systems with well established controls. For areas such as business grants, awards are not complex and are subject to approval procedures before any funds are committed.

22. 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

23. 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. 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.

24. The areas of specific audit focus are:

- **Estimations in valuation of land and buildings:** There is a significant degree of subjectivity in the valuation of land and buildings. Non-current assets are professionally valued by RICS, qualified surveyors, in accordance with instructions issued by Highlands and Islands Enterprise. We will review the work of management's experts in this area.
- **Estimations in valuation of pension assets and liabilities:** There is a significant degree of subjectivity in the measurement and valuation of the pension assets and liabilities. The valuation is based on specialist actuarial assumptions and estimates. We will review the work of management's experts in this area.

Group Consideration

25. As group auditors, we are required under International Standard on Auditing (ISA) (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.

26. Highlands and Islands Enterprise has a group which comprises component entities, including subsidiaries, associates and joint ventures. 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.

Wider Scope and Best Value

Introduction

27. The [Code of Audit Practice 2021](#) sets out the four areas 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 wider scope areas in audited bodies.

28. In summary, the four wider scope areas cover the following:

- **Financial management** means having sound budgetary processes. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities.
- **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).
- **Vision, leadership and governance** – we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by Highlands and Islands Enterprise. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how Highlands and Islands Enterprise demonstrates economy, efficiency and effectiveness through the use of financial and other resources.

Wider scope risks

29. Our planned work on our wider scope responsibilities is risk-based and proportionate and in addition to local risks we consider challenges which are impacting the public sector as a whole. In 2022/23, we will consider tackling climate change and responding to cyber security threats.

Climate Change

30. Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of achieving net zero emissions by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

31. The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will gather information on Highlands and Islands Enterprise's arrangements for responding to climate change covering areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

Cyber Security

32. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we will consider Highlands and Islands Enterprise's arrangements for managing and mitigating cyber security risks.

Duty of Best Value

33. [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 Highlands and Islands Enterprise.

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 3](#), and any other outputs on matters of public interest will be published on our website: 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 Highlands and Islands Enterprise, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide Highlands and Islands Enterprise 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 3](#) outlines the target dates for our audit outputs.

Exhibit 3 2022/23 Audit outputs

Audit Output	Target date	Risk and Assurance Committee Date
Annual Audit Plan	31/03/2023	21/03/2023
Independent Auditor's Report	31/10/2023	To be confirmed
Annual Audit Report	31/10/2023	To be confirmed



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 4](#) that has been discussed with management.

39. We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 4 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	5 August 2023
Latest date for final clearance meeting with the Director of Finance (or equivalent)	By end September 2023
Agreement of audited and unsigned annual report and accounts	To be confirmed depending on committee dates
Issue of Annual Audit Report, draft Letter of Representation and proposed Independent Auditor's Report to those charged with governance.	To be confirmed depending on committee dates
Signed Independent Auditor's Report	To be confirmed depending on committee dates

Source: Audit Scotland

Audit fee

40. Our fees have increased in 2022/23 and this is a reflection of the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

41. The proposed audit fee for 2022/23 is £188,180 (2021/22 £144,110).

42. In setting the fee we have assumed that Highlands and Islands Enterprise has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

43. It is the responsibility of Highlands and Islands Enterprise to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

44. While we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

45. Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice 2021](#) 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 Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

47. The appointed auditor for Highlands and Islands Enterprise 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 Highlands and Islands Enterprise.

Audit Quality

48. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

49. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

50. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

51. Audit Scotland is committed to delivering high quality audits. 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 2021](#) (and supplementary 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 England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

52. 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. Your audit team

53. The audit team involved in the audit of Highlands and Islands Enterprise have significant experience in public sector audit.

[Pauline Gillen](#)
Audit Director

Pauline has over 16 years of public sector auditing experience. Pauline has worked across the breadth of the public sector on both financial and performance audits.

[Kyle McAulay](#)
Senior Audit Manager

Kyle has over 10 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.

[Sobhan Afzal](#)
Audit Manager

Sobhan has over 9 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.

[Ray Buist](#)
Senior Auditor

Ray has considerable experience in planning and delivering audits. Ray will manage the team and work alongside the Audit Manager and Senior Audit Manager to deliver the audit.

54. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

Highlands and Islands Enterprise

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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