

Highlands and Islands Enterprise

Interim Audit Report 2016/17



 AUDIT SCOTLAND

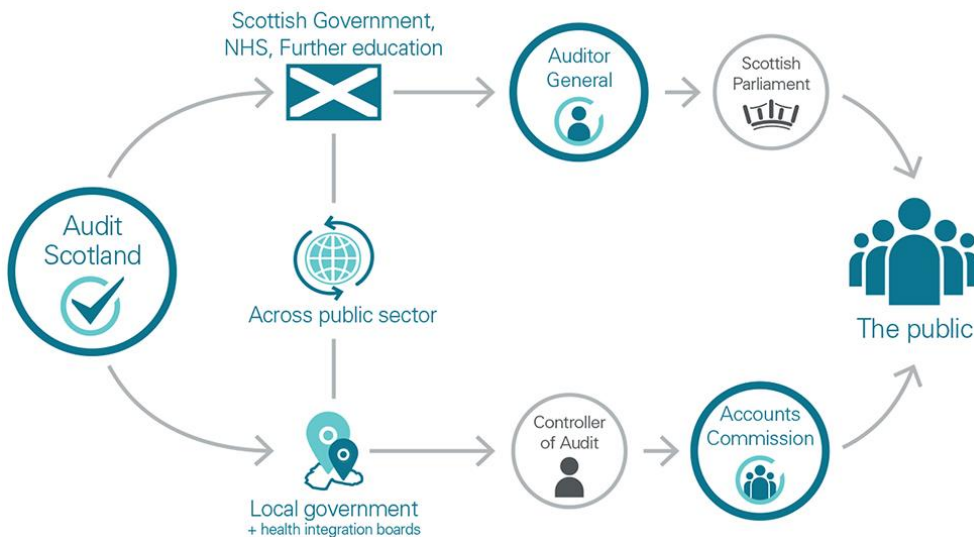
Prepared for Highlands and Islands Enterprise

May 2017

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.
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- 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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Audit findings

Introduction

1. This report summarises the key issues identified during our interim audit work at Highlands and Islands Enterprise (HIE).
2. Our responsibilities under the Code of Audit Practice require us to assess the system of internal control put in place by management. We seek to gain assurance that HIE:
 - 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.
3. We planned to rely on Internal Audit's work for our assurances on payroll, accounts payable and accounts receivable. At the time of drafting this report, Internal Audit had not yet completed its work on these areas and so we have yet to obtain our planned assurances. The Head of Business Improvement and Internal Audit has advised us that this work will be available for our review by the end of May. If this revised timetable is not met we will need to do additional work and an additional fee may be charged.
4. We carried out substantive testing on material accounts areas including income, expenditure and staff costs.
5. Under the Code of Audit Practice 2016, we are also required to carry out wider dimension audit work. This focussed on financial management and financial sustainability. Our work on governance and transparency is currently ongoing and will be reported in our Annual Audit Report.

Conclusion

6. Our work identified an improvement in control can be achieved by using an independent source to confirm contact details held for a supplier who has requested changes in bank details. This is set out in paragraph 10 and summarised in Exhibit 1.
7. In terms of our wider dimension audit work, we concluded that appropriate arrangements are in place for budgeting and financial management. A medium term financial plan has been prepared and this could be further enhanced through the use of scenario planning (see paragraph 15 and Exhibit 1).

Work summary

8. During our interim visit we carried out the following audit work:

- walkthrough of the key controls identified for each of HIE's main financial systems (general ledger, payroll, accounts payable and accounts receivable)
- testing of key controls within the general ledger and cash and banking systems
- initial substantive testing of income, expenditure and some elements of staff costs
- review of the adequacy of the processes in place for financial budgeting, including budget monitoring reports prepared for the Board
- review of the adequacy and reasonableness of medium to long-term financial plans, including how scenario planning feeds into financial plans.

9. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

Findings

Controls

10. When changes are requested to supplier bank details internal records are used to verify the contact details held for the supplier. Whilst this is a reasonable approach the control could be further improved by using an independent source of information to verify the accuracy of these details. This would further minimise the risk of erroneous or fraudulent payments.

Initial substantive work

11. We carried out substantive testing on transactions for the first eleven accounting periods of the 2016/17 financial year. Testing focused on income, expenditure and staff costs. There are no issues to report resulting from this work.

Financial management

12. We have assessed the process for preparing budget information and reviewed budget monitoring reports presented to the Board. The process and output was sufficiently robust to provide effective financial information for management decision-making.

Financial sustainability

13. In last year's Annual Audit Report we recommended that HIE should develop a long term financial strategy (> 5 years) supported by detailed plans; and that these plans should be based on scenario planning to identify the potential budget impact on future decisions.

14. In response to our recommendation, HIE has prepared a five year rolling financial plan covering the period 2016/17 to 2020/21. Our review of this plan found that it was detailed in relation to transformational projects. It does not, however, consider alternative scenarios in relation to income and costs and the impact that these might have on its activities and spending in other areas. This limits its use in assessing HIE's financial sustainability.

Exhibit 1

Key findings and action plan 2016/17

Issue identified	Management response	Responsible officer and target date
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Audit findings- financial statements audit assurance

Changes to supplier bank details

When changes are required to supplier bank details finance staff confirm the contact information to the records held by HIE. They do not however verify these to an independent source, which would provide additional assurance that the changes originated from the supplier.

Staff currently use known safe contact details from our systems to contact suppliers to confirm authenticity of requests to change bank details. We will update our procedure to include verification of contact details with an external source prior to confirming authenticity of the requests for changes of supplier details.

Head of Financial Services.
Action taken on receipt of the report.

Audit findings - wider dimension audit

Financial sustainability

Although HIE has a rolling five year financial plan, it is not based on different funding and cost scenarios for the business. This information would support management decision-making and consideration of HIE's financial sustainability.

Further development of the rolling five-year plan will be considered when the new Director of Finance and Corporate Services is established in post.

Director of Finance and Corporate Services. Date to be advised.

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- Any weaknesses identified represent those that have come to our attention during the course of normal audit work 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 HIE.
 - All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

Highlands and Islands Enterprise

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