

Scottish Enterprise

Annual Audit Plan 2019/20



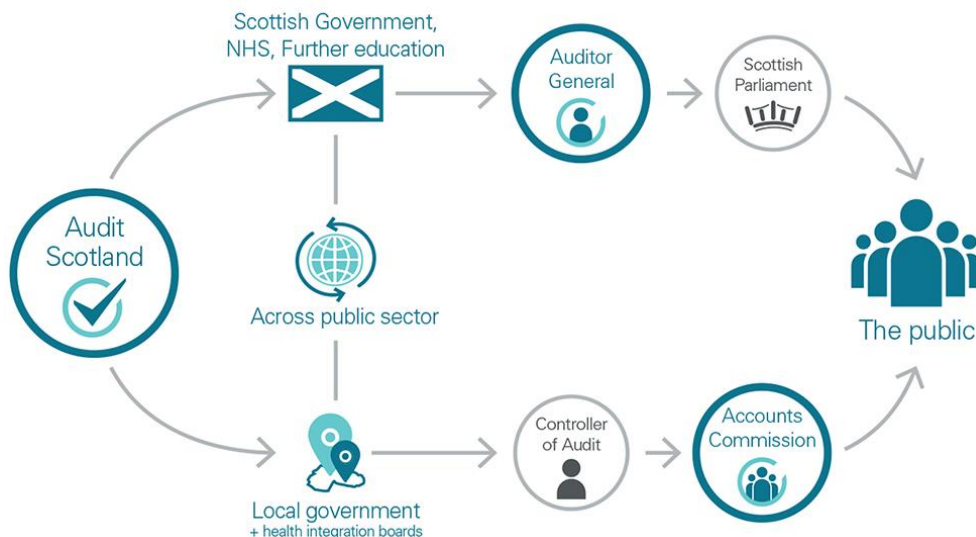
 AUDIT SCOTLAND

Prepared for Scottish Enterprise
February 2020

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.

Contents

Risks and planned work	4
Audit scope and timing	10

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 Audit Scotland's [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual report and accounts 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.


Adding value


3. We aim to add value to Scottish Enterprise 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 help Scottish Enterprise promote improved standards of governance, better management and decision-making and more effective use of resources.


Audit risks

4. Based on our discussions with staff, attendance at Audit and Risk Committee meetings and a review of supporting information we have identified a number of significant audit risks for our 2019/20 audit of Scottish Enterprise. We have categorised these audit risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1 2019/20 Significant audit risks


 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement caused by management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</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 ensure income and expenditure is recognised in the correct financial year.</p>

	Audit Risk	Source of assurance	Planned audit work
			Evaluation of any significant transactions that are outside the normal course of business.
2	<p>Risk of material misstatement caused by fraud in income recognition</p> <p>As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements.</p> <p>Scottish Enterprise's October 2019 financial performance report forecasts that £66m (18%) of its income will come from sources other than central government funding, including income from properties and investments. The extent, nature and complexity of this income means that there is an inherent risk of fraud.</p>	<p>Effective budget monitoring by management and Board members.</p> <p>Effective fraud and whistleblowing arrangements, including detailed conflicts of interests' procedures.</p> <p>Effective controls over income transactions.</p>	<p>Review Scottish Enterprise's anti-fraud arrangements.</p> <p>Walk-through of controls over income / receivables.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p> <p>Substantive cut-off testing of income to ensure that it has been recognised in the correct financial year.</p>
3	<p>Risk of material misstatement caused by fraud in expenditure</p> <p>As most public bodies are net spending bodies, we are also required to consider the risk of fraud over expenditure.</p> <p>In 2018/19, Scottish Enterprise recorded gross expenditure of £313m. This includes a material level of grants to third parties. Given the extent, nature and complexity of expenditure, there is an inherent risk of fraud.</p>	<p>Effective budget monitoring by management and Board members.</p> <p>Effective fraud and whistleblowing arrangements, including detailed conflicts of interests' procedures.</p> <p>Effective controls over expenditure transactions.</p> <p>Participation in the National Fraud Initiative (NFI).</p>	<p>Review Scottish Enterprise's anti-fraud arrangements.</p> <p>Walk-through of controls over payables, including grant expenditure.</p> <p>Substantive testing of grant expenditure.</p> <p>Substantive cut-off testing of expenditure to ensure that it has been recognised in the correct financial year.</p> <p>Review of procurement practices.</p>
4	<p>Estimation and judgements</p> <p>ISA 540 is concerned with the auditor's responsibilities relating to accounting estimates and related disclosures in financial statements.</p> <p>There is a significant degree of subjectivity in the measurement and valuation of investments (£320m), land and buildings (£155m) and pension assets (£63m). There is also a degree</p>	<p>Sound arrangements for providing valuation information have been established.</p> <p>Actuary and valuers are established and recognised providers in their fields.</p> <p>Controls are in place to ensure that management provides accurate information to its experts.</p>	<p>Test management's controls and procedures over these estimations and judgements.</p> <p>Substantive testing of selected year-end valuation reports.</p> <p>Review of the work of management's expert</p>

 Audit Risk	Source of assurance	Planned audit work
<p>of estimation and judgement in accrued expenditure (£36m), accrued income (£7m), provisions (£6m) and debt impairment (£6m).</p> <p>Estimates and judgements in these areas represent an increased risk of misstatement in the financial statements.</p>	<p>Sound arrangements for estimating grant accruals are in place.</p>	<p>valuers, including a review of the processes for valuing investments.</p> <p>Review management's assessment of the appropriateness of the assumptions used in the valuation of certain assets and liabilities.</p> <p>Substantive testing of year-end accruals, provisions and bad debt provisions.</p> <p>Review of accrued EU income.</p>

Wider dimension risks

<p>5 Financial management</p> <p>Scottish Enterprise's October 2019 financial performance report forecasts that the majority of expenditure will be incurred in the second half of the financial year.</p> <p>There is a risk that management's forecast of expenditure is not achieved, leading to under-spending of grant in aid (including financial transactions) and EU funding. There is also a risk that the effectiveness of key controls is compromised due to pressures to achieve budgets.</p>	<p>Regular budget monitoring, especially towards year-end.</p> <p>Regular financial performance reports to management and Board members.</p> <p>The Financial Transactions (FT) working group identifies projects on which FT funding can be applied.</p>	<p>Review budget monitoring processes across capital and revenue streams.</p> <p>Review management action to make full use of the budget.</p> <p>Review the work of the Financial Transactions working group.</p> <p>Substantive cut-off testing of expenditure.</p> <p>Review the level of EU-funded expenditure.</p>
<p>6 Value for money</p> <p>Scottish Enterprise is developing its performance management and reporting arrangements to reflect significant changes in its internal and external operating environments.</p> <p>There is a risk that performance management arrangements are not aligned with new structures within the organisation and with the Enterprise and Skills Strategic Board's missions and that, as a result, Scottish Enterprise is unable to demonstrate progress and its contribution to the Scottish Government's National Performance Framework.</p>	<p>The Strategic Framework 2019-2022 sets out how Scottish Enterprise will align these requirements.</p> <p>Internal audit's review of performance in the context of the Strategic Board's missions.</p>	<p>Review internal audit's work on performance measurement and Strategic Board alignment.</p> <p>Review progress on achieving the primary outcomes.</p> <p>Consider the work undertaken by internal audit on transition arrangements relating to South of Scotland Agency, Scottish National Investment</p>

 Audit Risk	Source of assurance	Planned audit work
		<p>Bank and Performance Measurement.</p> <p>Review progress on the reporting of achievement of objectives and the effectiveness of the underlying systems.</p>
<p>7 Cyber Security</p> <p>Organisations are increasingly threatened by cyber-attacks.</p> <p>Scottish Enterprise has a shared Enterprise Information Service (EIS) IT arrangement with Skills Development Scotland (SDS) and Highlands and Islands Enterprise (HIE).</p> <p>Internal audit reported in August 2019 and identified key areas for improvement.</p> <p>There is a risk that a cyber-attack could disrupt Scottish Enterprise's systems, including key financial systems.</p>	<p>We will be revising Scottish Enterprise's Enterprise Architecture that includes a dimension on security</p> <p>Working with EIS:</p> <ul style="list-style-type: none"> • an external professional body will undertake a maturity assessment of Scottish Enterprise's security controls and governance practices • a Security Operations Centre is being deployed that is helping to identify threat vectors that could impact Scottish Enterprise. • we have introduced regular phishing tests across Scottish Enterprise • we will be undertaking a survey and analysis on achieving Cyber Essentials certification. <p>We are bringing in external resources to help ensure we are meeting all security standards.</p> <p>We have ongoing education and awareness being provided to all employees, delivered to channels such as intranet, Yammer, webinars.</p> <p>We hold regular 'informal' discussions and meetings with staff from the Scottish Government cyber resilience team to get a sense check on our plans.</p>	<p>Review progress in addressing the recommendations raised by internal audit and coordinate our work with the external auditors of SDS and HIE.</p> <p>Place reliance on any internal audit follow-up work.</p>

Reporting arrangements

5. Audit reporting is the visible output for the annual audit. All outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

6. 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 officer(s) to confirm factual accuracy.

7. We will provide an independent auditor's report to Scottish Enterprise, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide Scottish 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.

Exhibit 2 2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	18 November 2019	25 November 2019
Management Report	8 April 2020	15 April 2020
Independent Auditor's Report	by 18 June 2020	22 June 2020
Annual Audit Report	by 18 June 2020	22 June 2020

Source: Audit Scotland

Audit fee

8. The agreed audit fee for the 2019/20 audit of Scottish Enterprise is £164,820 (2018/19 agreed fee £162,650). In determining the audit fee we have taken account of the risk exposure of Scottish Enterprise, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

9. Our audit approach assumes:

- receipt of the single entity financial statements together with a complete working papers package on Monday 11 May 2020
- receipt of the unaudited performance and accountability reports which includes the governance statement and the remuneration and staff report by Wednesday 20 May 2020 at the latest
- the unaudited group annual report and accounts with all relevant working papers as soon as possible thereafter, and by Monday 25 May 2020 at the latest.

10. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts or being unable to take planned reliance from the work of internal audit, 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

11. 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.

12. 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

13. 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.

14. 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.

Audit scope and timing

Annual report and accounts

15. 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 Scottish Enterprise 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 Scottish Enterprise 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.

16. We will give an opinion on:

- whether the financial statements give a true and fair view in accordance with the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers of the state of the affairs of Scottish Enterprise and its group as at 31 March 2020
- whether the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted by the 2019/20 FReM
- whether the financial statements have been prepared in accordance with the requirements of the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers
- the regularity of income and expenditure.



characteristics



responsibilities



principal activities



risks



governance arrangements

Statutory other information in the annual report and accounts

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

18. 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

19. 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.

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

Exhibit 3 Materiality values

Materiality	Amount
Scottish Enterprise single entity accounts	
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 gross expenditure based on the 2018/19 audited accounts.	£3 million
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 60% of planning materiality.	£1.8 million
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.	£150,000
Scottish Enterprise group accounts	
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the group financial statements. It has been set at 1% of gross expenditure based on the 2018/19 audited accounts.	£3.1 million
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 60% of planning materiality.	£1.9 million
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 (rounded to £150,000).	£150,000

Source: Audit Scotland

Timetable

21. 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](#).

22. The timetable for the financial statements audit is challenging. We do not receive a complete set of unaudited group annual report and accounts at the outset



of the audit. For this year's audit, management has agreed to provide the single entity annual report and accounts (including extracts of the performance and accountability reports) at the outset of the audit, with the group financial statements to be provided by 25 May 2020 at the latest.

23. There was an organisation-wide restructuring within Scottish Enterprise during 2019. The finance department has been particularly affected by the merging of the Chief Finance Officer's role with the Chief People Officer, the widening of the Director of Finance role to encompass risk, legal and procurement and changes in the financial accounting team. While Scottish Enterprise has well-established accounts preparation procedures and there is continuity in key personnel, we note that the financial accounting team is currently carrying two vacancies out of a team of four.

24. During this period of significant organisational change, it will be important that controls continue to operate effectively and that capacity within the finance function is maintained. The latter could affect Scottish Enterprise's ability to meet the challenging year-end accounts preparation and audit timetable in 2019/20.

Exhibit 4

Annual report and accounts timetable

 Key stage	 Date
Latest submission date of unaudited Scottish Enterprise single-entity financial statements and a complete working papers package	11 May 2020
Latest submission date of unaudited performance and accountability report narrative	20 May 2020
Latest submission date of group annual report and accounts	By 25 May 2020
Latest date for receipt of assurances from the group component auditor	19 June 2020
Latest date for final clearance meeting with Chief People Officer and Director of Finance	12 June 2020
Agreement of audited unsigned financial statements Issue of draft Annual Audit Report including ISA 260 report (proposed independent auditor's report and letter of representation) to those charged with governance	By 19 June 2020
Independent auditor's report signed	As soon as possible following Board approval
Latest date for signing of Whole of Government Accounts return	30 September 2020

Internal audit

25. Scottish Enterprise has an in-house internal audit function. As part of our planning process we carried out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the

Public Sector Internal Audit Standards (PSIAS). We concluded that overall, the service operates in accordance with PSIAS and has sound documentation and reporting procedures in place. We also note that internal audit is providing a shared service to Skills Development Scotland.

Using the work of internal audit

26. 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. If we decide to place formal reliance on internal audit, auditing standards require us to assess internal audit's approach and work.

27. From our initial review of internal audit plans we shall consider aspects of internal audit work in their reviews of the new HR system and expenses.

28. In addition, there are several planned internal audits where the final reports will be considered as part of our wider dimension audit responsibilities, including:

- South of Scotland Agency
- Scottish National Investment Bank
- Performance Measurement
- Strategic Board Alignment
- Operational areas of focus as per the 2019/20 operating plan eg infrastructure, R&D investment, resilience and funding and support
- Transformation
- Risk Management.

29. We will also consider the internal audit arrangements for Enterprise Information Systems (EIS), which deliver ICT services to SDS, HIE and Scottish Enterprise.

Audit dimensions

30. 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

31. Our standard audits are based on four audit dimensions. These are: financial sustainability, financial management, governance and transparency and value for money.

Financial management

32. 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 the following over our period of appointment:

- whether arrangements are in place to ensure systems of internal control are operating effectively
- the effectiveness of the budgetary control system in communicating accurate and timely financial performance can be demonstrated
- how Scottish Enterprise has assured itself that its financial capacity and skills are appropriate (refer to paragraphs 23-24 above)
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

33. We will assess the risk of fraud and corruption in Scottish Enterprise's procurement function. We will consider the controls around the procurement process, whether appropriate training is provided to staff to assist in the recognition of fraud and any findings from internal audit.

Financial sustainability

34. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of our 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 the following over our period of appointment:

- 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 Scottish Enterprise can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

35. Scottish Enterprise receives a significant level of EU funding. As part of our 2019/20 audit work, we will consider Scottish Enterprise's response to EU withdrawal, including any impact on financial sustainability and the extent to which Scottish Enterprise commits expenditure funded by EU income.

Governance and transparency

36. Governance and transparency are 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 the following over our period of appointment:

- whether Scottish Enterprise can demonstrate that its governance arrangements are appropriate and operating effectively (including services delivered by, or in partnership with, others such as the EIS partnership)
- 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

37. Value for money refers to using resources effectively and continually improving services. Over the course of our appointment, we will review, conclude and report on whether:

- Scottish Enterprise can provide evidence that there is value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered.
- outcomes are improving.
- there is sufficient focus on improvement and the pace of it.

38. The Enterprise and Skills Strategic Board published its strategic plan in October 2018. This plan sets out four 'missions' together with a number of inter-related actions and recommendations. Scottish Enterprise and the other agencies are required to align their objectives with these missions.

39. In its May 2019 [Enterprise and Skills Review Briefing](#), Audit Scotland reported that in relation to performance monitoring, it was important for the agencies to be able to demonstrate that:

- actions are being implemented and are having the desired effect
- the pace of change is appropriate

- alignment of new or revised performance measures with the National Performance Framework

40. As part of our 2019/20 audit work, we shall consider whether Scottish Enterprise's Strategic Framework 2019-2022 and the related 2019/20 Operating Plan demonstrates progress towards this ambition. We shall consider the content and presentation of the performance report in the annual report and accounts to ensure Scottish Enterprise takes the opportunity to communicate how it has applied the funding it receives and what was achieved. We shall also consider internal audit's findings on this area.

Best Value

41. The Accountable Officer of Scottish Enterprise has a duty to ensure arrangements are in place to secure best value. We will review these arrangements as part of our 2019/20 annual audit.

Independence and objectivity

42. Auditors appointed by the Accounts Commission or Auditor General for Scotland 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'.

43. The engagement lead (i.e. appointed auditor) for Scottish Enterprise 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 Scottish Enterprise.

Quality control

44. International Standard on Quality Control (UK and Ireland) 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.

45. 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.

46. 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

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