

# Scottish Enterprise

Annual Audit Plan 2017/18



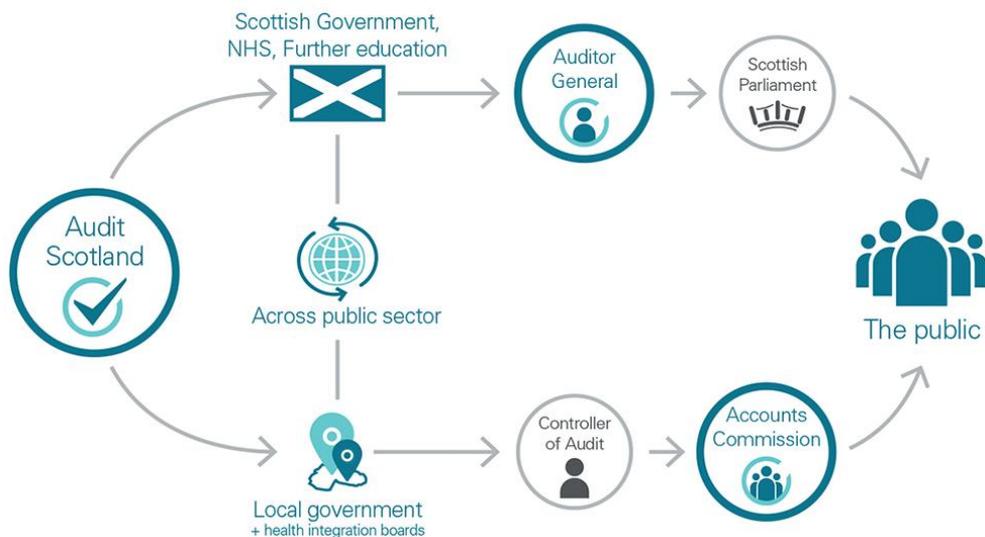
 AUDIT SCOTLAND

Prepared for Scottish Enterprise  
January 2018

# 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 and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit.
2. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Audit risks

3. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main audit risk areas for Scottish Enterprise. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

### 2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of year-end payables and receivables.</p> <p>Substantive cut-off testing of income and expenditure to ensure that these have been recognised in the correct financial year.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p><b>2 Risk of fraud over income and expenditure</b></p> <p>Scottish Enterprise receives a significant amount of income (£71m in</p>	<p>Effective budget monitoring by management and members.</p> <p>Effective fraud and whistleblowing arrangements,</p>	<p>Substantive testing of income and expenditure transactions focusing on the areas of greatest risk.</p>

Audit Risk	Source of assurance	Planned audit work
<p>2016/17) from third parties (excluding Scottish Government funding). The extent and complexity of this income means that, in accordance with ISA 240, there is an inherent risk of fraud.</p> <p>In public sector audit, there is also a risk of fraud over aspects of expenditure, for public sector bodies which have an overall net expenditure. Scottish Enterprise recorded net expenditure of £198m in 2016/17.</p> <p>The Code of Audit Practice requires auditors to consider the risk of fraud over certain types of public sector expenditure. This includes grants and other claims made by individuals and organisations on the public purse. Scottish Enterprise spends a significant amount of its budget on grants to third parties including Regional Selective Assistance grants, SMART grants and R&amp;D grants.</p>	<p>including detailed conflicts of interests' procedures.</p> <p>Effective controls are in place over expenditure and income transactions.</p>	<p>Assessment of Scottish Enterprise's property income, which is managed by a third party.</p> <p>Substantive cut-off testing of income and expenditure to ensure that these have been recognised in the correct financial year.</p> <p>Review of accounting estimates.</p> <p>Review of controls in place over grant expenditure to address the risk of fraud.</p> <p>Focused testing of year-end payables and receivables.</p> <p>Review of Scottish Enterprise's anti-fraud arrangements, including the operation of its conflicts of interests' procedures.</p> <p>Assessment of the results from Scottish Enterprise's participation in the National Fraud Initiative (NFI), which will be considered for Audit Scotland's National Report on NFI.</p>
<p><b>3 Accounting estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of land &amp; buildings (£187m), pensions (£40m) and investments, (£276m) which are revalued at year-end.</p> <p>There is an inherent risk that the financial statements are materially misstated due to the degree of subjectivity in the measurement and valuation of these significant areas.</p>	<p>Sound arrangements for providing valuation information have been established.</p> <p>Actuary and valuers are established and recognised providers in their field.</p> <p>Review of the processes for determining and reporting land and property assets.</p>	<p>Substantive testing of selected year-end valuation reports.</p> <p>Review of the work of management's expert valuers, including a review of the Scottish Investment Bank's processes for valuing investments.</p>
<p><b>4 Income recognition: EU funding</b></p> <p>In 2016/17, Scottish Enterprise accrued £30.5m of EU Funding. This related to grant payments and investments made by Scottish Enterprise, for which EU grant funding was to be claimed in 2017/18.</p>	<p>We have a range of processes and controls in place which are currently being reviewed and strengthened where appropriate.</p>	<p>Reliance on Internal Audit's Contract Management review.</p> <p>Substantive testing to assess EU income.</p>

Audit Risk	Source of assurance	Planned audit work
<p>In 2017/18, internal audit identified a range of issues as part of the review of Contract Management.</p> <p>There is a risk that 2016/17 accrued EU income may not be recoverable to the extent anticipated. There is a risk that SE may include amounts in its 2017/18 financial statements that exceed the amounts recoverable through EU grant arrangements.</p>		
<b>Wider dimension risks</b>		
<p><b>5 Financial management</b></p> <p>Scottish Enterprise's budget has high levels of committed expenditure (96% of rebased budget). Achieving a balanced budget depends on achievement of certain income targets, which includes completion of £23m of property disposals. To date, £5.4m of property disposals have been achieved.</p> <p>There is a risk of slippage in income generation, which could impact on Scottish Enterprise's ability to operate within its budget. Any reduction in planned expenditure could affect Scottish Enterprise's ability to fulfil its business plan objectives.</p>	<p>Close budget monitoring by management and members.</p> <p>A Senior Responsible Officer has been appointed to closely monitor property disposal activities.</p>	<p>Walkthrough testing of budget monitoring controls.</p> <p>Reliance on Internal Audit's Budgetary Control Report.</p> <p>Review Scottish Enterprise's property disposals process, including compliance with the SPFM.</p>
<p><b>6 Financial Sustainability</b></p> <p>Scottish Enterprise has an agreed budget for 2017/18, the final year of its 2014-2018 business plan. The SE Board are considering whether to prepare a one year business plan and related budget for 2018/19 or a three year business plan (2018-2021) with a one year financial plan which reflects the Scottish Government's annual funding cycle.</p> <p>In our 2016/17 Annual Audit report, we recommended that, following the outcome of the Enterprise and Skills Review, a long term financial strategy (5 years +) supported by clear and detailed financial plans (3 years +) is prepared.</p> <p>Plans should set out scenario plans (best, worst, most likely); with an assessment of the impact of budget assumptions on activity and any residual risks.</p> <p>The risk of managing the financial position going forwards is increasing. The ability to manage budget outturn</p>	<p>The Enterprise &amp; Skills Review has resulted in the creation of a Strategic Board that will provide strategic guidance to Scottish Enterprise and three other bodies. The first meeting of the Strategic Board is scheduled for December 2017</p> <p>It is anticipated that updated strategic guidance for SE, and partner bodies, will emerge during the first half of 2018. It is intended to prepare the 5 year financial strategy based on this guidance.</p>	<p>We will review developments in Scottish Enterprise's long-term financial planning.</p>

Audit Risk	Source of assurance	Planned audit work
<p>through controlling uncommitted activity is reducing as elements such as staff costs represent a larger proportion of total spend.</p>		
<p><b>7 Governance &amp; transparency</b></p> <p>The Scottish Government's Enterprise &amp; Skills review led to the creation of a Strategic Board to provide strategic direction to the work of the four enterprise agencies, including Scottish Enterprise. A new South of Scotland agency is also to be established.</p> <p>This Review has had a consequence on Scottish Enterprise's ability to develop its 2018-21 Business Plan and the long-term financial plan.</p> <p>There is a risk of lack of clarity about roles, responsibilities and accountabilities as the new arrangements develop and a risk that this impacts on SE's effectiveness.</p>	<p>On-going engagement with the Scottish Government.</p> <p>The 2018-20 Business Plan will be reconsidered when the Strategic Objectives of the Strategic Board have been agreed.</p>	<p>Review impact of the changes on Scottish Enterprise, including impact on the operation of the SE board.</p>

## Reporting arrangements

4. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be placed on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
5. 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.
6. We will provide an independent auditor's report to Scottish Enterprise, and the Auditor General for Scotland setting out our opinions on the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

## Exhibit 2

### 2017/18 Audit outputs

Audit Output	Target date	Audit & Risk Committee (or equivalent) Date
Annual Audit Plan	7 December 2017	14 December 2017
Interim Report	11 April 2018	18 April 2018
Annual Audit Report including ISA 260 requirements	22 June 2018	25 June 2018
Signed Independent Auditor's Report	2 July 2018	Following Board on 29 June 2018

### Audit fee

7. The agreed audit fee for the 2017/18 audit of Scottish Enterprise is £159,460. In determining the audit fee we have taken account of Scottish Enterprise's risk exposure, 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 single entity financial statements together with extracts of the performance and accountability reports (including the Governance Statement, the Remuneration and Staff Report and operational performance narrative) together with a complete working papers package on 14 May 2018. Management has agreed to provide the full narrative (performance and accountability reports) by 23 May and the unaudited group annual report and accounts with all relevant working papers as soon as possible thereafter, and by 28 May at the latest.

8. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements 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 outwith our planned audit activity.

### Responsibilities

#### Audit & Risk Committee and Accountable Officer

9. 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.

10. The audit of the financial statements does not relieve management or the Audit & Risk Committee, as those charged with governance, of their responsibilities.

#### Appointed auditor

11. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the auditing profession's ethical guidance.

12. Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying the financial statements. We also review and report on the arrangements within Scottish Enterprise to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Financial statements

**13.** The statutory financial statements audit will be the foundation and source for the majority 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.

**14.** We will give an opinion on the financial statements as to whether:

- they give a true and fair view of the financial position of Scottish Enterprise and its Group and their expenditure and income
- they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the information included in the performance and accountability reports meets requirements for their preparation and is consistent with the financial statements
- the regularity of the expenditure and income.

## Materiality

**15.** 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 opinion in the auditor's report.

**16.** 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 level	Amount
<b>Planning materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2017.	£2.755 million
<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 calculated performance materiality at 50% of planning materiality.	£1.378 million
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 3% of planning materiality.	£83,000

**17.** We review and report on other information published with the financial statements including the Performance Report and Accountability Report, which include the Governance Statement and Remuneration and Staff Report. Any issues identified will be reported to the Audit & Risk Committee.

#### Timetable

**18.** To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit & Risk Committee dates.

**19.** 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 performance and accountability reports) at the outset of the audit, with the group financial statements to be provided by 28 May at the latest.

**20.** An external auditor for Scottish Enterprise's subsidiaries has not yet been appointed. Management advised that this is currently being advertised, with an appointment expected by March 2018. We will meet with the subsidiaries' auditor, once appointed.

**21.** There is a risk that delays in the accounts preparation or the appointment of a component auditor will impact on management's ability to prepare its annual report and accounts in accordance with the agreed timetable. Any delay will also have an impact on the audit process.

**Exhibit 4****Financial statements timetable**

 <b>Key stage</b>	 <b>Date</b>
Latest submission date of unaudited Scottish Enterprise single-entity financial statements; extracts of draft performance and accountability reports; and a complete working papers package	14 May 2018
Latest submission date of completed Performance and Accountability Report narrative	23 May 2018
Latest submission date of complete unaudited Scottish Enterprise group annual report and accounts with complete working papers package	28 May 2018
Latest date for final clearance meeting with Chief Financial Officer	15 June 2018
Agreement of audited unsigned financial statements	22 June 2018
Issue of draft Annual Audit Report including ISA 260 report to those charged with governance	
Independent auditor's report signed	Following Board on 29 June 2018
Latest date for signing of Whole of Government Accounts (WGA) return	28 Sept 2018

**Internal audit**

**22.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by Scottish Enterprise's in-house Internal Audit team.

**Adequacy of Internal Audit**

**23.** We reviewed Scottish Enterprise's internal audit function and concluded that, overall, the service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation and reporting procedures in place.

**Areas of Internal Audit reliance**

**24.** To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit reviews:

- Investments
- Contract Management

**25.** In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Business Plan and Resource Allocation
- Performance Measurement
- Budgetary Control and Reporting
- Cyber Security Follow-Up

- IT Governance

## Audit dimensions

**26.** 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

**27.** 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 Scottish Enterprise's 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 five-year 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.

### Financial management

**28.** 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 five-year appointment:

- whether Scottish Enterprise has arrangements in place to ensure systems of internal control are operating effectively.
- whether Scottish Enterprise can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance.

- how Scottish Enterprise has assured itself that its financial capacity and skills are appropriate.
- whether Scottish Enterprise has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

### Governance and transparency

**29.** 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 the following over our five-year appointment:

- whether Scottish Enterprise can demonstrate that the governance arrangements in place are appropriate and operating effectively.
- 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

**30.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on the following over our five-year appointment:

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

### Independence and objectivity

**31.** 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 in place robust arrangements 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.

**32.** The engagement lead and appointed auditor for Scottish Enterprise is Gordon Smail, Associate 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

**33.** 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.

**34.** 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 relevant 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, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

**35.** 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.

## **Adding Value**

**36.** Through our audit work we aim to add value to Scottish Enterprise. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well Scottish Enterprise has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

# Scottish Enterprise

## Annual Audit Plan 2017/18

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