

Scottish Enterprise

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

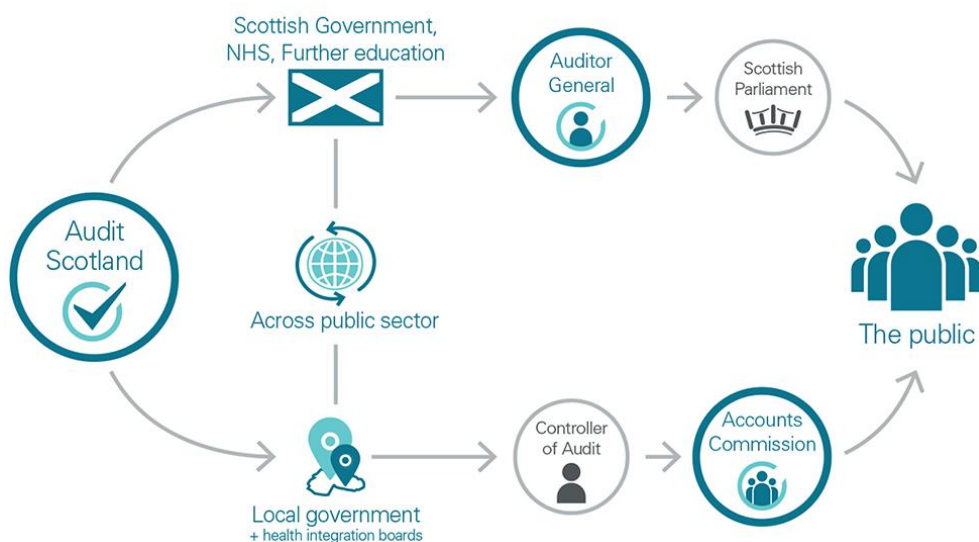
Prepared for by Scottish Enterprise

March 2021

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

Introduction

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 [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 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.

Impact of Covid-19

3. The Covid-19 pandemic has had a significant impact on public services in Scotland. Public bodies have responded with changes to how they operate. The impact on public finances has been unprecedented, with both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

4. Public audit has an important contribution to the recovery and renewal of public services. We are responding to the risks to public services and finances from Covid-19 across the full range of audit work including annual audits and the programme of performance audits.

5. We published a further [update](#) on the impact of Covid-19 on public audit in January 2021, which recognised that the reintroduction of restrictions may affect our audits and the capacity of some public bodies to prepare accounts. The well-being of audit teams and the delivery of high-quality audits remain paramount. We will maintain a pragmatic and flexible approach, which will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, changes to this annual audit plan may be necessary.

Adding value


6. 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 intend to help Scottish Enterprise promote improved standards of governance, better management and decision-making and more effective use of resources.

Audit risks

7. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following audit risks for our 2020/21 audit of Scottish Enterprise. We have categorised these risks into financial statements audit risks and wider dimension audit risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

2020/21 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement due to fraud caused by the management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Substantive testing of journal entries.</p> <p>Review accounting estimates for bias.</p> <p>Evaluation of significant transactions outside the normal course of business.</p> <p>Focused testing of year-end payables and receivables.</p> <p>Substantive cut-off testing of income and expenditure to assess whether they have been accounted for in the correct financial year.</p>
<p>2 Risk of material misstatement caused by fraud in income recognition.</p> <p>As set out in ISA (UK) 240, there is a presumed risk of fraud in the recognition of income.</p> <p>Scottish Enterprise's January 2021 financial performance report forecasts that £79.5m (14%) of its income will come from sources other than central government funding (22% excluding additional Covid-19 funding).</p> <p>This income includes the following, which presents specific risks.</p> <ul style="list-style-type: none"> • £52.2m investment income (loan repayments and investment disposals) • £10.3m property income (rental and sundry property income and property disposals) • £4.5m of EU income. <p>The extent, nature and complexity of this income means that there is a risk that the financial statements may be misstated due to fraud in income recognition.</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>Well established financial systems and effective controls over income transactions.</p>	<p>Review Scottish Enterprise's anti-fraud arrangements.</p> <p>Walkthrough of controls over income/receivables, including property and investment income. Changes in the controls due to Covid-19 will also be reviewed. Controls testing over certain income controls.</p> <p>Substantive testing of revenue transactions, focusing on the areas of greatest risk, including property and investment income, income from disposals and EU income.</p> <p>Substantive cut-off testing of income to ensure that it has been recognised in the correct financial year.</p>
<p>3 Risk of material misstatement caused by fraud in expenditure</p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure.</p>	<p>Effective budget monitoring by management and Board members.</p> <p>Effective fraud and whistleblowing</p>	<p>Review Scottish Enterprise's anti-fraud arrangements.</p> <p>Walkthrough and testing of controls over expenditure and payables systems. This will</p>

In 2019/20, Scottish Enterprise recorded gross expenditure of £346m. This includes material levels of grants to third parties.

The level of grant payments and loans is expected to increase by about £212m in 2020/21, due to the introduction of the Covid-19 grants such as the Pivotal Enterprises Resilience Fund (PERF) and the Creative, Tourism and Hospitality Enterprises Hardship Fund.

Given the extent, nature and complexity of this expenditure, there is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.

arrangements, including detailed conflicts of interests' procedures.

Effective controls over expenditure transactions.

Participation in the National Fraud Initiative (NFI).

Internal audit review of Covid-19 grant payments

include testing of Scottish Enterprise's routine grants as well as the new Covid-19 grants.

Review changes to controls as a result of Covid-19.

Reliance on internal audit's work on Covid-19 grant expenditure.

Substantive testing of grant expenditure.

Substantive cut-off testing of expenditure to ensure that it has been recognised in the correct financial year.

4 Estimation and Judgements

ISA 540 is concerned with the auditor's responsibilities relating to accounting for estimates and related disclosures in financial statements.

There is a significant degree of subjectivity in the measurement and valuation of investments (£318m), land and buildings (£95m) and pension assets (£82m). There is also a degree of estimation and judgement in accrued expenditure (£28m), accrued income (£6m), provisions (£5m) and debt impairment (£6m).

Estimates and judgements in these areas represent an increased risk of misstatement in the financial statements.

Sound arrangements for providing valuation information have been established.

Actuary and valuers are established and recognised providers in their fields.

Controls are in place to ensure that management provides accurate information to its experts.

Sound arrangements for estimating grant accruals are in place.

Test management's controls and procedures over these estimations and judgements.

Substantive testing of selected year-end valuation reports.

Review of the work of management's expert valuers, including a review of the processes for valuing investments.

Review management's assessment of the appropriateness of the assumptions used in the valuation of certain assets and liabilities and the related disclosures of significant estimates and judgements in the financial statements.

Substantive testing of year-end accruals, provisions and bad debt provisions.

Review of accrued EU income.

Wider dimension risks

5 Governance and transparency: impact of Covid-19

Scottish Enterprise has had a key role in Scotland's response to Covid-19, supporting jobs and businesses through the distribution of Covid-19 grants.

Effective oversight arrangements were established early in the pandemic. The Executive Leadership Team (ELT) established weekly meetings with senior

Reliance on Internal Audit's work including Covid-19 Response, Covid-19 Grants and Key Financial Controls.

Assessment of impact of Covid-19 on Scottish Enterprise's operations.

Decision-making in a fast-moving environment presents a challenge for Scottish Enterprise and other public bodies. These challenges include:

- revised governance arrangements are appropriate and operating effectively, including risk-management arrangements
- anti-fraud arrangements remain robust
- there is effective scrutiny, challenge and informed decision making.
- performance reporting is timely, reliable, balanced, transparent and appropriate to user needs
- the impact on financial management have been addressed, for example, a reduction in business income.

There is a risk that appropriate governance and oversight has not been applied.

leaders to monitor the whole organisational response to the challenges posed by Covid-19.

Regular updates were provided to the SE Board and ELT on a regular basis out with scheduled Board meetings, including advance notice of proposed Covid-19 grant schemes.

Real time audit reviews were conducted by Internal Audit as each new grant scheme was being developed and implemented.

The SE Board and ELT were provided with management information in relation to each grant programme.

We shall review:

- the extent and nature of Covid-19 grant funding provided to Scottish Enterprise and distributed to businesses
- governance and accountability arrangements for distributing Covid-19 funding, including scrutiny by the Board, risk management and action taken to minimise fraud and error
- key financial controls over Covid-19-related income and expenditure
- performance targets for the efficiency and effectiveness of Covid-19 funding
- the impact on the financial position
- internal audit's work on Covid-19 response and grants.

6 Governance and accountability: cyber security – governance and risk

Organisations are increasingly threatened by cyber-attacks as evidenced by recent incidents affecting public bodies. This risk is heightened due to the impact of Covid-19 such as home-working.

Scottish Enterprise has a shared Enterprise Information Service (EIS) IT arrangement with Skills Development Scotland, Highlands and Islands Enterprise and South of Scotland Enterprise. Scottish Enterprise is currently working to strengthen its cyber security arrangements including implementing improvement actions identified during the recent cyber security maturity assessment.

There is a risk that a cyber-attack could disrupt Scottish Enterprise's systems, including key financial systems.

Attendance at EIS' Security Council.

Cyber Essentials is now in place and Cyber Essentials Plus assessment will be completed as soon as access to offices becomes available.

Regular reports are made to the Audit and Risk Committee and an annual assurance statement is provided by EIS.

Action plan in place to address the improvement actions included in the cyber maturity assessment.

Audit programme in place for EIS agreed by partners.

Assess progress towards improving cyber security including achieving Cyber Essentials+ accreditation.

Consider disclosure of cyber security risk in the governance statement within the annual report and accounts.

Reporting arrangements

9. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs are detailed in [Exhibit 2](#), with indicative target dates for completion (see references to timetable in paragraph 27). These and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

10. 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 Chief Financial Officer to confirm factual accuracy.

11. 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 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 during the audit.

12. The unique and continuing challenges presented by Covid-19 mean that we are starting the current year's audits later than in previous years and that audits are taking longer to complete. As a result, the timescales set out below reflect available audit resources and prioritisation decisions. We will endeavour to meet the timescales set out below but recognise that this may not be possible due to uncertainty resulting from the Covid-19 pandemic.

Exhibit 2 2020/21 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	31 March 2021	19 April 2021
Management Report	7 June 2021 (tbc)	21 June 2021
Independent Auditor's Report	2 July 2021 (tbc)	21 July 2021
Annual Report	2 July 2021 (tbc)	21 July 2021

Source: Audit Scotland

Audit fee

13. The proposed audit fee for the 2020/21 audit of Scottish Enterprise is £168,890 [2019/20: £164,820]. 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.

14. Our audit approach assumes

- receipt of the unaudited annual report and accounts, with a complete working papers package, on 17 May 2021.
- receipt of the unaudited performance and accountability reports, which includes the governance statement and the remuneration and staff report by Wednesday 26 May 2021 at the latest.

- the unaudited group annual report and accounts, with all relevant working papers, as soon as possible thereafter, and by Monday 31 May 2021 at the latest.

15. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts 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

16. 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.

17. 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

18. 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.

19. 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.

20. Our audit team membership has changed since last year. Tom Reid will be the senior audit manager on the Scottish Enterprise audit for 2020/21, replacing Helen Russell.

Audit scope and timing

Annual report and accounts

21. 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.

22. 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 2021
- whether the financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of income and expenditure.

Statutory other information in the annual report and accounts

23. We also review and report on statutory other information published within the annual report and accounts including the performance report, governance statement and the audited elements of 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.

24. 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

25. 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.

26. We calculate materiality at different levels as described below. The calculated planning materiality values for Scottish Enterprise are set out in [Exhibit 3](#). This will be recalculated on receipt of the 2020/21 financial statements.

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. We have based this on the single entity expenditure in the audited 2019/20 annual report and accounts and includes an estimate for additional Covid-19 grant expenditure in 2020/21.	£4.88 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.	£2.93 million
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. This has been calculated at 3% 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 financial statements. It has been set at 1% of gross expenditure. We have based this on the group expenditure in the audited 2019/20 annual report and accounts and includes an estimate for additional Covid-19 grant expenditure in 2020/21.	£4.96 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.	£2.98 million
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. This has been calculated at 3% of planning materiality.	£150,000

Timetable

27. 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](#). We will endeavour to meet the timescales set out below but recognise that this may not be possible due to uncertainty resulting from the Covid-19 pandemic.

Exhibit 4

Annual accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual report and accounts with complete working papers package	17 May 2021
Latest date for receipt of assurances from Group's Component Auditors	31 May 2021
Latest date for final clearance meeting with Chief Financial Officer	1 July 2021 (tbc)
Agreement of audited unsigned financial statements	2 July 2021 (tbc)
Issue draft annual audit report including ISA 260 covering letter, proposed independent auditor's report and ISA 580 proposed Letter of Representation	
Independent auditor's report signed	9 July 2021 (tbc)
Latest date for signing of Whole of Government Accounts return	30 November 2021

Internal audit

28. Scottish Enterprise has an in-house internal audit function. Internal audit provides a shared internal audit service for Skills Development Scotland, Scottish Funding Council and South of Scotland Enterprise. In addition, Scottish Enterprise has a joint plan with the internal auditors of Highlands and Islands Enterprise (HIE), South of Scotland Enterprise Agency (SOSE) and Skills Development Scotland (SDS) to obtain assurances over the operation of Enterprise Information Systems (EIS) which delivers ICT services to the three enterprise agency bodies and Skills Development Scotland.

29. As part of our planning process, we carry 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). ISA (UK) 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

30. We have concluded this review of internal audit arrangements and have no issues to report.

Using the work of internal audit

31. International 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 to avoid duplication. We plan to consider the findings of the work of internal audit to minimise duplication of effort and to ensure the total resource is used efficiently and effectively.

32. From our initial review of internal audit plans we intend to place reliance on internal audit's work in their review of Covid-19 Grants and Key Financial Controls.

33. We will also consider internal audit's reports as part of our wider dimension audit responsibilities. This will include:

- Covid-19 Response
- Financial Management
- Corporate Governance
- Major Projects
- Business Continuity
- EIS Service Transition.

34. We will also consider the internal audit arrangements for of Enterprise Information Systems (EIS) which are jointly procured by Scottish Enterprise and its partners (Skills Development Scotland, South of Scotland Enterprise and Highlands and Islands Enterprise). EIS provides ICT services to all four bodies.

Audit dimensions

35. 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

36. 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) sustainability. We will carry out work and conclude on:

- 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 there are arrangements in place to demonstrate the affordability and effectiveness of funding and investment decisions.

Financial management

37. 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:

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

Governance and transparency

38. 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:

- whether Scottish Enterprise can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, or in partnership with, others such as the EIS Partnership and in relation to the Covid-19 grants).
- 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

39. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether Scottish Enterprise can demonstrate:

- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered.
- that outcomes are improving.
- there is sufficient focus on improvement and the pace of it.
- progress towards meeting the Enterprise and Skills Strategic Plan's objectives

Best Value

40. The Accountable Officer of Scottish Enterprise has a duty to ensure arrangements are in place to secure best value. We will review and report on these arrangements as appropriate.

Independence and objectivity

41. Auditors appointed by the 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 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 Fiona Kordiak, Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

42. 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

43. 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.

44. 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.

45. 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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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk