

# Highlands and Islands Enterprise

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for Highlands and Islands Enterprise

March 2024

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for the 2023/24 audit of Highlands and Islands Enterprise. The main elements of the audit include:

- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
- an audit opinion on regularity and other statutory information published with the financial statements in the annual report and accounts, including the Performance Report, Governance Statement, and the Remuneration and Staff Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- providing assurance on the Whole of Government Accounts (WGA) return and summary financial statements
- provision of an Independent Auditor's Report expressing my opinions on the different elements of the annual report and accounts and an Annual Audit Report setting out my conclusions on the wider scope areas.

2. A brief biography of the audit team for 2023/24 is provided at [Appendix 1](#). Pauline Gillen will continue as the external auditor appointed by the Auditor General for Scotland.

## Respective responsibilities of the auditor and Highlands and Islands Enterprise

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

### Auditor responsibilities

4. My responsibilities as appointed 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 Financial Reporting Council's Ethical Standard.

5. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at Highlands and

Islands Enterprise. In doing this, we aim to support improvement and accountability.

### **Highlands and Islands Enterprise's responsibilities**

**6.** Highlands and Islands Enterprise is responsible for maintaining adequate accounting records and internal controls, and preparing financial statements for audit that give a true and fair view. They are also required to produce other reports in the annual report and accounts in accordance with applicable requirements.

**7.** Highlands and Islands Enterprise has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation, and establishing effective arrangements for governance, propriety, and regularity that enable them to deliver their objectives.

### **Adding Value**

**8.** My team and I aim to add value by: tailoring audit work to the circumstances of Highlands and Islands Enterprise and the audit risks identified; being constructive and forward looking; providing independent conclusions; attending meetings of the Risk and Assurance Committee; and by recommending and encouraging good practice. In so doing, we will help Highlands and Islands Enterprise promote improved standards of governance, better management and decision making, and more effective use of resources.

# Annual report and accounts

## Introduction

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

**10.** As appointed auditor, I am required to perform an audit of the financial statements, consider other information within the annual report and accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

**11.** My team and I focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

## Materiality

**12.** The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. I am required to plan my audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

### Materiality levels for the 2023/24 audit

**13.** The assessment of materiality levels for Highlands and Islands Enterprise and its group are set out in [Exhibit 1](#).

## Exhibit 1

### 2023/24 Materiality levels for Highlands and Islands Enterprise and its group

Materiality	Single Entity	Group
<p><b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of Highlands and Islands Enterprise's operations. For the year ended 31 March 2024, we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2022/23.</p>	£1.7 million	£1.7 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 could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 50% of planning materiality.	£0.84 million	£0.84 million
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£85,000	£85,000

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

- 14.** Our risk assessment draws on our cumulative knowledge of Highlands and Islands Enterprise, its major transaction streams, key systems of internal control, and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees, and a review of supporting information.
- 15.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management, and where relevant, report them to those charged with governance.
- 16.** Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risks, management's sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

### Exhibit 2

#### 2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> <li>Assess the design and implementation of controls over journal entry processing.</li> <li>Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</li> </ul>

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>otherwise appear to be operating effectively.</p>		<ul style="list-style-type: none"> <li>• Test journals at the year-end and post-closing entries and focus on significant risk areas.</li> <li>• Consider the need to test journal entries and other adjustments throughout the year.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements.</li> <li>• We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> <li>• Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>• Focused testing of accounting accruals and prepayments.</li> </ul>
<p><b>2. Capital Accounting</b></p> <p>In prior years, our work on capital accounting identified significant issues with the accounting treatments applied and the clarity of working papers used to prepare the annual report and accounts.</p> <p>Given the number of issues identified and adjustments made to the annual report and accounts, this is considered to be an area where there is significant risk of material misstatement.</p>	<ul style="list-style-type: none"> <li>• A review of the fixed asset register has been undertaken by management.</li> <li>• Revaluations of land and buildings completed by Royal Institute of Chartered Surveyors (RICS) qualified surveyors.</li> <li>• Biennial valuations carried out for all specialised plant and equipment assets.</li> </ul>	<ul style="list-style-type: none"> <li>• Review management action against our 2022/23 audit recommendation relating to capital accounting.</li> <li>• Examination of the accuracy, completeness and valuation of capital accounting disclosures in the 2023/24 financial statements.</li> </ul>

**17.** As set out in ISA (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

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

**19.** In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition.

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

**21.** We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

## Other areas of audit focus

**22.** As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risks, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

**23.** The areas of specific audit focus are:

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



## Regularity

**24.** Auditors are required by the Public Finance and Accountability (Scotland) Act 2000 to report on whether expenditure and income were incurred or applied, in all material respects, in accordance with applicable enactments and guidance issued by the Scottish Ministers (generally referred to as the regularity opinion).

## Group Consideration

**25.** As group auditors, we are required under ISA (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

**26.** Highlands and Islands Enterprise has a group which comprises component entities, including subsidiaries, associates, and joint ventures. The audits of the financial information of some of the components are performed by other auditors. We plan to place reliance on the work of the component auditors and review their relevant working papers where required. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base our group audit opinion.

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# Wider Scope and Best Value

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## Introduction

**27.** Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit, and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

**28.** In summary, the four wider scope areas are:

- **Financial management** – this means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability** – we will look ahead to consider whether the body is planning effectively to continue to deliver services, also comment on financial sustainability in the medium (two to five years) to longer-term (longer than five years).
- **Vision, leadership, and governance** – we conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by Highlands and Islands Enterprise. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how Highlands and Islands Enterprise demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

## Wider scope risks

**29.** We have identified a significant wider scope risk in relation to the Cairngorm Funicular Railway reinstatement works. We plan to carry out additional work on the governance arrangements in place and the potential financial impact.

**30.** Our planned work on the wider scope areas is risk based and proportionate, and in addition to local risks, we may be asked by the Auditor General for Scotland to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years such as climate change.

## Duty of Best Value

31. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within Highlands and Islands Enterprise.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**32.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

**33.** We will provide:

- an Independent Auditor's Report to Highlands and Islands Enterprise, the Scottish Parliament, and the Auditor General for Scotland setting out our opinions on the annual report and accounts
- Highlands and Islands Enterprise and the Auditor General for Scotland with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

**34.** [Exhibit 3](#) outlines the target dates for our audit outputs set by the Auditor General for Scotland. In determining the target reporting date of 31 October, due regard is paid to meeting the statutory deadline for laying the accounts of 31 December 2024.

**35.** We will be unable to achieve the target date outlined above. Highlands and Islands Enterprise are implementing a new finance system to replace their current finance system in August 2024, therefore the planned audit of the financial statements will take place after this date. After discussion with management, we are working towards completion of the audit by the later date of 19 November 2024 which is before the statutory deadline for laying of 31 December 2024.

## Exhibit 3 2023/24 Audit outputs

Audit Output	Target date	Risk and Assurance Committee Date
Annual Audit Plan	31/03/2024	14/03/2024
Independent Auditor's Report	31/10/2024	19/11/2024
Annual Audit Report	31/10/2024	19/11/2024

Source: Audit Scotland

**36.** All Annual Audit Plans and the outputs detailed in [Exhibit 3](#), and any other outputs on matters of public interest, will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).



## Timetable

**37.** To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 4](#) that has been discussed with management.

**38.** We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

## Exhibit 4

### Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	30 August 2024
Latest date for final clearance meeting with the Director of Finance (or equivalent)	29 October 2024
Agreement of audited and unsigned annual report and accounts	5 November 2024
Issue of Annual Audit Report, draft Letter of Representation and proposed Independent Auditor's Report to those charged with governance.	12 November 2024
Signed Independent Auditor's Report	19 November 2024

Source: Audit Scotland

## Audit fee

**39.** In determining the audit fee, we have taken account of the risk exposure of Highlands and Islands Enterprise and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The audit fee for 2023/24 is £199,530 (2022/23 £188,180).

**40.** In setting the fee for 2023/24, we have assumed that Highlands and Islands Enterprise has effective governance arrangements and will prepare a comprehensive and accurate set of annual report and accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no

major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

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# Other matters

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## Internal audit

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

**42.** From our initial review of the internal audit plans, we plan to place formal reliance on internal audit's work for our financial statements' responsibilities in relation to their substantive testing of significant transactions.

**43.** We will also review internal audit reports and assess the impact of the findings on our wider scope audit responsibilities.

## Independence and objectivity

**44.** I am independent of Highlands and Islands Enterprise in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

**45.** Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

**46.** The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. I am not aware of any such relationships pertaining to the audit of Highlands and Islands Enterprise.

## Audit Quality

**47.** Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

**48.** The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to

high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

**49.** To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

**50.** Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

**51.** Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.



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# Appendix 1: Your audit team

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

**Pauline Gillen**  
Audit Director

Pauline has over 17 years of public sector auditing experience. Pauline has worked across the breadth of the public sector on both financial and performance audits.

**Kyle McAulay**  
Senior Audit Manager

Kyle has over 11 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.

**Kara Brown**  
Senior Auditor

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

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

# Highlands and Islands Enterprise

## Annual Audit Plan 2023/24

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

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

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