

Scottish Enterprise

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Scottish Enterprise and the Auditor General for Scotland

July 2023

Contents

Key messages	3
Introduction	5
1. Audit of 2022/23 annual report and accounts	7
2. Financial management	15
3. Financial sustainability	19
4. Vision, leadership and governance	21
5. Use of resources to improve outcomes	25
Appendix 1. Action plan 2022/23	27

Key messages

2022/23 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified.
- 2 As part of our audit, we carried out work on the key risks identified in our Annual Audit Plan. There are no significant matters from that work to draw to the attention of the Audit and Risk Committee.
- 3 Officers made adjustments of £15.3 million to the annual report and accounts.

Financial management

- 4 Scottish Enterprise had appropriate and effective financial management arrangements in place with regular budget monitoring reports provided to the Board.
- 5 Scottish Enterprise operated within its revised fiscal resources, reporting an underspend of £8.2 million.
- 6 Standards for the prevention and detection of fraud remain appropriate. However, there is scope for enhancing some financial systems of internal control.

Financial sustainability

- 7 Scottish Enterprise has effective and appropriate arrangements in place to continue to deliver services. However, improvements could be made by preparing a medium-term financial plan.
- 8 Scottish Enterprise approved a balanced budget for 2023/24 but there are significant pressures in achieving this position.

Vision, leadership and governance

- 9 Scottish Enterprise has plans in place to implement its vision, strategy and priorities.
- 10 Governance arrangements are appropriate and Scottish Enterprise is open and transparent in the way it conducts business.
- 11 Scottish Enterprise's executive and non-executive directors demonstrate effective leadership, challenge and scrutiny of the organisation's activity and performance.

Use of resources to improve outcomes

- 12** Scottish Enterprise should further develop its approach to demonstrating Best Value.
- 13** Scottish Enterprise successfully delivered all targets published in the 2022/23 corporate plan, exceeding the target ranges for four out of the six outcome measures.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of Scottish Enterprise. The scope of the audit was set out in an annual audit plan presented to the April 2023 meeting of the Audit and Risk Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of Scottish Enterprise’s annual report and accounts, and
- conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#):
 - Financial Management
 - Financial Sustainability
 - Vision, Leadership, and Governance
 - Use of Resources to Improve Outcomes.

2. This report is addressed to the Audit and Risk Committee of Scottish Enterprise and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment from 2022/23

3. I, Pauline Gillen, have been appointed by the Auditor General as auditor of Scottish Enterprise for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new [Code of Audit Practice 2021](#) which was introduced for financial years commencing on or after 1 April 2022.

4. My team and I would like to thank board members, audit and risk committee members, executive directors, and other staff, particularly those in finance, for their cooperation and assistance in this year and we look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

5. Scottish Enterprise has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the account's direction from the Scottish Ministers. Scottish Enterprise is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

6. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice 2021, and supplementary guidance and International Standards on Auditing in the UK.

7. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of Scottish Enterprise from its responsibility to address the issues we raise and to maintain adequate systems of control.

8. This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

Auditor Independence

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services. We are not aware of any relationships that could compromise our objectivity and independence.

10. The Annual Audit Plan set out an audit fee of £224,800 for the 2022/23 audit. However, a rebate of £10,181 was issued, relating to previous years' audit fees, resulting in a final audit fee of £214,619.

11. We add value to Scottish Enterprise by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations,
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability, and
- sharing intelligence and good practice identified.

1. Audit of 2022/23 annual report and accounts

Public bodies are required to prepare annual reports and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual report and accounts are unmodified.

As part of our audit, we carried out work on the key risks identified in our Annual Audit Plan. There are no significant matters from that work to draw to the attention of the Audit and Risk Committee.

Officers made adjustments of £15.3 million to the annual report and accounts.

Audit opinions on the annual report and accounts are unmodified

12. The Board approved the annual report and accounts for Scottish Enterprise and its group for the year ended 31 March 2023 on 28 July 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework,
- expenditure and income were in accordance with applicable enactments and guidance,
- the audited part of the Remuneration and Staff Report was prepared in accordance with the financial reporting framework, and
- the Performance Report and Governance Statement were consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The unaudited annual audit report and accounts were received in line with the agreed audit timetable

13. In line with the timetable set out in our Annual Audit Plan, we received:

- the unaudited Scottish Enterprise single entity annual report and accounts on 15 May 2023,
- the Performance Report and Accountability Report on 29 May 2023, and
- the group unaudited annual report and accounts on 29 May 2023.

14. We received good support from management and the wider finance team which enabled us to complete the audit in accordance with the agreed timetable.

Overall materiality was assessed as £5.4 million

15. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

16. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#). The revised materiality had no impact on our audit approach.

Exhibit 1 Materiality values

Materiality level	Single Entity	Group
Overall materiality	£5.4 million	£5.6 million
Performance materiality	£3.8 million	£3.9 million
Reporting threshold	£250,000	£250,000

17. The overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

18. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 70% of overall materiality, reflecting the fact there were no significant issues identified in the prior year audit impacting our audit approach and no history of errors being communicated to use by the previous audit team.

19. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

20. Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to the Board, including our view about the qualitative aspects of the body's accounting practices.

21. The Code of Audit Practice 2021 also requires all audits to communicate key audit matters within the Annual Audit Report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

22. The significant findings are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
<p>1. Grant accrual</p> <p>Prior to the provision of the unaudited 2022/23 annual report and accounts, Scottish Enterprise advised that they did not include an accrual for one of its R&D Grants. Scottish Enterprise were advised that the company was undergoing a significant restructure and it was uncertain as to whether the planned project would continue. Therefore, in the interests of prudence, Scottish Enterprise chose not to include this in the unaudited 2022/23 annual report and accounts.</p> <p>During the course of the audit, it was confirmed that the company would be reducing its R&D programme whilst still progressing the project. As a result of the company's decision, Scottish Enterprise agreed to scale back its total grant award and accrue for the revised amount. The impact of this is to increase trade and other payables on the Statement of Financial Position by £5.3 million.</p>	<p>This was adjusted by management in the 2022/23 annual report and accounts.</p>

Issue	Resolution
<p>2. Valuation of pension assets</p> <p>The accounting results for the Scottish Enterprise Pension and Life Assurance Scheme are prepared by Scottish Enterprise's actuary. The actuary used the estimated asset valuations for part of the asset portfolio to calculate the retirement benefit scheme asset disclosed on the Statement of Financial Position in the unaudited 2022/23 annual report and accounts.</p> <p>During the course of the audit, Scottish Enterprise obtained the updated year-end valuations from the actuary which outlined that the scheme's financial assets had decreased by a further £7.7 million. The impact of this is to decrease the pension asset on the Statement of Financial Position by £7.7 million.</p>	<p>This was adjusted by management in the 2022/23 annual report and accounts.</p>
<p>3. Valuation of investments</p> <p>The valuation of a small number of investments in limited partnerships disclosed in the unaudited 2022/23 annual report and accounts was based upon the latest fund manager report as at 31 December 2022.</p> <p>During the course of the audit, Scottish Enterprise obtained the updated fund manager reports as at 31 March 2023 which outlined that the valuation of investments had increased by a further £2.2 million. The impact of this is to increase investments on the Statement of Financial Position by £2.2 million.</p>	<p>This was adjusted by management in the 2022/23 annual report and accounts.</p>
<p>4. Right of use assets – sub lease of Atlantic Quay</p> <p>Scottish Enterprise accounted for the sub-lease of Atlantic Quay as an operating lease in the unaudited 2022/23 annual report and accounts. Following the introduction of International Financial Reporting Standard (IFRS) 16, this should have been accounted for as a finance lease.</p> <p>The impact of this is to decrease income by £3.2 million and decrease expenditure by £3.2 million on the Statement of Comprehensive Net Expenditure, decrease non-current assets on the Statement of Financial Position by £2.6 million and increase current assets on the Statement of Financial Position by £2.6 million.</p>	<p>This was adjusted by management in the 2022/23 annual report and accounts.</p>

Issue	Resolution
<p>5. Disposal of intangible assets</p> <p>Scottish Enterprise disposed of intangible assets during the year but had not reflected this in the 2022/23 unaudited annual report and accounts.</p> <p>The impact of this is to decrease the cost and accumulated amortisation of intangible assets by £1.5 million at a note line level. This has no impact on the Statement of Financial Position.</p>	<p>This was adjusted by management in the 2022/23 annual report and accounts.</p>
<p>6. Non-compliance with the Government Financial Reporting Manual (FRoM)</p> <p>Three minor instances of non-compliance with the FRoM were identified with the Performance Report.</p> <p>For example, the annual report and accounts presented for audit did not include a statement from the Chief Executive on the performance of Scottish Enterprise for the 2022/23 financial year.</p>	<p>This was adjusted by management in the 2022/23 annual report and accounts.</p> <p>Recommendation 1 (Refer to Appendix 1, action plan)</p>
<p>7. Classification error in group accounts</p> <p>Scottish Enterprise has a number of subsidiaries that are consolidated in the group annual report and accounts. An input error of £2.4 million was made when processing revaluation reserve adjustments in the unaudited group annual report and accounts for one of the subsidiaries.</p> <p>This resulted in the group revaluation reserve being understated by £2.4 million and the group general reserve being overstated by £2.4 million. As these were offsetting entries, there was no impact on the group Statement of Financial Position.</p>	<p>This was adjusted by management in the 2022/23 annual report and accounts.</p>

Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

23. We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3**Significant risks of material misstatement in the annual report and accounts**

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Assessed the design and implementation of controls over journal entry processing.</p> <p>Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Tested journals at the year-end and post-closing entries and focus on significant risk areas.</p> <p>Considered the need to test journal entries and other adjustments during the period.</p> <p>Evaluated significant transactions outside the normal course of business.</p> <p>Assessed the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements.</p> <p>Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</p> <p>Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</p> <p>Focussed testing of accounting accruals and prepayments.</p>	<p>Results: Work undertaken included detailed testing of journal entries, accruals, prepayments and invoices; as well as review of accounting estimates and transactions for appropriateness. Specific enquiries were made of individual staff as to whether they had knowledge or awareness of manipulation of financial recording or processing of fraudulent journals.</p> <p>Conclusion: No incidents of management override of controls were identified.</p>

24. In addition, we identified “areas of audit focus” in our 2022/23 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. These areas of specific audit focus were:

- **Estimations in valuation of land and buildings:** we assessed the design and implementation of controls over the valuation of land and buildings. We carried out ‘reliance on a management expert’ work on the valuer and concluded that we could place reliance on their valuation report for the property portfolio. We reviewed the revaluation adjustments throughout the financial statements and confirmed that these had been accurately processed.
- **Estimations in valuation of pension assets and liabilities:** we assessed the design and implementation of controls over the valuation of pensions. We carried out ‘reliance on a management expert’ work on the actuary. Based on the findings of the audit procedures performed we concluded that we could place reliance on the actuary’s valuation of the pension asset. We reviewed the pension adjustments throughout the financial statements and confirmed that these had been accurately processed.
- **Estimations in valuation of financial assets:** we assessed the design and implementation of controls over the valuation of investments. We carried out ‘reliance on a management expert’ work on the valuer and concluded that we could place reliance on the valuer’s valuation of investments. We reviewed the valuation adjustments throughout the financial statements and confirmed that these had been accurately processed.

25. We kept these areas under review throughout our audit. During the 2022/23 financial year, we noted that Scottish Enterprise purchased a piece of land but did not yet have a copy of the title deeds to provide evidence of legal ownership. As a result, assurances were sought from the Accountable Officer in the ISA 580 Letter of Representation that Scottish Enterprise has ownership rights to recognise this asset on its Statement of Financial Position. Based on the findings of the audit procedures performed, there are no matters which we need to bring to your attention other than those already outlined in [Exhibit 2](#) or this paragraph.

Officers made adjustments of £15.3 million to the annual report and accounts

26. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making correction lies with those charged with governance. There are no unadjusted misstatements to report.

27. Adjustments to the annual report and accounts totalled £15.3 million. This includes the adjustment set out in [Exhibit 2](#). Adjustments made in the audited annual report and accounts increased net expenditure in the Group Statement of Comprehensive Net Expenditure by £4.4 million and decreased net assets in the Group Statement of Financial Position by £10.5 million.

28. We have reviewed the nature and cause of these adjustments and have concluded that they arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error. In addition, a number of the adjustments arose from timing issues relating to provision of information from third parties and are out with the control of Scottish Enterprise. While these have resulted in adjustments, we do not consider them to be errors.

Progress was made on prior year recommendations

29. Scottish Enterprise has made progress in implementing the audit recommendations identified in prior year Annual Audit Reports. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusion

Scottish Enterprise had appropriate and effective financial management arrangements in place with regular budget monitoring reports provided to the Board.

Scottish Enterprise operated within its revised fiscal resources, reporting an underspend of £8.2 million.

There is scope for enhancing some financial systems of internal control.

Scottish Enterprise had appropriate and effective financial management in place with regular budget monitoring reports provided to the Board

30. Senior management and members receive regular and accurate financial information on Scottish Enterprise's performance against budgets. These reports allow officers and members to scrutinise financial performance effectively throughout the year.

Scottish Enterprise operated within its revised budget in 2022/23, with an overall underspend of £8.2 million

31. The main financial objective for Scottish Enterprise is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

32. Scottish Enterprise reported an outturn of £268.0 million against its fiscal and financial transactions budget for 2022/23, resulting in an underspend of £8.2 million. The financial performance against fiscal resources is shown in [Exhibit 4](#).

Exhibit 4

Performance against fiscal resource in 2022/23

Performance	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Fiscal Resource	135.1	149.3	148.2	(1.1)
Fiscal Capital	80.0	84.3	81.2	(3.1)
Financial Transactions	36.1	42.6	38.6	(4.0)
Total	251.2	276.2	268.0	(8.2)

Source: Scottish Enterprise Annual Report and Accounts 2022/23

33. The underspends noted above were in the main due to:

- Fiscal Resources - a large volume of relatively small movements on core business activities,
- Fiscal Capital - a general reduction in grant funding to companies, and
- Financial Transactions - a number of planned investments failing to conclude before 31 March 2023.

Budget processes were appropriate

34. Scottish Enterprise's budget was adjusted as part of the Scottish Government's in-year budget revision process. Details on budget revisions were reported to the Board throughout the year. The most significant revisions over the course of the year for Scottish Enterprise included:

- an additional Fiscal Resource allocation of £16.9 million to cover expected credit losses (ECL),
- a reduction in Fiscal Resource allocation of £2.7 million to support the Scottish Government's response to the cost-of-living crisis as set out in the Emergency Budget Review (EBR).
- an additional Financial Transactions allocation of £6.5 million to reflect additional demand during the year, and
- a reduction in Fiscal Capital allocation of £10.5 million to reflect projected underspends in capital projects.

Net assets decreased by £97.6 million

35. Scottish Enterprise's net assets at the year-end decreased by £97.6 million from £677.5 million in 2021/22 to £579.9 million in 2022/23. Whilst the overall movement is a decrease in net assets, there have been significant upward and downward movements in assets and liabilities on the Statement of Financial Position. The most significant movements are:

- a £92.3 million decrease in the retirement benefit scheme asset, mainly due to changes in actuarial assumptions as a result of changes in market conditions affecting yield and inflation rates,
- a £45.3 million increase in trade and other payables, mainly due to an increase in loans from the Scottish Government,
- a £27.2 million increase in investments, mainly due to an increase for acquisitions offset by disposal of investments and changes in market value, and
- recognition of right of use assets of £8.5 million, lease receivable of £3.3 million and a corresponding lease liability of £10.2 million due to the implementation of IFRS 16.

There is scope for enhancing some financial systems of internal control

36. From our review of the design, implementation and operating effectiveness of systems of internal control (including those relating to IT) relevant to our audit approach, we noted the following areas where there is scope for improvement to the operation of certain internal controls:

- Second officer verification checks – a reconciliation between the payroll system and general ledger system is undertaken on a monthly basis with any discrepancies identified and investigated. However, this control could be enhanced through ensuring that the reconciliation is subject to a second officer check to ensure the completeness and accuracy of the reconciliation performed.
- Reporting of write-offs under £250,000 – balances written off under £250,000 are not reported to either the Audit and Risk Committee or the Board. Scottish Enterprise should consider reporting all write-offs to members for transparency purposes.

Recommendation 2

Management should review the controls around their key financial systems in order to enhance the controls and improve transparency.

Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

37. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

38. We concluded that Scottish Enterprise has appropriate arrangements for the prevention and detection of fraud, error and irregularities. We also reviewed arrangements to maintain standards of conduct, including the Board and staff code of conduct and register of interests. We concluded that Scottish Enterprise has established procedures for preventing and detecting any breaches of these standards.

National Fraud Initiative

39. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. NFI data matches were issued to the Scottish Enterprise in January 2023 as part of the NFI exercise for 2022/23. Work is currently underway to investigate these matches by the deadline of 30 September 2023.

3. Financial sustainability

Financial Sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

Scottish Enterprise has effective and appropriate arrangements in place to continue to deliver services. However, improvements could be made by preparing a medium-term financial plan.

Scottish Enterprise approved a balanced budget for 2023/24 but there are significant pressures in achieving this position.

Scottish Enterprise does not have a medium-term financial plan

40. A recommendation was made in the [2021/22 Annual Audit Report](#) that Scottish Enterprise should develop a medium-term financial plan, with a target completion date of September 2022. From discussions with senior management, we have noted that this has not yet been completed.

41. Senior management advised that the medium-term financial plan would be prepared and aligned against the outcome of the Scottish Government's Resource Spending Review. This review was published in May 2022. However, senior management have indicated they were unable to prepare a medium-term financial plan aligning to the Resource Spending Review as no indicative future budget information for Scottish Enterprise was included in the review. As a result, the recommendation in the 2021/22 Annual Audit Report has been carried forward as set out in [Appendix 1](#).

42. While Scottish Enterprise does not have a medium-term financial plan in place, we have noted that other corporate strategies are prepared over the medium-term, and senior management and non-executive members consider the medium to longer-term horizons as part of their strategic and operational decision making. As a result, we are satisfied that Scottish Enterprise is planning effectively over the medium to longer-term, but improvements could be made by preparing a medium-term financial plan to support decision making.

Scottish Enterprise approved a balanced budget for 2023/24 but there are significant pressures in achieving this position

43. Scottish Enterprise's business plan budget for 2023/24 is £346.1 million. Significant pressures and risks have been identified which may affect the organisation's ability to operate within budget. These include:

- Expenditure forecasts are heavily backloaded, with significant expenditure expected in the final quarter of the financial year. This increases the risk of non-delivery and potential for slippage into 2024/25.
- Investment exits are mostly based on judgement at this point of the year and are not underpinned by a portfolio of planned or anticipated deals. This is consistent with previous years but does present the risk that anticipated levels of investment exit income will not be achieved if actual investment exits do not materialise.
- The final expected credit losses and write-offs (ECL) budget requirement is not yet known and is subject to significant uncertainty and volatility. An initial allocation of £20.5 million has been provided by the Scottish Government to cover ECL, However, additional funding may be required from the Scottish Government if ECL are greater than the allocated amount as there is limited opportunity for Scottish Enterprise to fund additional ECL from its own resources.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusion

Scottish Enterprise has plans in place to implement its vision, strategy and priorities.

Governance arrangements are appropriate and Scottish Enterprise is open and transparent in the way it conducts business.

Scottish Enterprise's executive and non-executive directors demonstrate effective leadership, challenge and scrutiny of the organisation's activity and performance.

Scottish Enterprise has plans in place to implement its vision, strategy and priorities

44. Scottish Enterprise launched a new corporate plan internally during 2022 outlining their role in delivering the Scottish Government's National Strategy for Economic Transformation (NSET). Scottish Enterprise delayed production of an external corporate plan, pending publication of NSET delivery plans and the Scottish Government Innovation Strategy, outlining their asks of Agencies, in agreement with the Scottish Government.

45. The internal plan set out a new purpose, ambitions and focused on actions to improve the international, innovation and investment performance of Scotland's business base.

46. The purpose of Scottish Enterprise is "to help all businesses innovate and scale to transform the economy."

47. In delivering this purpose, Scottish Enterprise has a specific role to play in:

- Unlocking Scotland's economic potential.
- Increasing business productivity and competitiveness.
- Boosting business sustainability.

48. To deliver these three key ambitions, each one has several key objectives, which are monitored via key performance indicators.

49. During 2023/24, Scottish Enterprise will launch a new three-year corporate plan covering the period 2023-2026 and a one-year operating plan setting out a transformational agenda, with a long-term focus on how the organisation will respond to NSET and specifically the areas where Scottish Enterprise can make the greatest impact.

Governance arrangements are appropriate and Scottish Enterprise is open and transparent in the way it conducts business

50. Scottish Enterprise's governance arrangements have been set out in the Governance Statement in the annual report and accounts. We have reviewed these arrangements and concluded that they are appropriate and support robust scrutiny and challenge of decision-making processes.

51. There continues to be an increasing focus on demonstrating the best use of public money. Openness and transparency in how a body operates and makes decisions is key to supporting understanding and scrutiny. Transparency means that the public have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources.

52. Scottish Enterprise's website is clear and well structured. Board minutes are available to the public along with key publications including latest the annual report and accounts. We concluded that the board conducts its business in an open and transparent manner.

Scottish Enterprise's executive and non-executive directors demonstrate effective leadership, challenge and scrutiny of the organisation's activity and performance

53. The Chief Executive and senior leadership team are responsible for the delivery of critical day-to-day services as well as leading the changes to how services are accessed and delivered within Scottish Enterprise.

54. We have concluded that Scottish Enterprise's senior management and non-executive directors have demonstrated effective leadership and scrutiny of Scottish Enterprise's activity and performance in 2022/23. Going forward, senior management and non-executive directors will have some challenging decisions to make with regard to how services are best delivered in the current financial climate.

Climate change arrangements are appropriate

55. Our 2022/23 Annual Audit Plan highlighted that tackling climate change is one the great global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

56. Scottish Enterprise recently updated its Net Zero Framework for Action which sets out a number of priority actions which will support delivery of the commitment to achieve net zero by 2040, with an interim target of 70% by 2025 compared with their 2015/16 baseline. Progress against these actions is subject to review on an annual basis. Scottish Enterprise is making good progress and is on course to meet both of these targets.

57. One of the goals in the 2022/23 Corporate Plan goals is 'Boosting business sustainability' which aims to support companies to transition to net zero. Assistance will be provided through the Low Carbon Manufacturing Challenge Fund and a number of the Scottish Enterprises national programmes.

58. A recent review by Internal Audit concluded that Scottish Enterprise has continued to make good progress in delivering activities and support designed to facilitate Scotland's transition towards a Net Zero economy. The review confirmed the Board and senior management have continued to play a key role in the development and implementation of the organisation's Net Zero arrangements and governance arrangements to support Net Zero activities continue to be enhanced.

59. The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

Cyber security arrangements could be enhanced

60. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we considered Scottish Enterprise's arrangements for managing and mitigating cyber security risks.

61. The Audit and Risk Committee receives regular updates on cyber security, the most recent delivered to the meeting in April 2023. In addition, cyber security has been identified in the corporate risk register which is reported to the Audit and Risk Committee and the Board.

62. Scottish Enterprise achieved Cyber Essentials PLUS accreditation in September 2022.

63. As reported in the 2021/22 Annual Audit Report, Scottish Enterprise is part of the shared Enterprise Information Service (EIS) and internal audit carried out a follow-up review of the EIS's cyber security arrangements in 2022/23. The report was graded four (the second highest priority for attention). Internal audit highlighted the need for EIS to continue to invest and sustain an appropriate cyber security programme. A recommendation was made in 2021/22 Annual Audit Report around EIS's cyber security arrangements and work is ongoing to address the recommendations of the follow up report as set out in [Appendix 1](#).

64. During 2022/23, we confirmed that EY carried out a review of Scottish Enterprise's own cyber security arrangements on behalf of internal audit. This report was also graded four and identified a number of areas for improvement such as the need for Scottish Enterprise to have a defined IT Disaster Recovery Plan and a robust programme to test IT back-ups and recovery processes for Scottish Enterprise owned systems and infrastructure. Scottish Enterprise is taking action to address the findings and the implementation of these actions is monitored by the Audit and Risk Committee alongside other audit recommendations.

5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

Scottish Enterprise should further develop its approach to demonstrating Best Value.

Scottish Enterprise successfully delivered all targets published in the 2022/23 corporate plan, exceeding the target ranges for four of the six outcome measures.

Scottish Enterprise should further develop its approach to demonstrating Best Value

65. [Ministerial guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure Best Value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

66. We consider whether Accountable Officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. We may also, in conjunction with Scottish Enterprise, agree to undertake local work in this area. We did not undertake any specific work in 2022/23 but concluded that appropriate arrangements were in place for securing Best Value based on the outcome of our other audit work. However, we found that Scottish Enterprise does not have a formally agreed document that details the arrangements in place to support the Best Value characteristics.

67. The Best Value process could be further enhanced by producing a document that is updated annually detailing the arrangements that support the characteristics. The annual update should be presented and approved by the Board or appropriate committee.

Recommendation 3

Scottish Enterprise should produce an annual formally agreed document which details how it meets the Best Value characteristics as set out in the SPFM.

Scottish Enterprise successfully delivered all targets published in the 2022/23 corporate plan, exceeding the target ranges for four of the six outcome measures

68. Scottish Enterprise continued to monitor key performance indicators throughout the year with performance reported to the Board on a regular basis. Performance is assessed by three strategic ambitions as outlined in paragraph 48 of this report.

69. The plan has six key performance measures to monitor Scottish Enterprise's progress in achieving its strategic ambitions. These measures are aligned with Scotland's National Performance Framework and the Strategic Board's performance framework for enterprise and skills agencies.

70. Scottish Enterprise's target ranges took account of the challenging operating environment including the war in Ukraine and the current cost of living crisis.

71. Scottish Enterprise achieved all of their key performance targets for 2022/23. the target ranges for performance measures are reviewed annually to ensure they are challenging but achievable.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Non-compliance with the Government Financial Reporting Manual (FReM)</p> <p>Three minor instances of non-compliance with the FReM were identified with the Performance Report.</p> <p>Risk – the Performance Report does not fully comply with the FReM.</p>	<p>Management should complete the disclosure checklists prepared by the NAO and review Audit Scotland’s good practice note on improving the quality of central government annual report and accounts when preparing their 2023/24 annual report and accounts.</p> <p>Exhibit 2</p>	<p>The disclosure checklists will be completed for the 2023/24 Annual Report and Accounts.</p> <p>Douglas Colquhoun</p> <p>March 2024</p>
<p>2. Internal controls</p> <p>We noted two minor areas where there is scope for improvement to the operation of certain internal controls.</p> <p>Risk – there is a risk that internal controls do not operate effectively.</p>	<p>Management should review the controls around their key financial systems.</p> <p>Paragraph 36</p>	<p>Scottish Enterprise will consider internal reporting arrangements for write-offs below £0.250 million.</p> <p>Douglas Colquhoun</p> <p>September 2023</p> <p>Payroll reconciliation processes will be reviewed.</p> <p>Maria Bradshaw</p> <p>September 2023</p>
<p>3. Best Value framework</p> <p>Scottish Enterprise does not have a formally agreed document that details the arrangements in place to support the Best Value characteristics.</p>	<p>Scottish Enterprise should produce an annual formally agreed document which details how it meets the Best Value characteristics as set out in the SPFM.</p> <p>Paragraph 68</p>	<p>Scottish Enterprise will review the reporting arrangements in relation to compliance with Best Value characteristics.</p> <p>Douglas Colquhoun</p> <p>September 2023</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Risk – Scottish Enterprise is unable to demonstrate compliance with the duty of Best Value per the characteristics set out in the SPFM.</p>		

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>b/f 1. 2021/22 AAR – Financial Planning</p> <p>We reported last year that Scottish Enterprise has a one-year financial plan but does not have a medium or longer-term financial plan.</p> <p>Scottish Enterprise is developing finance and income strategies. Officers are also undertaking modelling to identify the range of possible outcomes for future funding allocations. This will support development of Scottish Enterprise’s medium-term financial plan.</p> <p>Risk – There is a risk that Scottish Enterprise does not have enough information to form a longer-term view of its financial position.</p>	<p>Scottish Enterprise should work to complete its finance strategy, medium-term financial plan and income strategy.</p>	<p>Outstanding</p> <p>Scottish Enterprise will publish a Financial Strategy including a medium-term financial outlook in conjunction with the revised Corporate Plan.</p> <p>Douglas Colquhoun</p> <p>October 2023</p>
<p>b/f 2. 2021/22 AAR – Openness and transparency</p> <p>Openness and transparency in how a body operates and makes decisions is key to supporting understanding and scrutiny. Board minutes are published on Scottish</p>	<p>Scottish Enterprise should ensure it makes all approved Board minutes available on its website.</p>	<p>Complete – minutes up to and including December 2022 are now available on the website.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Enterprise’s website, however the last set of minutes available are from the April 2020 meeting.</p> <p>Risk – Scottish Enterprise cannot demonstrate the openness and transparency of its decisions.</p>		
<p>b/f 3. 2021/22 AAR – Governance of cyber security</p> <p>Scottish Enterprise is part of the shared Enterprise Information Service (EIS). Information technology services for Scottish Enterprise are mostly managed by EIS.</p> <p>Internal audit carried out a follow up review of EIS’s cyber security arrangements in 2021/22. It concluded that cyber security remains a material risk for the partnership.</p> <p>Scottish Enterprise is taking a range of actions to improve its own cyber security arrangements.</p> <p>Risk – There is a risk that a cyber-attack could disrupt Scottish Enterprise’s key financial systems.</p>	<p>Scottish Enterprise should support work to address weaknesses in EIS’s cyber security arrangements and review and improve its own governance of cyber security.</p>	<p>In Progress</p> <p>A single, comprehensive action plan has been developed incorporating all the necessary actions to strengthen Scottish Enterprise’s cyber resilience. Progress will be reported to the Scottish Enterprise Executive Leadership Team on a quarterly basis.</p> <p>Neil Francis</p> <p>Ongoing</p>
<p>b/f 4. 2021/22 AAR – Performance Report</p> <p>Scottish Enterprise’s Performance Report met the requirements of the FReM. Scottish Enterprise has further opportunities to strengthen the Performance Report by:</p>	<p>Scottish Enterprise should work to further improve the content and presentation of its Performance Report.</p>	<p>Superseded – see action plan point per Appendix 1.</p>

Issue/risk	Recommendation	Agreed management action/timing
<ul style="list-style-type: none">• making the performance analysis section more concise• better demonstrating links between key achievements and its objectives• telling a clearer story about how it managed its budget. <p>Risk – There is a risk that Scottish Enterprise fails to communicate effectively to stakeholders.</p>		

Scottish Enterprise

2022/23 Annual Audit Report

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



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