

Scottish Enterprise

2016/17 Annual Audit Report



 AUDIT SCOTLAND

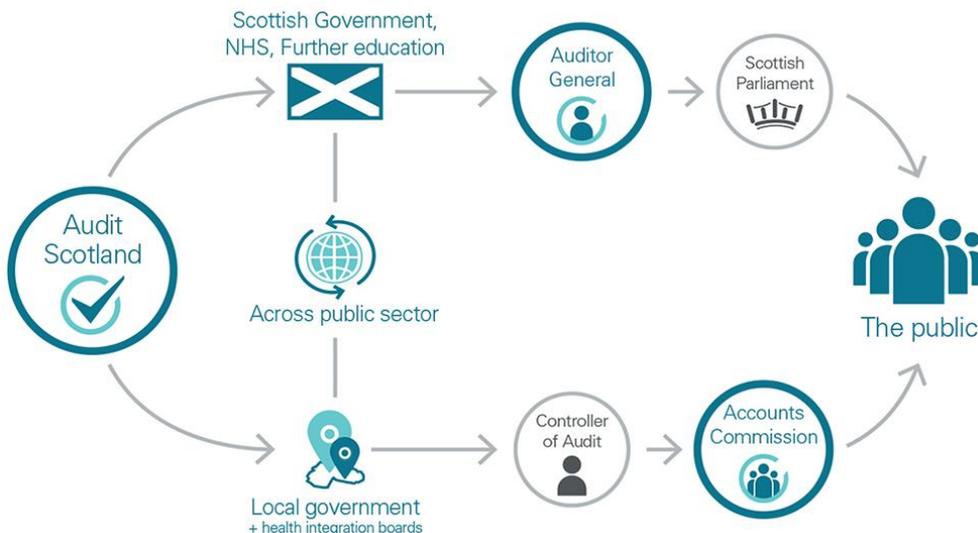
Prepared for Scottish Enterprise and the Auditor General for Scotland

30 June 2017

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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Key messages

Audit of the 2016/17 financial statements

- 1 The financial statements of Scottish Enterprise and its group give a true and fair view of the financial position and their net expenditure.
- 2 The expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance.
- 3 The other information in the annual report and accounts was consistent with the financial statements and prepared in accordance with legal requirements.

Financial management

- 4 Scottish Enterprise has effective arrangements in place for financial management. Scottish Enterprise has remained within its overall resource budget for 2016/17.
- 5 An underspend of £3.9 million was achieved, of which £3.2m was planned on behalf of the Scottish Government to repay grant in aid received in previous years for a ring-fenced programme that had not achieved the demand originally anticipated.
- 6 Systems of internal control operated effectively in 2016/17.
- 7 There was good engagement with the NFI exercise.

Financial sustainability

- 8 Scottish Enterprise has sound financial planning arrangements across three years but has deferred developing longer-term financial plans pending the outcome of the Enterprise and Skills review.

Governance and transparency

- 9 Scottish Enterprise has appropriate arrangements in place to support good governance, accountability and scrutiny. Changes to the board structure and member roles are bedding-in.
- 10 Board meetings are not open to the public. Scottish Enterprise board minutes are provided on its website. With increasing public expectations for more openness in the conduct of public business, Scottish Enterprise needs to keep this area under review and consider whether there is scope to enhance transparency.
- 11 Internal audit received a very positive external quality assessment from the Chartered Institute of internal auditors.

Value for money

- 12 Scottish Enterprise has a well developed performance management framework in place which supports the achievement of value for money.

Introduction

1. This report is a summary of our findings arising from the 2016/17 audit of Scottish Enterprise.

2. The scope of our audit was set out in our Annual Audit Plan presented to the December 2016 meeting of the audit committee. This report comprises:

- an audit of the annual report and accounts
- consideration of the wider dimensions set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2016/17 have been:

- an interim audit of Scottish Enterprise's main financial systems and governance arrangements
- an audit of Scottish Enterprise's 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions.

4. Scottish Enterprise is responsible for preparing financial statements that give a true and fair view, for the accuracy of the other information in the annual report and accounts, and for establishing effective arrangements for governance, propriety and regularity that enable the board to successfully deliver its objectives.

- 5.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), supplementary guidance and, guided by the auditing profession's ethical guidance.
- 6.** These responsibilities include giving independent opinions on the financial statements, regularity, the remuneration and staff report, the performance report and the governance statement. We also review and report on the arrangements within Scottish Enterprise to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.
- 7.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.
- 8.** The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Also, our annual audit report contains an action plan at [Appendix 1 \(page 27\)](#). It sets out specific recommendations, responsible officers and dates for implementation.
- 9.** Communication in this report of matters arising from the audit of the annual report and accounts or of risks or of weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
- 10.** As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
- 11.** This report is addressed to both the board and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk.
- 12.** We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2016/17 financial statements



Main judgements

The 2016/17 financial statements of Scottish Enterprise and its group give a true and fair view of the state of the body's affairs and of their net expenditure for the year.

The expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance.

The other information in the annual report and accounts is consistent with the financial statements and prepared in accordance with legal requirements.

Unqualified audit opinions

13. The annual report and accounts for the year ended 31 March 2017 were approved by the board on 30 June 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- an unqualified opinion on regularity of expenditure and income, and
- an unqualified audit opinion on the remuneration and staff report, performance report and governance statement.

14. Additionally, we are satisfied that there are no matters which we are required by the Auditor General to report by exception.

Submission of annual report and accounts for audit

15. We received:

- the unaudited single entity financial statements on 15 May, in line with our agreed audit timetable
- a complete Annual Report and Accounts for the Scottish Enterprise Group on 29 May. This included the Performance and Accountability Reports, slightly later than the planned date of 24 May.

16. A number of material adjustments, mainly relating to the valuation and accounting for non-current assets were identified by ourselves and processed by officers during the course of the audit. Working papers to support the proposed adjustments to the accounts were provided on 21 June 2017.

The annual report and accounts are the principal means of accounting for the stewardship of resources and performance in the use of those resources.

17. The working papers provided with the unaudited financial statements were generally of a high standard and finance staff provided good support to the audit team. We refer to the non-current assets working papers at paragraph 28 below.

18. The timetable for completion of the financial statements and the audit is challenging. We have discussed some alternative approaches to the draft accounts and working papers to facilitate the process and management has agreed to give consideration to the process for preparing next year's accounts.

Risk of material misstatement

19. [Appendix 2 \(page 29\)](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team.

Materiality

20. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of any misstatement.

21. Our initial assessment of materiality for the annual report and accounts was undertaken during the planning phase of the audit. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

22. On receipt of the draft annual report and group accounts we reviewed our original materiality calculations and updated these to reflect the reported outcome at 31 March 2017 and is summarised in [Exhibit 2](#).

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£2.75 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 50% of overall materiality.	£1.375 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 2% of overall materiality.	£55,000

Source: Audit Scotland

Evaluation of misstatements

23. A number of presentational and monetary adjustments to the accounts were identified during the course of our audit. These were discussed with senior finance

officers who agreed to amend the financial statements. There are no unadjusted misstatements.

24. There were a number of amendments processed to the accounts during the audit. The total net adjusted misstatement of gross assets in the group accounts amounted to £20.0m. The net adjustment to gross expenditure was £0.2m. The main elements were the revision of the depreciated replacement value for the Glasgow Science Centre land and property together with the related prior year adjustment (£20.7m) and a transfer from operational assets to assets held for sale (£3.5m). Further information is provided in [Exhibit 3](#) below.

Significant findings from the audit

25. International Standard on Auditing (UK and Ireland) 260 requires us to communicate significant findings from the audit to you. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1 \(page 27\)](#) has been included.

Exhibit 3

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Financial assets: other investments</p> <p>Scottish Enterprise's statement of financial position records £278m of investments (£276m in the group accounts). These investments reflect Scottish Enterprise's objectives to deliver economic growth to Scotland.</p> <p>The majority of these investments are assessed at fair value using the knowledge and expertise of staff within the Scottish Investment Bank (SIB). SIB is the investment division of Scottish Enterprise and its activities include securing growth capital, increasing the supply of finance and stimulating investment in Scotland. There is no independent assessment of the value of the investments.</p>	<p>We reviewed the information provided by SIB and the methodology.</p> <p>Assurances have been received from the Accountable Officer confirming that the methodology applied provides a true and fair view of the value of these investments at 31 March 2017.</p>
<p>2. Property, plant and equipment: consolidation of Glasgow Science Centre</p> <p>Scottish Enterprise consolidates the Glasgow Science Centre Charitable Trust (GSCCT) as a subsidiary undertaking. The largest element relates to the Science Centre building which is valued in the GSCCT accounts on the basis of depreciated historic cost (£20.2m). Scottish Enterprise's accounting policies state that the property is subject to an annual revaluation on a depreciated replacement cost basis, reflecting its specialised use.</p> <p>Management agreed to reconsider the estimated economic life over which the property is depreciated and amended the financial statements: a prior year adjustment was required. As a consequence, the 2015/16 opening group statement of financial position was adjusted to reflect an increase of £18.3m in both the non-current assets and the</p>	<p>We have reviewed the evidence provided in relation to the valuation and adjustment and agree with its application in the accounts.</p> <p>Action Plan (Appendix 1, point 1),</p>

Issue	Resolution
<p>revaluation reserve. The overall impact on the 2016/17 group statement of financial position was an increase in the non current assets and revaluation reserve of £20.247m (including the prior year adjustment of £18.3m). The Statement of Comprehensive Net Expenditure was adjusted to reflect additional depreciation of £155,000.</p>	
<p>3. Property, plant and equipment: asset under construction</p> <p>The financial statements presented for audit included the transfer of an asset under construction (£2.3m) to operational assets. Our review of the valuation report as at 31 March 2017 could not identify whether this property had been subject to revaluation.</p> <p>Officers sought further information from the valuer who advised that the building value had not been separately reported from the land value at the same site. Management reassessed the relevant amounts included in the accounts: £1.1m was transferred from the land category into buildings.</p>	<p>We have reviewed the evidence provided by the valuer to support the valuation of the asset in question and the resultant transfer between land and buildings. We have agreed the adjustment as processed.</p> <p>Action Plan (Appendix 1, point 2),</p>
<p>4. Property, plant and equipment: assets held for sale</p> <p>The draft accounts presented for audit did not identify any assets held for sale. During the audit, management identified assets approved by the board as forming part of the 2017/18 programme of property sales and confirmed that assets with a total value of £3.5m should be categorised as held for sale. Such assets should be valued at fair value less any costs of sale, in accordance with IFRS 13.</p> <p>The values included within note 12 of the financial statements exclude costs of disposal.</p>	<p>Management has adjusted the accounts and provided an estimate of the costs of disposal. These costs do not have a material impact on the valuation.</p> <p>We have reviewed the evidence supporting the valuation of the non-current assets held for sale together with the related disposal costs estimate and are content with management's assessment.</p> <p>Action Plan (Appendix 1, point 3)</p>
<p>5. Property, plant and equipment: depreciation</p> <p>The valuation of property is split into components (building structure and building engineering). Our audit identified that the independent valuers had provided information to support the asset lives of each asset as a whole but had not provided a breakdown of the components' useful lives.</p> <p>Management had continued to apply the componentised useful lives attributed by the previous valuers for the purposes of calculating depreciation. Management has revised the depreciation charged and amended the financial statements accordingly.</p>	<p>We have reviewed the evidence provided by officers and we agree with their assessment. We have also agreed the adjustment as processed.</p>

Other findings

26. We have highlighted below a number of other matters identified during our audit.

Accounting for property, plant and equipment (PPE)

27. We identified a number of issues arising in relation to the accounting for property, plant and equipment.

28. Our audit noted that Scottish Enterprise's working papers for non-current assets consist of a number of complex spreadsheets that require to be manually updated and reconciled. In addition, information provided by the property valuer is split across a number of different reports, which management has to merge into the spreadsheets. To further add to the complexity, assets do not have unique identifiers, often properties have more than one name and the asset listing requires updating to reflect assets disposed. The need for manual intervention increases the risk of error. The provision of an integrated asset register might assist the process. [Action Plan \(Appendix 1, point 1\)](#)

29. We also noted that the Facilities Management asset register is not up to date leading to associated risks over control of this group of assets.

Consolidation of subsidiaries and associates

30. Scottish Enterprise invests in a range of third party organisations. Their degree of interest and control is reflected in a range of ways; for example,

- there are a number of companies in which Scottish Enterprise has a controlling interest and as a consequence their accounts are fully consolidated in accordance with IFRS 10. There are 21 subsidiaries, of which six are dormant. Scottish Enterprise has a long-term plan to reduce the number of subsidiaries. The largest subsidiary is the Glasgow Science Centre Charitable Trust
- there are some companies judged to be associates, i.e. Scottish Enterprise has significant interest but no control. There is also a joint arrangement. These are consolidated into the Scottish Enterprise group by the application of IAS 28 and are accounted for using the equity accounting method. Of the £1.62m equity-accounted investees, £1.1m relates to Scottish Enterprise's share in land at Grangemouth under a joint arrangement.

31. The inclusion of Scottish Enterprise's subsidiaries and associates led to an increase in gross expenditure of £14.4m and net assets by £53.1m. The increase in net assets is largely due to the consolidation of the Glasgow Science Centre asset, the Conference House building and investments held by Glasgow Science Centre Endowment Fund.

Financial investments

32. Note 8 of the financial statements refers to investments held at fair value of £278m (£276m disclosed in the group accounts). Note 25 provides further information relating to these investments. It records that Scottish Enterprise holds investments (loans and shares) in 511 companies at an original cost of £286m (prior to revaluation) and excludes any interests which are consolidated. Scottish Enterprise acts as a passive investor and does not exercise control over these companies. As a consequence, they are not consolidated in the group accounts, but carried as investment assets which reflect Scottish Enterprise's aim to drive economic growth by investing alongside venture capital co-investment partners.

33. During 2016/17, Scottish Enterprise wrote off a number of debts including investment write-offs of £8.7m. The Scottish Government were advised of any write off in excess of £250,000 in accordance with agreed procedures.

EU funding

34. The 2016/17 financial statements disclose current trade and other receivables of £51m of which £30m relates to the accrual of income from European Structural Funds. Approval for the funding of these schemes was received in autumn 2016, and the cash will be received in future years.

35. The closure of the 2017-13 programme resulted in Scottish Enterprise repaying £4.2m: £3.3m related to unutilised funding provided for the initial capitalisation of the Scottish Loan Fund and the remainder was as a result of ineligible expenditure and grant recalculations. Internal audit has reviewed the revised arrangements for the 2014-20 programme and noted that procedures have been amended to ensure these matters are addressed. There remains a risk that, in relation to the 2014-20 programme, some scheme funding may be disallowed. [Action Plan \(Appendix 1, point 4\)](#)

Financial Transactions £19.2m

36. The accounts include a £19.2m Scottish Government allocation in respect of financial transactions, of which £5.2m relates to the Renewable Energy Investment Fund (REIF). This funding has been provided to finance equity investments and the provision of loans. Financial Transactions funding is repayable over variable periods and has been recognised as a long term liability in Scottish Enterprise's accounts. Management has agreed this accounting treatment with the Scottish Government.

Cash and cash equivalents

37. The statement of financial position discloses a cash balance of £75m, a decrease of £31m from 2015/16. The decrease reflects expenditure partly-funded by EU grants, which has been recognised as accrued income in the accounts and will be received in future years.

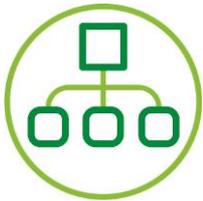
38. £60m of this balance relates to the initial capitalisation of the funds and income from investment disposals, which has been accumulated over several years. This income is ring-fenced and can only be used on similar investment projects. Scottish Enterprise management and the Scottish Government continue to discuss a means by which these funds can be applied for their intended purpose within the existing budget arrangements.

Accounts direction: additional disclosure requirements

39. The Accounts Direction (replicated on page 83 of the annual report and accounts) requires additional disclosures in relation to investments. This additional information is disclosed at note 25 of the accounts. This disclosure reflects only those investments held by the group and excludes investments in companies which are consolidated into Scottish Enterprise's accounts as subsidiaries, associates and joint arrangements. Information on these companies can be seen at notes 7 and 8. We discussed the clarity and inter-relationship of these notes and agreed with management that they would consider the presentation going forwards. This should ensure further transparency of Scottish Enterprise's overall investments and should aid the reader's understanding of the accounts.

Part 2

Financial management



Main judgements

Scottish Enterprise has effective arrangements in place for financial management. Scottish Enterprise has remained within its overall resource budget for 2016/17.

An underspend of £3.9 million was achieved, of which £3.2m was planned on behalf of the Scottish Government to repay grant in aid received in previous years for a ring-fenced programme that had not achieved the demand originally anticipated.

Systems of internal control operated effectively in 2016/17.

There was good engagement with the NFI exercise.

Financial performance in 2016/17

40. 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.

41. Scottish Enterprise has reported an outturn of £193.9 million, remaining within its overall resource budget for 2016/17 with an underspend of £3.9 million. The financial performance against the Departmental Expenditure Limits (DEL) and other budget allocations is shown in [Exhibit 4](#).

Exhibit 4

Financial performance in 2016/17

Performance	Initial budget £m	Final budget £m	Actual outturn £m	Overspend/ (underspend) £m
Resource DEL	166.5	148.6	139.3	(9.3)
Capital DEL	41.9	35.2	40.6	5.4
Financial Transactions	21.5	14.0	14.0	-
Total cash DEL	229.9	197.8	193.9	(3.9)
Non-cash DEL	10.2	10.2	8.1	(2.1)
Total DEL	240.1	208.0	202.0	(6.0)
Annually managed expenditure	21.0	21.0	19.8	(1.2)

Performance	Initial budget £m	Final budget £m	Actual outturn £m	Overspend/ (underspend) £m
Total allocation	261.1	229.0	221.8	(7.2)

Source: Scottish Enterprise Annual report and Accounts 2016/17; Scottish Government Autumn and Spring Budget Revision letter to Scottish Enterprise 31 March 2017

42. A number of adjustments were made to the original budget. £17.3m was deducted at the start of the financial year as part of the Scottish Government's strategic forum savings. There were also in-year budget revisions resulting in reductions of £2m resource DEL, £6.7m capital DEL and a £7.5m reduction in the financial transactions allocation. It was also agreed with the Scottish Government that a further £3.2m resource DEL was to be returned although no adjustment was made to the budget. The return of £3.2m related to the repayment of grant in aid received in previous years for a ring-fenced programme that had not achieved the demand originally anticipated. The total resource budget adjustment managed by Scottish Enterprise during 2016/17 was £19.4m. This was achieved largely by the rescheduling of uncommitted loans and investments and deferring other planned expenditures.

43. The Scottish Government agreed that capital DEL could be overspent by up to £5.5m and could be matched by a corresponding underspend in resource DEL.

Internal controls

44. As part of our audit we identify and review the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that Scottish Enterprise has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

45. Our findings were included in an interim audit report presented to the audit committee in March 2017. We concluded that the controls were operating effectively, with the exception of a small number of issues regarding expenses checking, reconciliations of uploads from the purchase order system to the general ledger and payroll validation.

46. We developed further audit procedures to gain assurance in response to these findings. We are pleased to record that appropriate action had been taken by management to address the matters raised.

47. No significant internal control weaknesses were identified during the audit which could affect Scottish Enterprise's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Budgetary processes

48. We reviewed Scottish Enterprise's budgetary processes and budget monitoring arrangements, liaising as necessary with Scottish Enterprise's Corporate Planning and Performance Team.

49. Scottish Enterprise has an established budgeting process in place which includes the preparation of proposed budgets for consideration by the Executive Leadership Team (ELT) prior to review by the board. We noted that the board considered the 2017/18 budget in February 2017 but delegated approval to the Chief Executive and board Chair due to the on-going Scottish Government Review of Enterprise Agencies and the bi-monthly board meeting cycle.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

50. From our review of budget monitoring reports, review of board and committee papers, we confirmed that senior management and members receive regular, timely and up to date financial information on the financial position.

51. We concluded that Scottish Enterprise has well developed budget monitoring and control arrangements that allow both members and officers to carry out effective scrutiny of its finances.

Prevention and detection of fraud and irregularity

52. We assessed Scottish Enterprise's arrangements for the prevention and detection of fraud. Our audit work covered a number of areas such as whistleblowing, the fraud response plan and review of the counter fraud strategy.

53. We concluded that Scottish Enterprise is proactive in promoting fraud awareness and had appropriate and adequate arrangements in place for fraud detection and prevention during 2016/17.

54. Scottish Enterprise presents details of frauds to its audit committee and board, which we consider is good practice and demonstrates transparency.

National Fraud Initiative

55. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error ([Exhibit 5](#)).

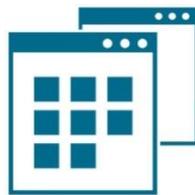
Exhibit 5

Total number of matches



2,080

Number recommended for investigation



293

Completed/closed investigations



322

Source: Scottish Enterprise

56. We are pleased to note that Scottish Enterprise completed the self-assessment of NFI and reported this to the September 2016 audit committee. The Committee also considered the 2015/16 national NFI report. No issues were identified for further action.

57. Internal audit is responsible for reviewing NFI matches. As part of the 2016/17 NFI exercise, 2,080 matches were identified for Scottish Enterprise, of which 293 were high quality matches. We are pleased to record that all high quality matches have been investigated and concluded. No frauds were identified although internal audit noted that the procurement matches have highlighted an internal issue: senior staff directorships resulting from Scottish Enterprise appointment on other companies were not always recorded in the Scottish Enterprise Register of

Nominated Directorships. Management has advised that this has now been addressed.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

58. We have reviewed the arrangements in place to maintain standards of conduct including the Staff Code of Conduct and board members' Code of Conduct. As noted above we also reviewed Scottish Enterprise's counter fraud policy, fraud response plan and whistleblowing policy. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption. The audit committee reviews these arrangements annually and considers how these arrangements comply with the Scottish Public Finance Manual.

59. Given the nature of its business, Scottish Enterprise requires all staff and board members to complete an annual register of interests' declaration to highlight any circumstances which may pose the potential for a conflict of interests (and to update as required during the year). We consider that this represents good practice.

60. Following on from our 2015/16 review of Scottish Enterprise's conflicts of interests' procedures, internal audit undertook a review of Conflicts of Interest, Hospitality and Gifts. They identified that while an exercise was carried out in June 2016 to remind all staff to complete a return and the People Manager to agree an approach to any potential conflict, there was still a high level of non-compliance seven months after the exercise began. Management has advised that the exercise has now fully completed with returns received from all staff.

61. Internal audit also identified that, while board members notify the Corporate Support Team of potential conflicts, these are not being notified within the one month period required by the Code of Conduct. Members have been reminded of the need to record their interests timeously,

62. Subject to the matter raised in relation to the disclosure of staff interests, based on our review of the evidence we concluded that Scottish Enterprise has appropriate arrangements in place for the prevention and detection of bribery and corruption.

Part 3

Financial sustainability



Main judgements

Scottish Enterprise has sound financial planning arrangements across three years but has deferred developing longer-term financial plans pending the outcome of the Enterprise and Skills review.

2016/17 financial position

63. The Statement of Financial Position summarises what is owned and owed by Scottish Enterprise. This shows taxpayers' equity – an accounting measurement of the amount invested that has continuing public benefit. It shows how much of this has arisen from the application of revenues and that which has resulted through changes over time in the value of physical assets.

64. The financial statements show that Scottish Enterprise and its group:

- has net assets of £573m. This is a decrease of £43m compared to the restated 2015/16 position and is largely attributable to a decrease in the cash and cash equivalents (£31m), a decrease in assets held for sale (£9m), a decrease in the pension scheme asset (£32m), an increase in trade payables (£21m) offset by increased valuations in financial investments (£21m) and an increase in trades and other receivables (£35m)
- the pension scheme remains in a surplus position with assets exceeding liabilities by £40 million.

Financial planning

65. A draft budget was presented to the February 2017 board as part of the 2017/18 Business Plan. As noted previously the board delegated approval to the Chief Executive and board Chair to approve the budget. The 2017/18 budget is included within the business plan which has been published.

66. Scottish Enterprise has received an initial grant in aid allocation for 2017/18 of £194.8m: £137.6m, refers to resource allocation, £21.9m to capital allocation and £35.0m financial transactions money, which takes the form of loans which are to be repaid. In setting its Business Plan, SE plans to switch £1.5m from resource to capital. Together with anticipated transfers of funding, Scottish Enterprise has budgeted for total funding of £211.4m from the Scottish Government for 2017/18.

67. The budget also anticipates income from other sources of £80m: £23m from property disposals and £32m from the Scottish Investment Bank.

68. Total income of £291.5m is anticipated and a programme of expenditure has been agreed across the business objectives to match the anticipated income. This is a reduction of £8.4m compared to the amount originally provided in 2016/17. Reduced funding may lead to a reduction in investment which in turn may affect the delivery of Scottish Enterprise's objectives.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

69. The Business Plan excludes the Scottish European Co-Investment Fund that forms part of the Scottish Growth Scheme which was announced in June 2017. Expenditure of £10m for 2017/18 is projected and will be funded via the allocation of additional Financial Transactions funding from the Scottish Government.

Medium to long term financial planning

70. We reviewed the financial planning systems and assessed how effective the plans are in identifying and addressing risks to financial sustainability in the medium and long term.

71. Scottish Enterprise prepares three-year business plans; 2017/18 is the third year of the current business plan. In our 2015/16 Annual Audit Report, we noted that there were no longer term financial plans in place and we recommended that management should develop a long-term financial strategy, supported by clear and detailed financial plans, including scenario planning. At that time, management agreed to develop a five year financial strategy by March 2017 to test the impact of potential scenarios, but has not taken this forward pending the outcome of the Scottish Government review of Enterprise and Skills (see Para 81 below).

72. We accept that this review has caused uncertainty and agree with the decision to defer longer term financial planning until the position is clearer. Following the conclusion of this review, we recommend that a longer-term financial strategy is prepared and considers sensitivity analysis and scenario planning for possible structural and budget changes. [Action Plan \(Appendix 1, point 5\)](#)

Part 4

Governance and transparency



Main judgements

Scottish Enterprise has appropriate arrangements in place to support good governance, accountability and scrutiny. Changes to the board structure and member roles are bedding-in.

Scottish Enterprise board meetings are not open to the public. Board minutes are published on the website. With increasing public expectations for more openness in the conduct of public business, Scottish Enterprise needs to keep this area under review and consider whether there is scope to enhance transparency.

Internal audit received a very positive external quality assessment from the Chartered Institute of Internal Auditors.

Governance arrangements

73. As part of the wider review of governance arrangements across the public sector, we completed a follow-up of our 'Role of Boards' national report, published in September 2010. This involved review of documentation, discussions with key officers and attendance at audit committee meetings.

74. The Scottish Enterprise board is well established, with members demonstrating strong commitment to their roles and responsibilities. The board demonstrates commitment to continuous improvement and personal development. The arrangements in place also support effective working relationships between the board and the Executive Leadership Team.

75. We concluded that, overall, Scottish Enterprise has appropriate arrangements in place that support good governance, accountability and scrutiny.

76. We also identified that there is no formal request for members to declare any interests at the start of board and committee meetings although we are aware that interests are declared on an ad hoc basis. Good practice suggests that, for completeness, members should be formally requested to declare any interests at the start of meetings.

Board operational changes

77. A number of changes to the operation of the Scottish Enterprise board took place during 2016/17 including:

- the number of board meetings each year was reduced from ten to six. Bi-monthly meetings are now being held

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.

- board meetings were extended to full-day sessions to give members more time to consider board business
- the board's Investment, Urgent Approvals and Economic Policy Committees were disbanded with their responsibilities being embedded in the main SE board
- as a result of retirements, the number of non-executive board members reduced from eleven to eight
- each board member has been appointed to be a "champion" for a key area/theme.

78. A further board member gave notice to resign in March 2017. This would have reduced the number of non-executive members to seven, which would be below the minimum number required by Scottish Enterprise's governing legislation. As a consequence, with the agreement of the Scottish Government, a new non-executive member was co-opted to ensure the minimum number of board members was maintained.

79. Board members will need to ensure that in their new "champion" roles, they observe the important distinctions in the respective roles of executive and non-executive directors. We discussed this risk with management, who noted that members will rotate their champion roles after 18 months initially and 12 months thereafter, to mitigate this risk.

80. We have not identified any significant risks as a result of these operational changes and will continue to review the governance arrangements during the course of our audit appointment.

Scottish Government Review of Enterprise and Skills

81. In May 2016, the First Minister announced a review of Enterprise and Skills with the aim of ensuring that businesses, workforce, training providers, colleges and universities and young people receive joined-up support. Phase One of this review reported in October and recommended:

- the creation of a new Scotland-wide statutory board to co-ordinate the activities of HIE, SE (including Scottish Development International [SDI]), SDS and the Scottish Funding Council
- the creation of a new vehicle to meet the enterprise and skills needs of the South of Scotland. This will be accountable to the new Scotland-wide statutory board alongside other enterprise and skills bodies
- a review of the role, position and governance of SDI and its possible establishment as a distinct and separate organisation under the new Scotland-wide statutory board delivering a broader range of international activities and support.

82. Phase Two of the review reported in June 2017 and confirmed:

- the creation of a new enterprise agency to boost growth in the South of Scotland
- the introduction of a Strategic Board to be set up in autumn 2017, guiding overall direction of the enterprise and skills agencies
- better co-ordination of international activity to boost trade and investment in Scotland.

83. We will continue to monitor developments from this Review and consider their implications for Scottish Enterprise.

The annual governance statement

84. Under the Treasury's Financial Reporting Manual (FRoM), Scottish Enterprise must prepare an annual governance statement within the Annual Report and Accounts. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the statement and provides assurances around the achievement of the organisation's strategic objectives.

85. The SPFM does not prescribe a format for the annual governance statement, but sets out minimum requirements for central government bodies. Within Scottish Enterprise all Executive Leadership Team members and major subsidiaries are required to provide the Accountable Officer with certificates of assurance together with completion of a detailed internal control checklist. This process has also been extended to the ICT lead partner.

86. We concluded that the annual governance statement 2016/17 complies with the guidance issued by the Scottish Ministers and based on our knowledge and work performed presents a comprehensive picture of governance arrangements and matters.

Internal audit

87. Internal audit provides Scottish Enterprise and the Accountable Officer with independent assurance on the overall risk management, internal control and corporate governance processes.

88. Scottish Enterprise has an in-house internal audit function, which is supplemented by specialist ICT audit from Ernst & Young. As reported in our Annual Audit Plan, we carried out a review of the adequacy of the internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

89. PSIAS require internal audit departments to undertake an external quality assessment at least once every five years. The Chartered Institute of Internal Auditors (IIA) undertook an external quality assessment of Scottish Enterprise's internal audit during 2016/17. This concluded that Scottish Enterprise has an effective internal audit service, which is in the upper quartile of all the internal audit functions IIA has reviewed.

90. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2016/17 we were able to place reliance on the work of internal audit on those areas advised in our annual audit plan.

ICT risks

91. Scottish Enterprise's ICT is managed as part of a shared services arrangement with Highlands & Islands Enterprise (HIE) and Skills Development Scotland (SDS) called Enterprise Information Systems (EIS). SDS is the lead partner for this EIS arrangement. As Audit Scotland also audits SDS and HIE we undertook a high level review of IT arrangements across all three bodies. This report will be issued in draft shortly to officers.

92. We are also undertaking a Your Business @ Risk survey. This survey provides a snapshot of whether the information governance policies are achieving their objectives and can also help in the avoidance of data loss by highlighting the procedural, cultural and ethical risks that exist within the organisation. It gauges staff's awareness of information security issues, for example use of passwords and

screen locks, or mobile devices. The results of the survey will be provided to management and a draft letter is currently being prepared.

93. In our Annual Audit Plan, we noted that Scottish Enterprise does not have a disaster recovery plan in place. In 2015/16, management advised that plans were in place to perform a rolling programme of disaster recovery testing with a plan to be developed thereafter. There is a risk that a cyber attack could disrupt Scottish Enterprise's systems, including key financial systems.

94. Internal audit reviewed disaster recovery and reported that progress was being made in respect of its business continuity arrangements. Further progress is required, including the need for a full scenario test. Management should continue to work towards an overarching disaster recovery plan.

95. Internal audit reported on cyber security in June 2016. They identified a number of areas of good practice and some areas where additional work would be required. Management is making progress in this area.

Oracle

96. In October 2013, Scottish Enterprise entered into a partnership arrangement to replace its financial, payroll, human resources and expenses systems with Oracle. This was part of a shared services arrangement with Scottish Natural Heritage (SNH) and the Scottish Legal Aid Board (SLAB). Expenditure incurred over the four years was £1.6m.

97. There were a number of delays to the project. An independent review was undertaken which identified the need to incur further costs together with a further delayed implementation. In addition, technical issues were recognised which would further add to the cost of the project in the following year. As a consequence, Scottish Enterprise decided to leave the arrangement.

98. The decision resulted in Scottish Enterprise introducing a manual expenses system. Scottish Enterprise is due to upgrade its SUN ledger during 2017/18, which will include a new purchase order processing module and plans to implement a new online expenses system in summer 2017. It has extended the contract with the existing payroll provider. A decision on human resources system upgrades has still to be confirmed.

99. The cost of the cancelled arrangement has been disclosed in the annual accounts. We will monitor developments in these areas.

Risk management

100. As part of our planning work, we reviewed Scottish Enterprise's risk management arrangements, including a review of the risk management policy and procedure. We confirmed that the policy and procedures were appropriate.

101. In March 2017, internal audit undertook a detailed review of risk management. They reported that Scottish Enterprise has effective arrangements in place that comply with the Scottish Public Finance Manual (SPFM).

Transparency

102. Transparency means that stakeholders, including the public, have access to understandable, relevant and timely information about how the board is taking decisions and how it is using public resources. Scottish Enterprise's board meetings are not open to the public. Board minutes are published on the SE website but no other papers or minutes are published.

103. Management advised that, due to the confidential and sensitive nature of much of the board's business (e.g. deciding whether to award grants and investments), it would be inappropriate to publish all board and committee papers.

104. With increasing public expectations for more openness in the conduct of public business, Scottish Enterprise needs to keep this area under review and consider whether there is scope to enhance transparency. This could include, for example, reviewing the availability of board and committee papers and committee minutes.

Part 5

Value for money



Main judgements

Scottish Enterprise has a well developed performance management framework in place which supports the achievement of value for money.

105. Value for money is a key element of our audit approach. In 2016/17 we did not identify any significant value for money risks during our planning and therefore we did not undertake any specific value for money work this year. We will keep this area under review over the five-year audit appointment and will report as appropriate.

Performance management

106. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where such requirements are not specified we may, in conjunction with Scottish Enterprise, agree to undertake local work in this area.

107. Scottish Enterprise has a three-year 2015-18 Business Plan. This covers four main themes, which have been established as the main drivers of growth in the Scottish economy: innovation, internationalisation, investment and inclusive growth. This is in line with Scotland's Economic Strategy, published by the Scottish Government in February 2015 and reflects the priorities and actions outlined in the Scottish Government's Programme for Government.

108. There are currently fifteen targets, which are published in the Business Plan. Progress against the fifteen targets is reported to the Scottish Enterprise Board on a regular basis in a combined financial and performance report.

109. Performance against each measure is reported in Scottish Enterprise's 2016/17 Annual Report and Accounts. Five of the fifteen specific performance measures completed the year above their target range with a further four in the top half of their range: five were in the lower half. Ten out of eleven milestones have been met. The milestone which was not met related to the setting up of investment and innovation hubs in London and Brussels. Only the London office was opened during 2016/17. The Brussels office is expected to be operational during 2017/18.

110. We concluded that Scottish Enterprise has a well developed effective performance management framework in place which supports the achievement of value for money and continuous improvement in the way services are delivered.

Value for money is concerned with using resources effectively and continually improving services.

Supporting Scotland's Economic Growth: The Role of the Scottish Government and its Economic Development Agencies

111. In July 2016, Audit Scotland published its national performance audit report [*Supporting Scotland's economic growth: The role of the Scottish Government and its economic development agencies.*](#)

112. The report listed a number of findings for the Scottish Government and its economic development agencies including Scottish Enterprise and Highlands and Islands Enterprise (HIE). The conclusions included:

- Scottish Enterprise has clear, evidence-based strategies to prioritise spending and activities. Its role includes investing when the private sector is unwilling or unable to, which means they often have to take informed risks to support economic growth. Good governance and accountability arrangements are in place to help make effective investment decisions and manage risk.
- In 2014/15, Scottish Enterprise and HIE spent a total of £398 million supporting economic growth. Between 2008/09 and 2014/15, their combined spending fell by 12 per cent, in real terms, and budgets are expected to fall further over the next few years. Despite their budget reductions there has been little change in the Scottish Government's expectations in terms of the priorities or number of growth sectors they support.
- Scottish Enterprise and HIE provide support, often jointly or on behalf of each other, alongside the Scottish Government and other public and private sector partners. The rationale for their approach to joint working could be clearer and there is scope to deliver some activities, such as their support to the growth sectors, more efficiently.
- Scottish Enterprise and HIE have performed well against their agreed performance measures. Measuring the impact of economic development activity is difficult but Scottish Enterprise and HIE perform a range of evaluation work to help demonstrate and improve their impact. Good examples of the enterprise bodies working well with partners to achieve a positive impact, such as creating jobs and increasing businesses' turnover were noted.

113. The report made a number of specific recommendations involving Scottish Enterprise, HIE and the Scottish Government. These included:

- in the context of the changing economic development landscape and as part of the Scottish Government's review of the economic development and skills agencies, consider how the enterprise bodies, taking into account their respective strengths and expertise, can best support the delivery of the economic strategy
- agree common performance measures, where appropriate, that are clearly aligned to the National Performance Framework. This will allow the Scottish Government to compare the enterprise bodies' performance and measure their individual and joint contribution to National Performance targets
- regularly review whether their support, for example, to individual businesses or involvement in task forces, continues to add value. This should include reviewing the opportunity cost of continuing support in each case.

National performance audit reports

114. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, we published a number of reports which are of direct interest to the board. These are outlined in [Appendix 3 page 32](#) accompanying this report.

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement

Page no.	Issue/risk	Recommendation	Agreed management action/timing
9,11	<p>1. Property, plant and equipment</p> <p>A number of material adjustments were made to the financial statements in relation to the accounting for non-current assets. The working papers are particularly complicated and require manual intervention. The complexity of the spreadsheets increases the risk of error.</p> <p>There is a risk that the statement of financial position is misstated.</p>	<p>Officers should review the working papers and consider whether the provision of an integrated asset register might assist the process. Clear instructions should be provided to the valuer to ensure the output provided can be applied efficiently and effectively.</p>	<p>Management accepts that the evolution of the working papers over a number of years has made them complicated to follow and will conduct a review of the process which will encompass the role played by operational colleagues and the reporting arrangements with the external valuers.</p> <p>David Burns, Head of Accounting Services</p> <p>31 January 2018</p>
10	<p>2. Property, plant and equipment</p> <p>An asset under construction was transferred to operational assets during 2016/17 but was not separately identified within the valuation report. Further discussions with the valuer clarified that the transferred property had been included within the land valuation.</p> <p>There is a risk that the statement of financial position is misstated.</p>	<p>Instructions should be provided to the valuer on all anticipated completions in order to ensure a full and complete valuation of all operational assets that supports the accounting requirements.</p>	<p>As noted at 1 above, management will conduct a full review of the process and procedures adopted for determining and reporting the annual valuation of land and property assets in a fully transparent way that assists the accounts preparation and audit.</p> <p>David Burns, Head of Accounting Services</p> <p>31 January 2018</p>
10	<p>3. Property, plant and equipment</p> <p>Assets held for sale were not identified by management until after the draft accounts were presented to audit. Back up working papers were not provided until mid June. Disposal costs have not been</p>	<p>A process should be introduced to ensure finance staff are advised in advance of the year end of any assets to be identified as held for sale.</p> <p>Disposal costs should be excluded.</p>	<p>Finance and Business Infrastructure colleagues will establish improved lines of communication for the early identification required to facilitate the timely reporting and classification of assets as required.</p> <p>David Burns, Head of</p>



**Page
no.**

Issue/risk

Recommendation

**Agreed management
action/timing**

excluded from the assessed value.

There is a risk that the statement of financial position is misstated.

Accounting Services

31 October 2017

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4. EU Funding

£4.2m had to be repaid in respect of 2017-13 European Structural Fund programme. The 2016/17 accounts includes EU funding of £30m in respect of the 2014-20 European Structural Fund Programme.

There remains a risk that, in relation to the 2014-20 programme, some scheme funding may be disallowed resulting in subsequent pressures on finances.

Officers should ensure that all EU funding requirements and regulations are adhered to.

Scottish Enterprise has already established new processes and procedures in relation to the 2014-2020 programme which aim to minimise the risk of potentially ineligible expenditure being included in EU claims. These have been reviewed by internal audit.

Douglas Colquhoun, Finance Director

1 April 2017

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5. Financial planning

Scottish Enterprise currently prepares budgets for its 3 year 2015-18 business plan. This covers the next financial year.

A stable short term operational budget is maintained based on managing activity and transaction flow as the year progresses.

The risk of managing the financial position going forwards is increasing. The ability to manage budget outturn through controlling uncommitted activity is reducing as elements such as staff costs represent a larger proportion of total spend.

We recommend that following the outcome of the Enterprise and Skills Review, a long term financial strategy (5 years +) supported by clear and detailed financial plans (3 years +) is prepared.

Plans should set out scenario plans (best, worst, most likely); with a much clearer assessment of the impact of budget assumptions on activity and any residual risks.

Scottish Government funding cycles have historically been between 1 and 3 years. The nature of our expenditure allows for reasonably quick amendments to budgets if required. However, management agrees to prepare a 5 year financial strategy to test the impact of potential scenarios.

Douglas Colquhoun, Finance Director

March 2018

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work includes consideration of the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>We tested of journal entries and reviewed of accounting estimates.</p> <p>We undertook:</p> <ul style="list-style-type: none"> focused testing of accruals and prepayments substantive testing of transactions to confirm expenditure and income have been accounted for in the correct financial year. <p>We also evaluated significant transactions that are outside the normal course of business.</p>	<p>We did not identify any issues as a result of our audit work that would indicate management override of controls affecting the year-end position.</p>
<p>2 Risk of fraud over income and expenditure</p> <p>ISA 240 requires auditors to presume a risk of fraud where income streams, are significant (excluding Scottish Government funding).</p> <p>Scottish Enterprise receives a significant amount of income (£51m) from third parties.</p> <p>The extent and complexity of income means that there is an inherent risk of fraud.</p> <p>ISA240 and the Code of Audit Practice require auditors to consider the risk of fraud over certain types of public sector expenditure. This includes grants and other claims made by individuals and organisations on the public purse. Examples of grants provided by Scottish</p>	<p>We undertook:</p> <ul style="list-style-type: none"> controls testing over the income system, placing reliance on internal audit where appropriate substantive testing of revenue transactions focusing on the areas of greatest risk controls testing over expenditure systems, with reliance on internal audit. <p>We placed reliance on internal audit review of European Funding.</p> <p>We substantively tested grant expenditure.</p> <p>We reviewed action taken in respect of NFI data matches.</p>	<p>Our controls testing did not identify any issues with Scottish Enterprise's revenue recognition procedures or expenditure.</p> <p>We substantively tested a sample of income and expenditure transactions, however no issues were identified.</p>

Audit Risk	Assurance procedure	Results and conclusions
Enterprise include Regional Selective Assistance grants, R&D grants and SMART grants.	We undertook performance audit work on European funding.	
<p>3 Estimation and judgements</p> <p>Non current assets (land and buildings), pensions and investments are revalued annually at 31 March by third party expert valuers/actuaries.</p> <p>There is an inherent risk due to the extent of assumptions used in calculations and the impact they can have on the financial statements.</p>	<p>We review the work of an expert for the professional valuers (pensions, investments and properties).</p> <p>We focused substantive testing of year-end balances.</p>	<p>We reviewed the valuations of land and properties, pensions and investments, which were prepared by management's experts.</p> <p>We found these judgements to be sound and, as such, were able to place reliance on the experts' valuations.</p> <p>We raised a number of issues in relation to the application of the land and property re-valuation. A number of late adjustments were required to the financial statements.</p>
<p>4 Investment Write-Offs</p> <p>Scottish Enterprise's funding for investments and projects can result in the write-off of equity, loans or grants when those companies are in financial difficulty.</p> <p>There is a risk that write-offs are not correctly disclosed in the financial statements, or that they have not been approved appropriately.</p>	<p>We tested significant write-offs to ensure that</p> <ul style="list-style-type: none"> • they had been approved in line with procedures, and • they had been disclosed correctly in the financial statements. 	<p>We found that the approval process for write offs had been followed by Scottish Enterprise.</p> <p>The accounting treatment and disclosures were satisfactory</p>

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

<p>5 Governance and Transparency</p> <p>The board Chair has reviewed the structure and composition of the board. This has led to a reduction in the number of board members, number of committees and frequency of meetings.</p> <p>The first phase of Scottish Government's Review of Enterprise & Skills has announced the creation of a new board to oversee Enterprise Agencies.</p> <p>There is a risk that these changes impact on the board's ability to fulfil its functions effectively. There may be a lack of scrutiny and challenge</p>	<p>We followed up our 2010 Role of boards Report.</p> <p>We monitored the Scottish Government's Review of Enterprise & Skills (phase 2) and considered the impact on the organisation.</p> <p>We also followed up on any outstanding matters from our review of conflicts of interest report (2015/16).</p>	<p>We noted the changes to the board structure and frequency of meetings.</p> <p>Phase 2 was published on 22 June 2017.</p> <p>See Part 4 of this report</p>
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Audit Risk	Assurance procedure	Results and conclusions
<p>6 Financial Sustainability and Financial Management</p> <p>In June 2014, Audit Scotland reported on Scotland's Public Finances and identified that financial planning improvements were required by public bodies.</p> <p>In 2015/16, management agreed to prepare a 5 year financial strategy to test the impact of potential scenarios by March 2017.</p> <p>The outcome of the EU referendum led to uncertainty over future European funding, which is a significant source of income for Scottish Enterprise.</p>	<p>We reviewed progress in developing a 5 year financial strategy.</p> <p>We placed reliance on internal audit's review of European Funding and the arrangements to mitigate against future breaches. We also undertook performance audit work on European funding.</p>	<p>No longer term planning has been undertaken pending the outcome of the Enterprise and Skills review.</p> <p>Refer to parts 1, 3 and 4 of this report</p>
<p>7 ICT - Disaster Recovery and Cyber Attack</p> <p>Scottish Enterprise does not have a Disaster Recovery Plan in Place. In 2015/16, management advised that plans were in place to perform a rolling programme of disaster recovery testing with a plan to be developed thereafter.</p> <p>Organisations are increasingly threatened by cyber attacks. There is a risk that a cyber attack could disrupt Scottish Enterprise's systems, including key financial systems.</p>	<p>We reviewed the internal audit follow-up work on Disaster Recovery. We also placed reliance on internal audit's review of Cyber Security.</p> <p>We agreed to undertake a Your Business @ Risk review.</p>	<p>No matters identified</p> <p>See part 4 of this report</p>

Appendix 3

Summary of national performance reports 2016/17



Apr			
May		Common Agricultural Policy Futures programme: an update	
Jun		South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland
Jul		Audit of higher education in Scottish universities	 Supporting Scotland's economic growth
Aug		Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update
			 Scotland's colleges 2016
Sept		Social work in Scotland	 Scotland's new financial powers
Oct		Angus Council: Best Value audit report	 NHS in Scotland 2016
Nov		How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16
Dec		Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report
Jan			
Feb		Scotland's NHS workforce	
Mar		Local government in Scotland: Performance and challenges 2017	 i6: a review
			 Managing new financial powers: an update

The following reports may be of particular interest:

[The National Fraud Initiative in Scotland](#) – June 2016

[Supporting Scotland's economic growth](#) – July 2016

[Superfast broadband for Scotland: a progress update](#) – August 2016

[Scotland's new financial powers](#) – September 2016

[Managing new financial powers: an update](#) – March 2017

Scottish Enterprise

2016/17 Annual Audit Report

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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