

Scottish Enterprise

2020/21 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Scottish Enterprise and the Auditor General for Scotland

July 2021

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Key messages

2020/21 annual report and accounts

- 1 The financial statements of Scottish Enterprise and its group give a true and fair view of the financial position at 31 March 2021 and their net expenditure for the year.
- 2 The expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.
- 3 The other information in the annual report and accounts is consistent with the financial statements and is in accordance with the legal requirements.

Financial management and sustainability

- 4 Financial management in 2020/21 was effective and Scottish Enterprise operated within its overall grant in aid budget for the year.
- 5 Scottish Enterprise's arrangements were effective in issuing over £216 million of Covid-19 related funding in 2020/21.
- 6 Scottish Enterprise successfully adapted its internal controls to meet the challenges of operating under Covid-19.
- 7 Scottish Enterprise does not yet have a longer-term financial plan which reflects future spending pressures and changes in its business.

Governance, transparency and value for money

- 8 Governance arrangements in 2020/21 supported effective oversight of Scottish Enterprise's activities and finances.
- 9 The performance report meets the requirements of the Financial Reporting Manual, with scope for further development.
- 10 Scottish Enterprise has an effective framework for assessing Best Value.
- 11 There was a significant reduction in performance outcomes due to the impact of Covid-19.

Introduction

1. This report summarises the findings from our 2020/21 audit of Scottish Enterprise.
2. The scope of our audit was set out in our Annual Audit Plan presented to the 19 April 2021 meeting of the Audit and Risk Committee. This report comprises the findings from:
 - an audit of Scottish Enterprise’s annual report and accounts
 - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#).
3. The main elements of our audit work in 2020/21 have been:
 - an audit of Scottish Enterprise’s 2020/21 annual report and accounts including the issue of an independent auditor's report setting out our opinions
 - a review of Scottish Enterprise’s key financial systems
 - consideration of the four audit dimensions.
4. In common with all organisations, Scottish Enterprise had to respond to the coronavirus pandemic (Covid-19). It led the delivery of several grants schemes to support Scottish businesses through the pandemic. We included risks related to the pandemic in our annual audit plan, and we adapted our planned audit work to address emerging risks.

Adding value through the audit

5. We add value to Scottish Enterprise through the audit by:
 - identifying and providing insight on significant risks, and making clear and relevant recommendations
 - sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
 - providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Responsibilities and reporting

6. Scottish Enterprise has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report

and accounts that is in accordance with the accounts direction from the Scottish Ministers.

7. Scottish Enterprise is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity.

8. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), and supplementary guidance and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

9. This report raises matters from our audit. 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 from its responsibility to address the issues we raise and to maintain adequate systems of control.

10. Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers and dates for implementation. It also includes any outstanding actions from last year and progress against these.

Auditor independence

11. Auditors appointed by the Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

12. 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 and therefore the 2020/21 audit fee of £168,890 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

13. This report is addressed to both 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.

14. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

1. Audit of 2020/21 annual report and accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

The financial statements of Scottish Enterprise and its group give a true and fair view of the financial position at 31 March 2021 and their net expenditure for the year.

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

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

Our audit opinions on the annual report and accounts are unmodified

15. The board approved the annual report and accounts for the year ended 31 March 2021 on 23 July 2022. As we report in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The annual report and accounts were provided on time

16. Scottish Enterprise and Audit Scotland staff continued to work from home for the duration of the audit. We kept in regular communication with management throughout the audit. Despite the challenges of remote working, the audit was completed in line with the planned timetable.

17. We received the unaudited Scottish Enterprise single entity accounts on 10 May 2021 and the unaudited group annual report and financial statements on

24 May 2021. These were provided a week earlier than the date in the timetable. Management provided good support to the audit team which enabled us to complete the audit in accordance with the agreed timetable.

18. We will work with management to complete the assurance statement for Whole of Government Accounts (WGA) and submit this to the National Audit Office (NAO) later in 2021. The NAO's submission deadline, which is still to be confirmed, has been delayed due the impact of the Covid-19 pandemic.

Overall materiality is £4.79 million

19. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and the nature of a misstatement in the financial statements.

20. Our initial assessment of materiality was carried out during the planning phase of the audit. We reviewed and revised this after receiving the unaudited annual report and accounts and it is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

| Materiality level | Scottish Enterprise Group | Scottish Enterprise Single Entity |
|-------------------------|---------------------------|-----------------------------------|
| Overall materiality | £4.79 million | £4.67 million |
| Performance materiality | £2.87 million | £2.8 million |
| Reporting threshold | £100,000 | £100,000 |

Source: Audit Scotland, Scottish Enterprise Annual Audit Plan 2020/21

[Appendix 2](#) identifies the main risks of material misstatement and our audit work to address these

21. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the audit team were directed. [Appendix 2](#) also identifies the work we did to address these risks and our conclusions.

Significant findings to report on the annual report and accounts

22. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of Scottish Enterprise's accounting practices.

23. The significant findings are summarised in [Exhibit 2](#). Where a finding has resulted in a recommendation to management, a cross-reference to the action plan in [Appendix 1](#) is included.

Exhibit 2

Significant findings from the audit of the financial statements

| Issue | Resolution |
|--|---|
| <p>1. Service organisations: assurance</p> <p>Scottish Enterprise outsourced the processing and payment for the Creative, Tourism and Hospitality Enterprises Hardship Fund grants (“Hardship grants”) to an external service organisation.</p> <p>International Standards on Auditing require us to obtain sufficient appropriate evidence to assess the risk of material misstatement in the accounts when an entity uses the services of one or more service organisations.</p> | <p>Internal audit reviewed the procurement of the service organisation and found it appropriate. We are content with the accreditations and processes by which Scottish Enterprise engaged the service organisation.</p> <p>We obtained an understanding of the services provided by the service organisation and the controls in place at Scottish Enterprise and at the service organisation, including through direct contact with the service organisation.</p> <p>We undertook walkthrough testing to confirm controls over the Hardship grants within Scottish Enterprise.</p> <p>We substantively tested a sample of Hardship grants.</p> <p>No significant issues were identified.</p> <p>Management could strengthen the assurances it obtains from service organisations it may use in future by requiring the service organisation to provide service auditor reports, and by improving the controls it has in place in these circumstances.</p> <p>Recommendation 1</p> <p>(refer Appendix 1, action plan)</p> |
| <p>2. Loans funds: £6.5 million restatement</p> <p>International Financial Reporting Standard 9 (IFRS 9) Financial Instruments requires financial instruments to be carried at fair value.</p> <p>Scottish Enterprise invests in four external loans funds which are held at fair value through profit and loss. These were recognised in the annual accounts at the cost of Scottish Enterprise’s initial investment less provision for impairment as a proxy for fair value which is consistent with previous years.</p> <p>IFRS 9 requires these investments to be carried at the external loans fund valuation, which is the fair value of the assets at 31 March 2021.</p> | <p>Management agreed to recognise the loans funds at 31 March 2021 valuation.</p> <p>This resulted in a restatement of the 2019/20 accounts, with an increase of £6.5 million in financial assets, and a further £246,000 increase in financial assets in 2020/21.</p> <p>We undertook an assessment of Scottish Enterprise’s valuation experts and concluded that we could place reliance on their valuations.</p> <p>We are content with the accounting treatment in the 2020/21 accounts.</p> |

| Issue | Resolution |
|---|--|
| <p>3. Financial assets: £1.1 million valuation error</p> <p>Scottish Enterprise's in-house Growth Investments (GI) team conducts valuations of shares held in unlisted companies.</p> <p>These are based on recognised valuation techniques, including using the price of recent investments to determine the fair value of Scottish Enterprise's shareholding.</p> <p>We identified from sample testing that an incorrect share price had been used to calculate the value of one of these assets. This meant that the value of this asset was understated by £1.1 million.</p> | <p>Management agreed to adjust the accounts to recognise the correct valuation. We are content with the amendment.</p> <p>We tested an additional sample of ten valuations. We did not identify any further issues and are content that this was an isolated error.</p> <p>Management reviews should assess the detailed supporting evidence for valuations and evidence that the review has been carried out.</p> <p>Recommendation 2</p> <p>(refer Appendix 1, action plan)</p> |

Source: Audit Scotland

Identified misstatements of £8.028 million were adjusted in the accounts

24. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Management has adjusted all identified misstatements above our reporting threshold; there are no unadjusted errors to report.

25. Identified and adjusted misstatements totalled £8.028 million. This includes the adjustments set out in Exhibit 1 i.e. £6.741 million relating to the restatement and uplift of external loans funds valuations and £1.097 million relating to Growth Investment valuations. It also includes one other amount above our reporting threshold. There was also a £190,000 land revaluation which was processed late due to a delay in receiving the final valuation report.

26. Adjustments to the accounts decreased net expenditure in the Group Statement of Comprehensive Net Expenditure by £1.153 million and increased net assets in the Group Statement of Financial Position by £7.648 million.

27. We reviewed the circumstances and our audit approach to consider if additional testing was required. As indicated in [Exhibit 2](#), we undertook substantive testing of a further ten in-house Growth Investment equity valuations. We did not identify any further issues and are content that this appears to be an isolated error. We reviewed the nature and causes of all misstatements and concluded that they arose from issues that are isolated and identified in their entirety and do not indicate systemic error.

Other matters arising from the audit of the accounts

28. Other significant matters during our audit are outlined below.

Expected credit losses

29. IFRS 9 Financial Instruments requires an assessment of the expected credit loss (ECL) and consideration of the general impairment methodology. The 2020/21 financial statements include £18.648 million of ECL.

30. Following our audit recommendation last year management undertook a review of its methodology this year. Finance liaised with the in-house GI team and other similar public and private sector organisations. This led to a refinement of management's estimation methodology, which is now clearly documented.

31. We reviewed the methodology and discussed it with Scottish Enterprise's finance and GI teams. We concluded that the methodology was reasonable, and that management has improved this process, in line with our recommendations.

Trade and other receivables – accrued EU income

32. Scottish Enterprise's accounts include £5.9 million of accrued income for EU funded grants. In previous years, we reported that Scottish Enterprise has written-down the level of accrued income. This was because the standard of evidence required from third parties to support Scottish Enterprise's claims for EU funding was, in many cases, insufficient.

33. We reviewed the methodology for accruing EU income and concluded that the methodology was reasonable. We have sought and reviewed the Accountable Officer's assurances for the amount receivable in the ISA 580 letter of representation. We are content with the accounting and assurances.

Guaranteed Minimum Pension (GMP)

34. The courts have ruled that UK defined benefit pension schemes must compensate members for differences attributable to guaranteed minimum pensions. In line with previous years, Scottish Enterprise's actuary has advised that a 'trigger event' is yet to occur. Scottish Enterprise has added a £8.4 million contingent liability note to its accounts to explain and disclose this matter. We are content with the disclosures.

Accruals

35. Scottish Enterprise accrues expenditure at the year-end that relates to 2020/21, but which has not yet been paid. This is often based on estimates at year-end. Accruals are updated when more accurate information is received. This process is set out in Scottish Enterprise's accruals' guidance.

36. We found two accruals which had not been updated to reflect more accurate information received after year-end, which was contrary to the accruals' guidance. This was below our reporting threshold and does not affect our opinion on the financial statements. Management agreed to remind staff of the importance of updating accruals as part of the year-end processes.

37. In previous years at our request, management undertook a retrospective review of year-end accruals to assess the accuracy of its estimates. This

process was repeated during the audit process for 2020/21. Management agreed to ensure this process is in place for 2021/22 to give additional assurance over the accuracy of the accruals process.

Some progress was made on prior year recommendations

38. Scottish Enterprise has made progress in implementing our prior year audit recommendations. However, responses to some recommendations remain ongoing. 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 is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Main judgements

Financial management in 2020/21 was effective and Scottish Enterprise operated within its overall grant in aid budget for the year.

Scottish Enterprise's arrangements were effective in issuing over £216 million of Covid-19 related funding in 2020/21.

Scottish Enterprise successfully adapted its internal controls to meet the challenges of operating under Covid-19.

Scottish Enterprise operated within its revised budget in 2020/21, with an overall underspend of £13.5 million

39. Scottish Enterprise's overall objective is to fully utilise its available resources to maximise economic development outcomes, whilst ensuring annual financial outturn is within the budget allocated by Scottish Ministers.

40. In 2020/21, Scottish Enterprise reported an outturn of £445.620 million. The financial performance against budget is shown in [Exhibit 3](#).

41. Net assets increased by £61.2 million from £472.8 million to £534.0 million. This is largely the result of a £137.2 million increase in the value of financial assets and a £38.8 million increase in cash and cash equivalents. This was offset by

- a £51.3 million increase in financial transactions liabilities, repayable to the Scottish Government
- a £29.1 million decrease in the pension asset
- a £28 million increase in trade and other payables and
- a £16.6 million reduction in property, plant and equipment.

Exhibit 3 Performance against Budget in 2020/21

| Performance | Initial budget £m | Summer Budget Revision | Autumn Budget Revision | Spring Budget Revision | Final budget £m | Outturn £m | Over/ (under) spend £m |
|-------------------------------|----------------------|------------------------|------------------------|------------------------|--------------------|---------------|---------------------------------|
| Resource | 123.120 | +110.000 | +57.840 | +23.454 | 314.414 | 311.294 | (3.120) |
| Capital | 42.035 | - | +34.242 | +21.858 | 98.135 | 95.407 | (2.728) |
| Financial Transactions (FT) | 48.500 | - | +30.000 | (28.017) | 50.483 | 42.382 | (8.101) |
| Financial Transactions Income | (9.990) | - | - | 6.000 | (3.900) | (3.463) | 0.437 |
| Total | 203.665 | +110.000 | +122.082 | +23.295 | 459.132 | 445.620 | (13.512) |

Source: Grant in Aid Letters from Scottish Government to Scottish Enterprise; Scottish Enterprise 2020/21 Annual Report and Accounts

Budget processes were appropriate, accommodating the significant financial impact of Covid-19

42. Scottish Enterprise had an initial grant in aid budget of £203.8 million. As shown in [Exhibit 3](#) above, there was a significant increase in Scottish Government funding over the course of the year. The major changes in Scottish Enterprise's budget were:

- **Resource:** £173.1 million of additional direct Covid-19 support funding for investments in private sector companies. Direct Covid-19 expenditure was tracked using specific account codes in the general ledger and disclosed in the accounts.
- **Financial transactions (FT):** An increase of £29.5 million for direct Covid-19 Support Funding partially offset by a reduction of £27.5 million in financial transactions funding. This was primarily to offset a significant amount of income Scottish Enterprise received from the disposal of one of its investments. Scottish Enterprise used the income from this disposal as capital budget and returned a corresponding amount of the FT budget.
- **Capital:** There were a number of discrete projects including £15 million additional funding for R&D (Research and Development) grants, £11.8 million funding for the National Manufacturing Institute and £8.3 million for other capital programmes.

43. The Board approved the draft 2020/21 budget in March 2020. The budget was subsequently revised to take account of changes to budget requirements and income and expenditure projections due to Covid-19.

44. Scottish Enterprise initially forecast a budget deficit due mainly to the expected impact of Covid-19 on income. However, actual income exceeded expectations and there was some slippage in committed expenditure, due to the impact of lockdowns on the businesses of grant recipients.

45. In April 2020, the Scottish Government issued an interim letter of guidance to Scottish Enterprise and the other enterprise and skills bodies. This acknowledged that these bodies would need to deliver existing contractual commitments, but all other resources should be prioritised to meet the emerging fiscal, economic and social challenges posed by Covid-19.

46. There was a significant increase in the amount of accrued expenditure at year-end, from £28.5 million in 2019/20 to £54.12 million in 2020/21. As a percentage of expenditure, this was largely consistent with previous years. This was due to several factors. Additional income was generated in the second half of the financial year, which resulted in a higher level of activity taking place towards year end. There was also some slippage in other grant expenditure. We increased our substantive testing of accruals and did not identify any significant issues.

47. We observed that senior management and the Board continued to receive regular and accurate financial information on Scottish Enterprise's financial position during the year.

48. Management is considering recommendations flowing from Internal audit's review of financial management, which include:

- establishment of a finance subcommittee should be considered.
- key financial messages and risks should be highlighted more prominently in reports
- finance training and information should be improved for non-finance staff.

Scottish Enterprise was the lead body for several Covid-19 grant funds

49. Scottish Enterprise led the Pivotal Enterprise Resilience Fund (PERF) and the Creative, Tourism & Hospitality Enterprises Hardship (Hardship) Funds. These provided grant funding for vulnerable Scottish SMEs (small and medium size enterprises), that experienced hardship due to Covid-19 and were deemed vital to local, regional and national economies and for tourism, hospitality and creative industry businesses. The initial budget for the schemes was £65 million (£45 million PERF and £20 million Hardship) but this was increased to £150 million in May 2020.

50. The Scottish Government requested Scottish Enterprise also to administer a further four funds. By March 2021 Scottish Enterprise had distributed £216.7 million of grants and loans ([Exhibit 4](#)). This is disclosed in the 2020/21 annual accounts. The schemes have now primarily closed. Scottish Enterprise

supplemented Scottish Government budget allocations through the utilisation of its core budget and this assisted in reducing the calls on the central Scottish Government budget. Management undertook lessons-learned exercises for the Covid-19 grants and presented findings to the Board.

Exhibit 4 Covid-19 schemes administered by Scottish Enterprise in 2020/21

| | Total Funding Received (£m) | Number of applications processed | Total Expenditure (£m) |
|--|-----------------------------|----------------------------------|------------------------|
| Pivotal Enterprise Resilience Fund (PERF) | 145.4 | 1,754 | 121.8 |
| Creative, Tourism & Hospitality Enterprises Hardship Fund | included above | 1,811 | 23.6 |
| Hotel Support Programme | 9.8 | 68 | 8.9 |
| Early Stage Support | 37.3 | 179 | 37.3 |
| Scottish Wedding & Civil Partnership Industry Fund | 17.2 | 2,382 | 21.9 |
| Ski Centre and Ski School Fund | 1.3 | 13 | 3.2 |
| Total | 211.0 | 6,207 | 216.7 |

Source: Scottish Enterprise 2020/21 Annual Report and Accounts

51. Scottish Enterprise administers grants to companies and organisations as part of its routine business and it was able to use existing systems and processes to deliver the Covid-19 schemes. These schemes represented a significant increase in the volume and value of grants issued and Scottish Enterprise modified its governance arrangements and systems of control accordingly.

52. Overall, Scottish Enterprise implemented adequate systems for recording and processing grant transactions and put appropriate measures in place to reduce the risk of fraudulent or erroneous payments. This included 'real-time' reviews by internal audit. We note that each of the Covid-19 grants required an element of self-declaration from grant applicants. For some of the grants, this included a requirement to confirm that they did not receive any other Covid-19 funding.

53. In June 2021 the Scottish Government announced phase two of the Scottish Wedding & Civil Partnership Industry Fund. We will continue to monitor Scottish Enterprise's administration of Covid-19 funding.

Financial systems of internal control are operating effectively

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

55. Internal audit reviewed the financial controls and concluded there was a high level of compliance. It noted that finance successfully managed the transition to remote working for all staff and activities.

56. We completed our interim audit and review of controls in April 2021. We concluded that the controls tested were operating effectively. We reviewed revisions to key financial controls that were required as a result of staff working from home during 2020/21. We can confirm that appropriate controls were in place and operating during the year.

57. We found two areas where controls could be strengthened, which we raised with management at that time:

- **Review of user access rights:** In 2019/20, we reported that there are controls over system access but that controls could be further strengthened by introducing a standard form for requesting access and regular review of access rights to ensure that they remain appropriate.
- **SUN/IMRS reconciliation:** In 2019/20, we identified that there was no reconciliation between the Investment Management Reporting System (IMRS) and the financial general ledger (SUN). Management confirmed that SUN is the primary system for financial management of the investments and noted IMRS reads financial information from SUN. We recommended that management should formalise the reconciliation between SUN and IMRS to further improve the control environment. This matter has not yet been addressed.

Recommendation 3

Management should address the control issues identified during our interim audit to:

- Review user access rights to key financial systems and ensure they remain appropriate
 - Undertake a formal reconciliation between the SUN and IMRS systems.
-

Internal audit

58. Scottish Enterprise has an internal audit function which operates as a wider shared service across five public sector bodies. In 2020/21, internal audit

further extended these arrangements to include the Scottish Funding Council and South of Scotland Enterprise (SoSE). The internal audit team was restructured to facilitate the expanded service. Partner organisations contribute to the costs of services to ensure it is cost neutral to Scottish Enterprise. There is a shared services partnership board, which includes representation from each member body.

59. Specialist IT audit services are provided by an independent third party on behalf of Scottish Enterprise and their partners in Enterprise Information Services (EIS), the shared IT arrangement with Skills Development Scotland (SDS), Highlands and Islands Enterprise (HIE) and SoSE.

60. We reviewed Scottish Enterprise's internal audit arrangements in accordance with International Standard on Auditing (UK) 610 'Using the Work of Internal Auditors' and were able to take account of its findings as planned.

61. We have placed reliance on internal audit's review of Covid-19 grants and key financial controls for our 2020/21 financial statements audit.

62. We also considered internal audit's reports for our wider dimensions audit responsibilities. This included:

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

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

63. Scottish Enterprise is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. Furthermore, the Board is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

64. We concluded that there are appropriate arrangements for the prevention and detection of fraud, error and irregularities. We also reviewed the arrangements to maintain standards of conduct including the Board and Staff Code of Conduct and the register of interests and concluded that there are established procedures for preventing and detecting any breaches of these standards, including any instances of corruption.

Finance team capacity

65. In 2019/20, we highlighted potential risks with capacity in Scottish Enterprise's finance function. Two of the four posts in the financial accounting team had at that time been vacant since summer 2019.

66. We are pleased to report that two new members of staff joined the team in 2020/21, providing capacity for oversight of Scottish Enterprise's finances and the annual accounts process.

3. Financial sustainability

Financial Sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services

Main judgements

Scottish Enterprise does not yet have a longer-term financial plan which reflects future spending pressures and changes in its business.

Scottish Enterprise approved a balanced budget for 2021/22 and is managing the impact of expected changes to its budget

67. The 2021/22 business plan was approved by the Board in April 2021. It includes planned expenditure of £387.3 million, with an increase of £12 million in the Scottish Government baseline resource budget and a £16.3 million increase in the Scottish Government baseline capital budget funding compared to the initial 2020/21 budget. Additional funding has also been received for the Green Jobs Fund (£8.4 million) and the Glasgow Science Centre (£5.5 million).

68. The 2021/22 budget is significantly lower than the final 2020/21 outturn, largely due to the funding for Covid-19 expenditure in 2020/21. Management is aware that the budget could be subject to change and will seek to manage it accordingly:

- There is potential unplanned income from investment exits which could increase capital income in 2020/21.
- From 2021/22, changes to UK budget guidance mean that expected credit losses will now be charged against Scottish Enterprise's resource budget rather than annually managed expenditure. This could have a wider impact on the amount of budget Scottish Enterprise has for its operating costs and to support businesses through grant funding. Management understands that the Scottish Government is considering how this change will be implemented.
- The May 2021 finance report highlights a £20 million reduction in financial transactions income since the 2020/21 budget was set. This is due to a reduction in loan income, mainly from loan impairments and the expected conversion of another significant loan to equity. Management is working with the Scottish Government to restore the financial transactions budget.

Scottish Enterprise has yet to develop a longer-term financial plan

69. Scottish Enterprise has a one-year financial plan but does not have a medium or longer-term financial plan. Scottish Enterprise is developing a three-year strategy for 2022-25.

70. Long-term financial strategies help set the context for annual budgets and help demonstrate the financial sustainability of an organisation over an extended period. The inclusion of scenario planning and sensitivity analysis would support analysis and better-informed, longer-term decisions.

71. Scottish Enterprise has started to develop longer-term financial forecasts:

- The June 2020 Board meeting was provided with a high-level assessment of planned expenditure, projected income and future commitments across 2021/22 and 2022/23. This highlighted the level of contractual commitments and the resulting discretionary budget available to spend.
- In October 2020, five-year capital expenditure projections were presented to the Board.
- The April 2021 board meeting was presented with a planned timetable for disposing of shares in listed companies.

72. Management advised us that ongoing uncertainty has delayed its plan to implement comprehensive, longer-term financial plans. This was firstly because of the Enterprise and Skills Review and then the subsequent creation of South of Scotland Enterprise and the Scottish National Investment Bank (SNIB), which both became operational in 2020/21 and have an impact on Scottish Enterprise's operations and finances. Scottish Enterprise has also had to focus on dealing with the impact of Covid-19.

73. Scottish Enterprise has committed to making grant expenditure and other funding in future years. A longer-term plan would highlight committed expenditure and provide further information to help identify and manage future spending pressures.

Recommendation 4

Management should develop a longer-term financial plan as part of its 2022-25 strategy.

4. Governance and transparency

The effectiveness of scrutiny and oversight, and transparent reporting of information

Main judgements

Arrangements have been adapted to reflect the impact of the Covid-19 pandemic. We have considered these measures and have concluded that Scottish Enterprise has appropriate and effective governance.

The performance report meets the requirements of the FReM, with scope for further development.

Scottish Enterprise has had appropriate governance and controls during the Covid-19 pandemic

74. Scottish Enterprise is governed by a Board that is accountable to the Scottish Ministers. The Board is also supported by four committees:

- Audit and Risk,
- Nominations and Governance;
- Remuneration; and
- Board Approvals – a sub-committee for approving new investments and expenditure that is required between board meetings.

75. At 31 March 2021 the Board consisted of the chair, eight non-executive members and the chief executive. There were seven formal Board meetings during 2020/21, all of which took place remotely. There were also more regular board meetings to update the Board on emerging issues.

76. Internal audit assessed Scottish Enterprise's corporate governance arrangements. It concluded that Scottish Enterprise's arrangements are appropriate, effective and align with best practice. Internal audit noted that governance had been enhanced in response to Covid-19.

Openness and transparency

77. There continues to be a focus on how public organisations demonstrate 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 such as money, people and assets.

78. We reported previously that Board and committee meetings are not open to the public. Board minutes are published on the Scottish Enterprise website, but no other papers or minutes are available. Management considers 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 not be appropriate to publish all Board and committee papers. Scottish Enterprise should continue to review this approach to ensure its practices are in line with good practice and public expectations.

Further improvements could be made to the performance report

79. In addition to the opinion on the performance report covered in Part 1 of our Annual Audit Report, we also consider the qualitative aspects of the performance report. We concluded that Scottish Enterprise's performance report met the requirements of the FReM.

80. The purpose of a performance report is to provide information on the main objectives and strategies of the organisation, and the principal risks that it faces. It is required to provide a fair, balanced and understandable analysis of performance and is essential in helping stakeholders understand the financial statements. The performance report is an opportunity for the organisation to 'tell its story' about what it has achieved with the funding made available to it.

81. Management made some improvements to the presentation of the draft performance report during the audit. However, as we concluded last year, there are opportunities to improve the presentation, including the use of infographics for example. This would improve the readability of the report and give a more accessible picture of performance. Further guidance can be found in Audit Scotland's 2019 report: [Good Practice Note on Performance Reports in Central Government](#).

Recommendation 5

Scottish Enterprise should work to improve the content and presentation of its performance report. It should take full advantage of the opportunity to communicate directly to stakeholders about its activities.

South of Scotland Enterprise and the Scottish National Investment Bank were established in 2020/21

82. There is ongoing change in the skills and enterprise sector with the creation of South of Scotland Enterprise (SOSE) and Scottish National Investment Bank (SNIB).

83. In April 2020, SOSE assumed its functions. Internal audit concluded that the transition arrangements adopted by Scottish Enterprise worked well, and the transition team providing effective oversight of Scottish Enterprise's responsibilities. This included identifying and managing risks and management

actions. Scottish Enterprise worked with SOSE and the other enterprise agencies in the delivery of Covid-19 grants.

84. SNIB assumed its functions in November 2020. Scottish Enterprise and SNIB are working to develop approaches in areas of common interest and to clarify their respective roles and remits. A steering group and project board were established to facilitate this. A 'real-time' internal audit of Scottish Enterprise's engagement with SNIB commenced during 2020/21. Internal audit has so far concluded that the steering group and project board are operating well and have a clear understanding of the risks and uncertainties that need to be addressed.

85. Scottish Enterprise continues to make equity and loan investments in the Scottish economy and plans to make investments of amounts less than £2 million in early stage companies from 2021/22 onwards. Scottish Enterprise rebranded its in-house Scottish Investment Bank as Growth Investments.

Scottish Enterprise continues to improve its cyber security arrangements

86. Public bodies should have good provision for managing data and monitoring information security. They should also have demonstrable capacity and capability for responding to increasing risks to cyber security. Threats are increasing as organisations deliver more service online. Public bodies should have risk assessment processes in place for recording activities and learning including the cost impact of responding to a cyber-attack.

87. Information technology services for Scottish Enterprise are mostly managed by the Enterprise Information Services (EIS). The EIS Partnership Board provides the strategic oversight of the EIS partnership (also involving Skills Development Scotland, South of Scotland Enterprise and Highland and Islands Enterprise) which has been in place for just over ten years. EIS carried out a Cyber Essentials internal assessment and obtained certificates for this in February 2021 and May 2021. The partnership was also assessed externally and obtained a Cyber Essentials Plus certificate in June 2021.

88. We reported last year that internal audit's report on the EIS cyber security in September 2019 was graded 4 (the second highest priority for attention) with a recommendation to carry out a cyber maturity assessment. EIS implemented all but one of the report recommendations by March 2021. The final recommendation relating to the development of a long-term strategy was expected to be completed by the end of April 2021.

89. Internal audit carried out further work in this area in 2020/21 including developing and implementing an overall assurance map and completing a review of the EIS security operations centre. The latter received a grading of 3 (medium risk) and resulted in 17 recommendations, one of which was rated as critical. Internal audit will continue to maintain an appropriate level of focus on cyber preparedness. The risk and potential impact from cyber activity and related penetration actions will continue to challenge organisations and EIS should ensure that it continues to make improvements to its cyber security arrangements.

Scottish Enterprise shows good practice in monitoring legal developments

90. Scottish Enterprise's legal department provided update reports to the Board and audit and risk committee and provided a briefing on Scottish Enterprise's legal strategy. The updates provided assurance on significant legal developments and considered the legal impact of Covid-19 and Brexit. We consider this demonstrates good practice, particularly given the changing landscape in which Scottish Enterprise operates.

5. Value for money

Using resources effectively and continually improving services

Main judgements

Scottish Enterprise has an effective Best Value framework in place.

Performance monitoring has continued throughout 2020/21. There was a significant reduction in primary outcome measures due to the pandemic.

Scottish Enterprise has developed an effective Best Value framework

91. [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.

92. The Chief Executive of Scottish Enterprise is the designated Accountable Officer. A range of processes are in place to help the Accountable Officer demonstrate Best Value. The annual report and accounts outline how Best Value attributes and practices are embedded through Scottish Enterprise's assurance and self-assessment processes. These include:

- sound and developing corporate governance arrangements to reflect the changing roles and structures within the organisation
- the development of a three-year strategic plan
- budgets and resources are regularly monitored
- a systematic risk management approach.

Scottish Enterprise did not publish a 2020/21 business plan

93. Scottish Enterprise did not produce a 2020/21 business plan. It did not publish target ranges for key performance indicators due to the uncertainty caused by the Covid-19 pandemic and its impact on the Scottish economy. This was in line with Scottish Government guidance.

94. There was a significant reduction in performance against the primary outcome measures published in the 2020/21 annual report and accounts, compared to 2019/20. This includes a reduction in planned international export sales from £2.22bn to £1.16bn, and a reduction in planned new/safeguarded jobs paying at least the real living wage.

95. As explained in Scottish Enterprise's performance report, this was due to the impact of the pandemic. Management did, however, deliver over £200 million of Covid-19 support, as outlined previously.

National performance audit reports

96. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2020/21 several reports were published which may be of direct interest to Scottish Enterprise. These are outlined in [Appendix 3](#).

Appendix 1. Action plan 2020/21

2020/21 recommendations

| Issue/risk | Recommendation | Agreed management action/timing |
|--|--|---|
| <p>1. Service organisations</p> <p>We identified that management had sought assurances from an external service organisation as part of the procurement for the Hardship Grants. However, no further assurance was obtained over the operation of controls.</p> <p>Risk – There is a risk that management is unaware of control weaknesses in bodies to which it outsources services.</p> | <p>Management should consider the assurances it obtains over the controls and governance of outsourced service organisations.</p> <p>This should include considering the need for service auditor reports and assurance statements.</p> <p>Exhibit 2, Issue 1</p> | <p>Scottish Enterprise will take on board the recommendation of obtaining a service auditor report should the situation arise in the future whereby Scottish Enterprise are required to engage a 3rd party service provider for assistance in the delivery of a grant programme.</p> <p>Douglas Colquhoun, Chief Financial Officer</p> <p>Ongoing</p> |
| <p>2. Investment valuations</p> <p>We identified a £1.1 million error in the Growth Investments' (GI) team's valuation of an equity investment. This was based on the wrong price per share being entered, based on the latest investment round. This had not been identified by the GI Team's management review of the valuation.</p> <p>Risk: There is a risk that investment valuations are inaccurate, which could lead to a misstatement of financial assets in the accounts.</p> | <p>Management reviews should consider the detailed supporting evidence on which the valuation is made in addition to reviewing the valuation template.</p> <p>Management reviews should be evidenced consistently on the valuation report templates.</p> <p>Exhibit 2, Issue 3</p> | <p>The Growth Investments Team will update its processes in relation to the review of valuation templates to ensure, where appropriate, this extends to supporting evidence.</p> <p>Growth Investments will continue to explore new systems solutions to allow the valuation process to become more automated and link more effectively into source data and the supporting evidence.</p> |

| Issue/risk | Recommendation | Agreed management action/timing |
|--|--|--|
| <p>3. Controls Issues</p> <p>We identified two controls issues in our interim audit:</p> <ul style="list-style-type: none"> - There is no formal reconciliation between the Investment Management Reporting System (IMRS) and the financial general ledger (SUN). There is a risk of inconsistencies between these two systems. This could lead to a misstatement of financial assets or investment income in the accounts. - User access rights are not reviewed periodically. There is a risk that members of staff have inappropriate access to key financial systems. | <p>Management should address the control issues identified during our interim audit to:</p> <ul style="list-style-type: none"> - Review user access rights to key financial systems and ensure they remain appropriate - Undertake a formal reconciliation between the SUN and IMRS systems. <p>Paragraph 57</p> | <p>Jan Robertson, Interim Director, Growth Investments</p> <p>March 2022</p> <p>The SE Finance team will work alongside colleagues in the Growth Investments (GI) Team to consider a formal reconciliation process that will support management information within GI.</p> <p>Management has concluded that due to low rates of staff turnover and the limited access to the SUN Accounts system, the current process provides adequate control. Access rights to SUN Accounts and online banking systems will be reviewed on a six-monthly basis. A review of user access rights was completed in May 2021 and will be carried out on a 6 monthly basis going forward.</p> <p>Douglas Colquhoun, Chief Financial Officer</p> <p>December 2021</p> |
| <p>4 Longer-term financial planning</p> <p>Longer-term financial planning was deferred by Scottish Enterprise due to current circumstances.</p> <p>Risk: In the absence of longer-term financial planning there is a risk that the impact of budget assumptions on agreed or projected outputs is not effectively recognised.</p> | <p>A longer-term financial strategy should be developed, supported by clear and detailed financial plans. Financial planning should align with the corporate plan.</p> <p>Paragraphs 69-73</p> | <p>Scottish Enterprise now has an indicative 5 year capital budget from the Scottish Government. It is anticipated that the current Resource DEL Spending Review will also result in a multi-year budget settlement.</p> <p>In addition, SE is developing an income strategy for non-Scottish Government related income.</p> <p>Once concluded these elements will allow SE to</p> |

| Issue/risk | Recommendation | Agreed management action/timing |
|---|--|---|
| | | <p>develop a longer-term financial strategy.</p> <p>Douglas Colquhoun, Chief Financial Officer</p> <p>March 2022</p> |
| <p>5 Annual report narrative</p> <p>The annual report narrative could be improved to ensure it is balanced, readable and transparent to the reader.</p> <p>Risk: There is a risk that Scottish Enterprise fails to communicate effectively to stakeholders.</p> | <p>Scottish Enterprise should work to improve the content and presentation of its performance report. It should take full advantage of the opportunity to communicate directly to stakeholders about its activities.</p> <p>Paragraphs 79-81</p> | <p>Scottish Enterprise made presentational changes to the 2020/21 annual report and will continue to make further improvements to the narrative, where possible, to aid understanding and transparency.</p> <p>Douglas Colquhoun, Chief Financial Officer</p> <p>March 2022</p> |

Follow-up of prior year recommendations

| Issue/risk | Recommendation | Agreed management action/timing |
|---|--|---|
| <p>b/f 1 Timetable of preparation of accounts and subsequent audit</p> <p>The timetable for the financial statements audit is challenging for Scottish Enterprise and the audit team. We do not receive the performance and accountability reports at the start of the audit, which increases the time pressures on Scottish Enterprise and the audit team later in the process.</p> <p>Risk: There is a risk that the audit is not completed in accordance with agreed timescales.</p> | <p>Scottish Enterprise together with Audit Scotland should review the year end preparation and audit timetables.</p> | <p>Complete</p> <p>Due to the ongoing impact of the Covid-19, we agreed an extension to the normal audit timetable with management.</p> <p>The year-end audit was completed in accordance with this timetable. We will liaise with management about the timetable for the 2021/22 audit later this year.</p> |

| Issue/risk | Recommendation | Agreed management action/timing |
|---|--|---|
| <p>b/f 2 Financial Instruments: Expected Credit Loss</p> <p>Management undertakes an estimation of the expected credit loss of assets held at amortised cost, as required by IFRS 9. We agreed that the estimation was reasonable. However, management could improve this by documenting the estimation methodology and sharing best practice with public and private sector partners.</p> | <p>Management should document their processes for assessing expected credit loss. This should include liaison with other public and private sector partners to share best practice in the assessment of ECL.</p> | <p>Complete</p> <p>Management undertook a review of its ECL methodology and liaised with comparable public and private sector bodies to identify best practice.</p> <p>We concluded that the methodology was reasonable and note that management has improved this process in line with audit recommendations.</p> |
| <p>b/f 3 SUN/IMRS Reconciliation</p> <p>There is no formal reconciliation between the Investment Management Reporting System (IMRS) and the financial general ledger (SUN). Management confirmed that SUN is the primary system for financial management of the investments and noted IMRS reads financial information from SUN.</p> | <p>Management should formally reconcile the SUN and IMRS to further improve the control environment</p> | <p>Ongoing</p> <p>Refer to Recommendation 3 above.</p> |
| <p>b/f 4 Longer-term financial planning</p> <p>Longer-term financial planning was deferred by Scottish Enterprise due to current circumstances.</p> <p>Risk: In the absence of longer-term financial planning there is a risk that the impact of budget assumptions on agreed or projected outputs is not effectively recognised.</p> | <p>A longer-term financial strategy should be developed, supported by clear and detailed financial plans. Financial planning should align with the corporate plan</p> | <p>Ongoing</p> <p>Refer to Recommendation 4 above.</p> |
| <p>b/f 5 Internal control arrangements</p> <p>The scale and pace of change as a result of Covid-19 poses a risk to Scottish</p> | <p>Scottish Enterprise should ensure that internal controls remain effective during this period of uncertainty and new way of working.</p> | <p>Complete</p> <p>We undertook walkthrough testing of key controls and concluded that these were largely effective and had</p> |

| Issue/risk | Recommendation | Agreed management action/timing |
|---|---|---|
| <p>Enterprise's governance arrangements.</p> <p>Risk: There are risks around the operation of key controls within the finance department and the introduction of significant new grant products.</p> | | <p>been updated to reflect the new working arrangements. Internal audit also concluded in its Key Financial Controls report that the controls had been updated appropriately.</p> <p>Refer to paragraphs 77-80 above.</p> |
| <p>b/f 6 Annual report narrative</p> <p>The annual report narrative could be improved to ensure it is balanced, readable and transparent to the reader. Risk. There is a risk that Scottish Enterprise fails to communicate effectively to stakeholders.</p> | <p>Scottish Enterprise should review the content and presentation of its performance report to ensure it takes full advantage of the opportunity to communicate directly to stakeholders about its activities</p> | <p>Ongoing</p> <p>Refer to Recommendation 5 above.</p> |

Appendix 2. Significant audit risks

The table below sets out the audit risks we identified on the 2020/21 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 financial statements and those relating to our wider responsibility under the [Code of Audit Practice 2016](#).

Risks of material misstatement in the financial statements

| Audit risk | Assurance procedure | Results and conclusions |
|---|--|--|
| <p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p> | <p>Substantive testing of journal entries.</p> <p>Review accounting estimates for bias.</p> <p>Evaluation of significant transactions outside the normal course of business.</p> <p>Focussed testing of year-end payables and receivables.</p> <p>Substantive cut-off testing of income and expenditure to assess whether they have been accounted for in the correct financial year.</p> | <p>Result</p> <p>We did not identify any issues from our audit work that would indicate management override of controls affecting the year-end position.</p> <p>Conclusion: Satisfactory</p> |
| <p>2. Risk of material misstatement caused by fraud in income recognition.</p> <p>As set out in ISA (UK) 240, there is a presumed risk of fraud in the recognition of income.</p> <p>Scottish Enterprise's January 2021 financial performance report forecasts that £79.5m (14%) of its income will come from sources other than central government funding</p> | <p>Review Scottish Enterprise's anti-fraud arrangements.</p> <p>Walkthrough of controls over income/receivables, including property and investment income. Changes in the controls due to Covid-19 will also be reviewed. Controls testing over certain income controls.</p> <p>Substantive testing of revenue transactions, focusing on the areas of greatest risk, including property and investment</p> | <p>Result</p> <p>We did not identify any issues with anti-fraud arrangements.</p> <p>We undertook walkthroughs of controls over key estimates and judgements. We found these to be appropriate, however we identified some areas for improvement in the year-end accruals process. (Refer to Para 35-37).</p> <p>We found no significant issues from testing of</p> |

| Audit risk | Assurance procedure | Results and conclusions |
|---|--|--|
| <p>(24% excluding additional Covid-19 funding).</p> <p>This income includes the following, which presents specific risks.</p> <ul style="list-style-type: none"> • £52.2m investment income (loan repayments and investment disposals) • £10.3m property income (rental and sundry property income and property disposals) • £4.5m of EU income. <p>The extent, nature and complexity of this income means that there is a risk that the financial statements may be misstated due to fraud in income recognition.</p> | <p>income, income from disposals and EU income.</p> <p>Substantive cut-off testing of income to ensure that it has been recognised in the correct financial year.</p> | <p>revenue transactions or cut-off testing of income.</p> <p>Conclusion: Satisfactory</p> |
| <p>3. Risk of material misstatement caused by fraud in expenditure</p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure.</p> <p>In 2019/20, Scottish Enterprise recorded gross expenditure of £346m. This includes material levels of grants to third parties.</p> <p>The level of grant payments and loans is expected to increase by about £212m in 2020/21, due to the introduction of the Covid-19 grants such as the Pivotal Enterprises Resilience Fund (PERF) and the Creative, Tourism and Hospitality Enterprises Hardship Fund.</p> <p>Given the extent, nature and complexity of this expenditure, there is a risk that expenditure may be misstated resulting in a</p> | <p>Review Scottish Enterprise's anti-fraud arrangements.</p> <p>Walkthrough and testing of controls over expenditure and payables systems. This will include testing of Scottish Enterprise's routine grants as well as the new Covid-19 grants. Review changes to controls as a result of Covid-19. Reliance on internal audit's work on Covid-19 grant expenditure.</p> <p>Substantive testing of grant expenditure. Substantive cut-off testing of expenditure to ensure that it has been recognised in the correct financial year.</p> | <p>Results</p> <p>We did not identify any issues with anti-fraud arrangements.</p> <p>No significant issues were identified from our controls or substantive testing of Scottish Enterprise's expenditure.</p> <p>We undertook detailed testing of the Covid-19 grants and relied on internal audit's work. We also assessed the controls over Hardship grants, including in discussion with the service organisation.</p> <p>Conclusion: Satisfactory</p> |

| Audit risk | Assurance procedure | Results and conclusions |
|--|---|---|
| material misstatement in the financial statements. | | |
| <p>4. Estimation and judgements</p> <p>ISA 540 is concerned with the auditor's responsibilities relating to accounting for estimates and related disclosures in financial statements. There is a significant degree of subjectivity in the measurement and valuation of investments (£318m), land and buildings (£95m) and pension assets (£82m). There is also a degree of estimation and judgement in accrued expenditure (£28m), accrued income (£6m), provisions (£5m) and debt impairment (£6m). Estimates and judgements in these areas represent an increased risk of misstatement in the financial statements</p> | <p>Test management's controls and procedures over these estimations and judgements.</p> <p>Substantive testing of selected year-end valuation reports.</p> <p>Review of the work of management's expert valuers, including a review of the processes for valuing investments.</p> <p>Review management's assessment of the appropriateness of the assumptions used in the valuation of certain assets and liabilities and the related disclosures of significant estimates and judgements in the financial statements.</p> <p>Substantive testing of year-end accruals, provisions and bad debt provisions.</p> <p>Review of accrued EU income.</p> | <p>Result</p> <p>We assessed management's controls and processes for estimations and judgements, including a review of management's experts. No issues identified.</p> <p>No significant issues were identified from the year-end pensions or property valuations.</p> <p>We identified two issues with investments valuations, as outlined in Exhibit 2, Issues 2 and 3 above. Management agreed to adjust the accounts to correct these matters.</p> <p>We tested an additional sample of investment revaluations. No further issues were identified.</p> <p>Conclusion: Satisfactory</p> |

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

| Audit risk | Assurance procedure | Results and conclusions |
|--|---|---|
| <p>5. Governance and transparency: impact of Covid-19</p> <p>Scottish Enterprise has had a key role in Scotland's response to Covid-19, supporting jobs and businesses through the distribution of Covid-19 grants. Decision-making in a fast-moving environment presents a challenge for Scottish Enterprise and other</p> | <p>Reliance on Internal Audit's work including Covid-19 Response, Covid-19 Grants and Key Financial Controls.</p> <p>Assessment of impact of Covid-19 on Scottish Enterprise's operations.</p> <p>We shall review:</p> <ul style="list-style-type: none"> the extent and nature of Covid-19 grant funding provided to Scottish | <p>Results</p> <p>We undertook detailed testing of the different Covid-19 grant products.</p> <p>We met with the service organisation that undertook reviews of the Hardship Grants on behalf of Scottish Enterprise to understand its controls.</p> <p>We relied on internal audit's review of Covid-19 grant</p> |

| Audit risk | Assurance procedure | Results and conclusions |
|--|--|---|
| <p>public bodies. These challenges include:</p> <ul style="list-style-type: none"> • revised governance arrangements are appropriate and operating effectively, including risk-management arrangements • anti-fraud arrangements remain robust • there is effective scrutiny, challenge and informed decision making. • performance reporting is timely, reliable, balanced, transparent and appropriate to user needs • the impact on financial management have been addressed, for example, a reduction in business income. There is a risk that appropriate governance and oversight has not been applied. | <p>Enterprise and distributed to businesses</p> <ul style="list-style-type: none"> • governance and accountability arrangements for distributing Covid-19 funding, including scrutiny by the Board, risk management and action taken to minimise fraud and error • key financial controls over Covid-19-related income and expenditure • performance targets for the efficiency and effectiveness of Covid-19 funding • the impact on the financial position • internal audit's work on Covid-19 response and grants. | <p>expenditure and Scottish Enterprise's response to Covid-19.</p> <p>Internal Audit's reviews concluded that the controls were working effectively.</p> <p>Conclusion: Satisfactory</p> |
| <p>6. Governance and accountability: cyber security – governance and risk</p> <p>Organisations are increasingly threatened by cyber-attacks as evidenced by recent incidents affecting public bodies. This risk is heightened due to the impact of Covid-19 such as home-working.</p> <p>Scottish Enterprise has a shared Enterprise Information Service (EIS) IT arrangement with Skills Development Scotland, Highlands and Islands Enterprise and South of Scotland Enterprise. Scottish Enterprise is currently working to strengthen its cyber security arrangements including</p> | <p>Assess progress towards improving cyber security including achieving Cyber Essentials+ accreditation.</p> <p>Consider disclosure of cyber security risk in the governance statement within the annual report and accounts.</p> | <p>Results</p> <p>EIS partner bodies (including Scottish Enterprise) achieved Cyber Essentials Plus accreditation in June 2021.</p> <p>While this is a positive development, this is an area requiring ongoing attention with an internal audit report on the new security operations centre raising 17 new recommendations.</p> <p>Conclusion: Satisfactory, but Scottish Enterprise will need to do further work to address internal audit recommendations and to maintain good arrangements to off-set the threat of a cyber-attack.</p> |

| Audit risk | Assurance procedure | Results and conclusions |
|---|---------------------|-------------------------|
| <p>implementing improvement actions identified during the recent cyber security maturity assessment.</p> <p>There is a risk that a cyber-attack could disrupt Scottish Enterprise's systems, including key financial systems.</p> | | |

Appendix 3. Summary of 2020/21 national performance reports

April

[Affordable housing](#)

June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July

[The National Fraud Initiative in Scotland 2018/19](#)

January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February

[NHS in Scotland 2020](#)

March

[Improving outcomes for young people through school education](#)

Scottish Enterprise

2020/21 Annual Audit Report

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