

Scottish Enterprise

2021/22 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Scottish Enterprise and the Auditor General for Scotland

July 2022

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Key messages

2021/22 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 2022 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 SE managed its finances effectively. It operated within its overall grant in aid budget for the year.
- 5 Systems of internal control operated effectively in 2021/22 with appropriate arrangements for the prevention and detection of fraud and error.
- 6 SE should work to complete its finance strategy, medium-term financial plan and income strategy.

Governance, transparency and value for money

- 7 Governance arrangements are appropriate and support oversight of SE's activities and finances.
- 8 SE is taking steps to continually improve its governance of cyber security.
- 9 SE has an effective Best Value framework in place.
- 10 SE continued to monitor its performance throughout 2021/22. It reported improved performance against all its key performance measures.

Introduction

1. This report summarises the findings from our 2021/22 audit of Scottish Enterprise (SE).
2. The scope of our audit was set out in our Annual Audit Plan presented to the 20 April 2022 meeting of the Audit and Risk Committee. This report comprises the findings from:
 - an audit of the SE'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 2021/22 have been:
 - an audit of SE's 2021/22 annual report and accounts including the issue of an independent auditor's report setting out our opinions
 - a review of SE's key financial systems
 - consideration of the four audit dimensions.

Adding value through the audit

4. We add value to SE through the audit by:
 - identifying and providing insight on significant risks, and making clear and relevant recommendations
 - providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability
 - sharing intelligence and good practice through our national reports ([Appendix 2](#)) and good practice guides.

Responsibilities and reporting

5. SE has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers.
6. SE is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.
7. 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.

8. 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.

9. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016 and supplementary guidance.

10. This report raises matters arising 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.

11. 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

12. Auditors appointed by the Accounts Commission or 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.

13. 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 the 2021/22 audit fee of £172,150 set out in our 2021/22 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

14. This report is addressed to both SE and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

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

Audit appointment from 2022/23

16. The Auditor General for Scotland is responsible for the appointment of external auditors to central government bodies. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants.

17. The current appointment round was due to end in 2020/21 but was extended for a year so that 2021/22 is the last year of the current appointment round.

18. The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23 Audit Scotland will continue to be the appointed auditor for SE.

19. A new [Code of Audit Practice](#) applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016.

20. We would like to thank Board members, Audit and Risk Committee members, Executive Directors, and other staff, particularly those in finance, for their co-operation and assistance over the last six years.

1. Audit of 2021/22 annual report and accounts

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

Main judgements

The financial statements of SE and its group give a true and fair view of the financial position at 31 March 2022 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 is in accordance with the legal requirements.

Our audit opinions on the annual report and accounts are unmodified

21. The Board approved the annual report and accounts for the year ended 31 March 2022 on 29 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 performance report, governance statement and remuneration and staff report were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The annual audit report and accounts were provided on time

22. In line with the timetable set out in our annual audit plan, we received:

- the unaudited SE single entity accounts on 9 May 2022
- the unaudited performance and accountability reports, including the governance statement and remuneration and staff report on 18 May 2022
- the group unaudited annual report and accounts on 23 May 2022.

23. We received good support from management which enabled us to complete the audit in accordance with the agreed timetable.

Overall materiality is £3.1 million

24. 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](#). The revised materiality had no impact on our audit approach.

Exhibit 1 Materiality values

Materiality level	Single entity	Group
Overall materiality	£3.0 million	£3.1 million
Performance materiality	£2.1 million	£2.2 million
Reporting threshold	£150,000	£155,000

Source: Audit Scotland

25. We considered the following factors in determining performance materiality:

- our understanding of SE
- the nature and extent of misstatements identified in previous years
- issues identified from our risk assessment procedures.

We have significant findings to report on the annual report and accounts

26. 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 SE's accounting practices. The significant findings are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Valuation of pension assets and liabilities</p> <p>The accounting results for the Scottish Enterprise Pension and Life Assurance Scheme are prepared by SE's actuary. The actuary used estimated asset valuations for part of the asset portfolio to calculate the retirement benefit scheme asset disclosed in the statement of financial position in the unaudited accounts.</p> <p>During the course of the audit SE received the updated year end valuations from the actuary which indicated that the scheme's financial assets had increased by a further £3.6 million.</p>	<p>Officers requested and received an updated accounting results report from the actuary. This used financial asset valuations at 31 March 2022.</p> <p>Officers adjusted the accounts to reflect the updated report. This resulted in an increase of £2.8 million in the retirement benefit scheme asset. We are content with the adjustment.</p>

Source: Audit Scotland

27. Exhibit 3 sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Significant risks of material misstatement to 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>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise are operating effectively.</p>	<p>Assess the design and implementation of controls over journal entry processing.</p> <p>Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Test journals at the year-end and post-closing entries and focus on significant risk areas.</p>	<p>We found controls over journal entry processing to be operating satisfactorily.</p> <p>We reviewed a sample of journal entries and found no errors.</p> <p>We found no significant transactions outside the normal course of business</p> <p>We found that SE has adequate arrangements for identifying and disclosing related party relationships and transactions.</p>

Audit risk	Assurance procedure	Results and conclusions
	Consider the need to test journal entries and other adjustments during the period.	We assessed SE's methodology for accounting estimates and concluded that its approach is reasonable.
	Evaluate significant transactions outside the normal course of business.	We tested a sample of income and expenditure items and found no errors.
	Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements.	We tested a sample of accruals and prepayments and found no errors.
	We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.	
	Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.	
	Focussed testing of accounting accruals and prepayments.	

Other areas of audit focus

28. We identified in our 2021/22 Annual Audit Plan areas where we considered there to be other risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we did not consider these to represent significant risks.

29. The areas of specific audit focus were:

- Estimates and judgements: Valuation of financial assets

SE values its unlisted financial assets using in-house experts. There is a risk that inaccurate judgements in the calculation of asset values results in a material misstatement in the financial statements.

- Estimates and judgements: Valuation of pension assets and liabilities

The valuation of pension assets and liabilities is based on complex calculations using estimates and actuarial assumptions. The subjective

nature of these assumptions increases the risk that the pension costs and liabilities in the financial statements will be materially misstated.

- Estimates and judgements: Valuation of land and buildings

There is a significant degree of estimation and judgement in the valuation of property assets in the accounts. This increases the risk of material misstatement.

30. We kept these areas under review throughout our audit and, with the exception of the adjustments noted below, there are no further matters which we need to bring to your attention.

Officers made adjustments of £6.1 million to the accounts

31. 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. There are no unadjusted errors to report.

32. Adjustments to the annual accounts totalled £6.1 million. This includes the adjustment set out in Exhibit 1, i.e. £2.8 million increase in the retirement benefit scheme asset. Other significant adjustments included:

- a £1.8 million decrease in property, plant and equipment due to updates to some asset valuations in the final valuation report for SE's property portfolio compared to the original draft valuation
- a £1.5 million decrease in other investments due to updated year end valuations.

33. Adjustments made in the audited accounts increased net expenditure in the Group Statement of Comprehensive Net Expenditure by £0.7 million and decreased net assets in the Group Statement of Financial Position by £0.7 million.

34. We reviewed the nature and causes of the adjustments to the accounts to consider if additional testing was required. We concluded that they arose from timing issues relating to the receipt of final year end valuations after preparation of the unaudited accounts. These issues are isolated and have been identified in their entirety and do not indicate systematic error.

Progress was made on prior year recommendations

35. 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

SE managed its finances effectively. It operated within its overall grant in aid budget for the year.

Systems of internal control operated effectively in 2021/22 with appropriate arrangements for the prevention and detection of fraud and error.

SE operated within its revised budget in 2021/22, with an overall underspend of £31.7 million

36. SE achieved its main financial objective to ensure its annual financial outturn is within the resource budget allocated by Scottish Ministers.

37. In 2021/22, SE reported an outturn of £214.9 million representing an underspend of £31.7 million.

38. SE had an initial grant in aid budget of £228.8 million. Over the course of the year the most significant changes in SE's budget were:

- a resource budget transfer of £30.0 million to cover expected credit losses and write offs
- a £38.3 million capital budget transfer for the National Manufacturing Institute for Scotland project
- a net reduction to the financial transaction budgets of £45.7 million resulting from an opportunity to fund early-stage investment support from unexpected capital income receipts that were generated during the year rather than utilise financial transactions funding.

39. This revised budget of £246.6 million was underspent by £31.7 million, as shown in [Exhibit 4](#). This was made up of a £15.5 million fiscal resource budget underspend and a £16.2 million financial transactions underspend.

40. The fiscal resource budget outturn was mainly due to SE underspending on core business activities and the actual costs of expected credit losses and write-offs being less than originally estimated. One of its subsidiaries also made a profitable contribution to SE's group position.

41. The Scottish Government permitted SE to use higher than expected capital income to support early-stage investments. As a result SE did not require any

financial transactions funding. It was also able to use £40.4 million of income generated from financial transactions funded investments to repay a significant element of the outstanding financial transactions liability due to the Scottish Government. This is reflected in the Group Statement of Financial Position.

42. SE's budget processes operated appropriately. We observed that senior management and the Board continued to receive regular and accurate financial information on SE's financial position during the year.

Exhibit 4 Performance against fiscal budget in 2021/22

Performance	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Resource	135.1	129.0	120.0	(9.0)
Capital	72.2	111.8	111.8	-
Financial transactions expenditure	48.8	27.1	-	(27.1)
Financial transactions income	(27.3)	(51.3)	(40.4)	10.9
Expected credit losses	-	30.0	23.5	(6.5)
Total	228.8	246.6	214.9	(31.7)

Source: Grant in aid letters from Scottish Government; Scottish Enterprise 2021/22 Annual Report and Accounts

Net assets increased by £143.4 million

43. SE's net assets increased by £143.4 million from £534.1 million to £677.5 million at 31 March 2022. This was mainly due to:

- a £58.2 million increase in the retirement benefit scheme asset
- a £20.3 million increase in the value of financial assets
- a £69.9 million decrease in non-current payables mostly due to repayment of financial transactions funding to the Scottish Government.

Financial systems of internal control are operating effectively

44. As part of our audit we identify and inspect the key internal controls in those accounting systems we regard as significant to produce the financial statements.

45. We completed our interim audit and review of controls in April 2022. We concluded that the controls tested were operating effectively. We did not identify any significant internal control weaknesses affecting SE's ability to record, process, summarise and report financial and other relevant data.

Internal audit

46. SE has an internal audit function which operates as a wider shared service across five public sector bodies. Specialist IT audit services are provided by an independent third party.

47. The Public Sector Internal Audit Standards (PSIAS) require the chief audit executive to provide an annual report and audit opinion that can be used to inform the governance statement. Internal audit identified an overall satisfactory level of assurance on SE's framework of governance, risk management and management control.

48. We reviewed SE'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.

49. We considered the work of internal audit in the following areas for our 2021/22 financial statements and wider dimensions audit responsibilities:

- Financial transactions
- Covid-19 grants
- Engagement with Scottish National Investment Bank
- Cyber security follow up.

50. PSIAS require internal audit functions to be assessed at least once every five years by a qualified, independent assessor. SE's internal audit service was last reviewed in 2016/17.

51. The internal audit shared services partnership board fully considered the external assessment requirements and agreed to delay to late 2022 due to various factors including, for example, the new shared service arrangements and the impact of Covid-19.

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

52. SE 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.

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

54. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. We reviewed SE's NFI arrangements and concluded that it is pro-active in investigating matches and reporting outcomes. Regular reports are presented to the Audit and Risk Committee to update members on progress with the NFI exercise.

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

SE should work to complete its finance strategy, medium-term financial plan and income strategy.

We have obtained audit assurances over the wider audit dimension risks relating to financial sustainability identified in our 2021/22 Annual Audit Plan

55. [Exhibit 5](#) sets out the significant wider audit dimension risks we identified in our 2021/22 audit, our assurance procedures and the results and conclusions from our work. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and informed where the efforts of the team were directed.

Exhibit 5

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

Audit risk	Assurance procedure	Results and conclusions
<p>Financial sustainability</p> <p>SE continues to face financial challenges including the impact of Covid-19, rising payroll, pension and running costs, and the loss of European funding. Alongside this SE has a key role supporting Scotland's new national strategy for economic transformation which will place demands on its resources.</p> <p>We reported last year that SE had deferred longer-term financial planning.</p>	<p>Review SE's progress in developing a longer-term financial strategy.</p> <p>Review SE's progress in developing its income strategy.</p>	<p>SE published its updated corporate plan internally in June 2022. The plan includes an overview of its financial strategy. SE will publish the detailed strategy in due course. It is also undertaking financial modelling to support development of a medium term financial plan.</p> <p>SE's work on its income strategy is nearing completion.</p> <p>Conclusion: SE should work to complete its finance strategy, medium term financial plan and income strategy.</p>

Audit risk	Assurance procedure	Results and conclusions
		See Appendix 1, action plan point 1.

SE approved a balanced budget for 2022/23 and is managing cost pressures and risks to operating within budget

56. SE's business plan budget for 2022/23 is £384.2 million. SE has agreed a balanced position across its budget headings.

57. It has identified cost pressures and risks which may affect its ability to operate within budget. These include:

- The Scottish Government has not provided budget cover for expected credit losses of £35.0 million, as was also the case in 2021/22
- SE has a resource budget pressure of £4.8 million reflecting various ongoing projects which require funding
- SE is forecasting that several capital projects will be delivered later in the financial year which increases the potential for budget slippage
- Investment exit income is difficult to accurately predict and SE will need to manage the impact of any shortfall
- The resource expenditure plan includes £11.5 million for the delivery of a SME Productivity and Innovation grant programme that will be partially funded by the European Regional Development Fund. SE plans to carefully monitor the programme to ensure it is on track to meet its obligations.

SE is developing longer-term financial planning

58. We reported last year that SE has a one-year financial plan but does not have a medium or longer-term financial plan. Long-term financial strategies help set the context for annual budgets and demonstrate the financial sustainability of an organisation over an extended period.

59. SE internally published its corporate plan in June 2022. This sets out how it will support Scotland's economic transformation and its own ambition to be an internationally focused innovation and investment agency. The plan recognises SE's key role in delivering the Scottish Government's National Strategy for Economic Transformation.

60. The plan will be supported by digital, people and finance strategies, which it is currently developing. The finance strategy will cover the next three to five years reflecting the multi-year budget settlements from the Scottish Government and SE's own business income strategy.

61. SE started developing its income strategy in November 2021 and work is nearing completion.

62. The Scottish Government's resource spending review was published in May 2022. This gives SE an indication of the overall resources available to it and the other enterprise and tourism agencies in the period to 2026/27. The Scottish Government has not yet set indicative funding allocations for each enterprise agency and is not expected to do so until later in 2022.

63. SE is undertaking modelling to identify the range of possible outcomes for future funding allocations. This will support development of its medium-term financial plan.

Recommendation 1

SE should work to complete its finance strategy, medium-term financial plan and income strategy.

4. Governance and transparency

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

Main judgements

Governance arrangements are appropriate and support oversight of SE's activities and finances.

SE is taking steps to continually improve its governance of cyber security.

SE has appropriate governance arrangements and controls in place

64. SE is governed by a Board that is accountable to the Scottish Ministers. The Board is responsible for the overall direction of the organisation within the strategic and funding framework set by Scottish Ministers.

65. The Board is supported by four sub-committees:

- Audit and Risk
- Remuneration
- Nominations and Governance
- Board Approvals – for approving decisions which would otherwise be made by the Board, save for an identified and significant conflict by a Board member.

66. SE maintained its governance arrangements throughout 2021/22 and these remain appropriate. We identified, however, that some of SE's governance policies and procedures have not been updated for some time. These include its risk management policies and procedures, and Board and committee standing orders.

Openness and transparency

67. 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 body is taking decisions and using its resources.

68. Board minutes are published on SE's website, however the last set of minutes available are from the April 2020 meeting.

Recommendation 2

SE should ensure it makes all approved Board minutes available on its website.

SE is taking steps to continually improve its governance of cyber security

69. Public bodies should ensure they have the capacity and capability to respond to increasing risks to cyber security. They should have risk assessment processes in place for recording activities and learning including the cost impact of responding to a cyber-attack.

70. SE has a shared Enterprise Information Service (EIS) arrangement with Skills Development Scotland, Highland and Islands Enterprise and South of Scotland Enterprise. Information technology services for SE are mostly managed by EIS.

71. Internal audit carried out a follow up review of EIS's cyber security arrangements in 2021/22. Its report, published in December 2021, concluded that cyber security remains a material risk for the partnership. The report was graded 4 (the second highest priority for attention).

72. Internal audit highlighted the need for EIS to continue to invest and sustain an appropriate cyber security programme. Particularly given recent examples of serious and complex cyber-attacks at other public bodies.

73. The report reflected the progress made by the partnership since internal audit's 2019 EIS cyber security review. Internal audit noted, however, that EIS supports less than 25 per cent of the partnership's IT estate. This means there is a material risk that partner cyber security risks and vulnerabilities are not fully mapped out, understood and managed.

74. The EIS partnership board has discussed the report and agreed its recommendations.

75. Officers presented an update on SE's cyber security arrangements to the April 2022 meeting of the Audit and Risk Committee. This highlighted a range of actions SE is taking to improve cyber security including:

- Using the recommendations of its May 2020 cyber maturity assessment to develop a cyber maturity roadmap. This includes actions, target dates and responsible officers.
- Preparing for a Cyber Essential Plus audit to regain accreditation.
- Securing SE's cloud environment to ensure that the non-EIS managed environment is protected and managed securely.

- Reviewing the report on the Scottish Environmental Protection Agency cyber-attack to identify lessons learned.

76. SE included a cyber security risk in the June 2022 update to its corporate risk register. This reflects the risk of very significant disruption to SE's digital and data services from a cyber-attack on SE or EIS managed systems.

Recommendation 3

SE should support work to address weaknesses in EIS's cyber security arrangements and review and improve its own governance of cyber security.

SE could make further improvements to the performance report

77. 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 SE's performance report. We concluded that SE's performance report met the requirements of the Government Financial Reporting Manual (FReM).

78. The performance report should provide information on the main objectives and the principal risks faced by the organisation. It is required to provide a fair, balanced and understandable analysis of performance and is essential in helping stakeholders understand the financial statements.

79. The performance report should tell a clear story about what the organisation has achieved with the funding available to it.

80. Officers made improvements to the presentation and content of the performance report during the audit. SE has further opportunities to strengthen the performance report by:

- making the performance analysis section more concise
- better demonstrating links between key achievements and its objectives
- telling a clearer story about how it managed its budget.

Recommendation 4

SE should work to further improve the content and presentation of its performance report.

5. Value for money

Using resources effectively and continually improving services

Main judgements

SE has an effective Best Value framework in place.

SE continued to monitor its performance throughout 2021/22. It reported improved performance against all its key performance measures.

SE has developed an effective Best Value framework

81. [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.

82. 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.

83. The Chief Executive of SE is the accountable officer. SE has a range of processes in place to help the accountable officer demonstrate Best Value. The Board also has a role in providing commitment and leadership in developing and promoting Best Value principles throughout SE.

84. SE's arrangements to secure Best Value include:

- sound corporate governance arrangements
- regular performance reporting against business plan objectives
- a systematic risk management approach
- regular budget and resource monitoring and reporting.

SE reported improved performance against all key performance measures in its 2021/22 business plan

85. SE's 2021/22 business plan set out how it would support businesses and places. The plan included four strategic ambitions for SE:

- Building vibrant economic communities across Scotland, spreading increased wealth and wellbeing
- Building Scotland's reputation and reach in strategically important markets
- Building resilience and growth in Scotland's businesses, sectors and regions

- Building future economic opportunities that will drive our international advantage.

86. The plan has six key performance measures to monitor SE's progress in achieving its strategic ambitions. These measures are aligned with Scotland's National Performance Framework and the Strategic Board's performance framework for enterprise and skills agencies. SE reported performance to the Board on a regular basis throughout the year.

87. SE reported a high level of performance in 2021/22, exceeding the target ranges for all six of its performance measures. SE's performance partly reflects the challenging operating environment and how stretching its targets were. For example, completing funding rounds delayed from last year contributed to its strong performance against the growth funding for businesses measure.

88. SE's target ranges took account of the impact on businesses and the economy of Covid-19 and the UK's new trading relationship with the European Union.

National performance audit reports

89. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2021/22 several reports were published which may be of direct interest to SE. These are outlined in [Appendix 2](#).

Appendix 1. Action plan 2021/22

2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Financial planning</p> <p>We reported last year that SE has a one-year financial plan but does not have a medium or longer-term financial plan.</p> <p>SE is developing finance and income strategies. Officers are also undertaking modelling to identify the range of possible outcomes for future funding allocations. This will support development of SE's medium-term financial plan.</p> <p>Risk – There is a risk that SE does not have enough information to form a longer-term view of its financial position.</p>	<p>SE should work to complete its finance strategy, medium-term financial plan and income strategy.</p> <p>Paragraphs 58 to 63</p>	<p>Scottish Enterprise will finalise its financial strategy which will include a medium-term financial plan which aligns with the outcome of the Scottish Government's Resource Spending Review process for capital and resource budgets.</p> <p>Chief Financial Officer</p> <p>September 2022</p>
<p>2. Openness and transparency</p> <p>Openness and transparency in how a body operates and makes decisions is key to supporting understanding and scrutiny. Board minutes are published on SE's website, however the last set of minutes available are from the April 2020 meeting.</p> <p>Risk – SE cannot demonstrate the openness and transparency of its decisions.</p>	<p>SE should ensure it makes all approved Board minutes available on its website.</p> <p>Paragraphs 67 to 68</p>	<p>Scottish Enterprise will publish the Board minutes covering the period from April 2020 by the end of August 2022 and thereafter on an ongoing basis.</p> <p>Chief People Officer</p> <p>August 2022</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>3. Governance of cyber security</p> <p>SE is part of the shared Enterprise Information Service (EIS). Information technology services for SE are mostly managed by EIS.</p> <p>Internal audit carried out a follow up review of EIS's cyber security arrangements in 2021/22. It concluded that cyber security remains a material risk for the partnership.</p> <p>SE is taking a range of actions to improve its own cyber security arrangements.</p> <p>Risk – There is a risk that a cyber-attack could disrupt SE's key financial systems.</p>	<p>SE should support work to address weaknesses in EIS's cyber security arrangements and review and improve its own governance of cyber security.</p> <p>Paragraphs 69 to 76</p>	<p>Cyber security arrangements within SE and across the EIS Partnership are kept under constant review. An action plan has been developed to address the recommendations made in the Internal Audit report.</p> <p>Chief Financial Officer</p> <p>Ongoing</p>
<p>4. Performance report</p> <p>SE's performance report met the requirements of the FReM. SE has further opportunities to strengthen the performance report by:</p> <ul style="list-style-type: none"> • making the performance analysis section more concise • better demonstrating links between key achievements and its objectives • telling a clearer story about how it managed its budget. <p>Risk – There is a risk that SE fails to communicate effectively to stakeholders.</p>	<p>SE should work to further improve the content and presentation of its performance report.</p> <p>Paragraph 77 to 80</p>	<p>We will consider these recommendations and opportunities to enhance the 2022/23 Annual Report and Accounts.</p> <p>Chief Financial Officer</p> <p>June 2023</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>5. 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>No further action required</p> <p>Officers agreed to take on board the recommendation of obtaining a service auditor report should a future situation arise where SE engages a third party service provider to assist delivery of a grant programme.</p> <p>This situation did not arise in 2021/22.</p>
<p>6. 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>Complete</p> <p>We reviewed the valuation approach for 2021/22 and confirmed it was appropriate.</p> <p>We tested a sample of the GI team's valuations as part of the 2021/22 audit and found no errors.</p>
<p>7. 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 	<p>Management should address the controls issues identified during our interim audit to:</p> <ul style="list-style-type: none"> Undertake a formal reconciliation between the SUN and IMRS systems. Review user access rights to key financial systems and ensure they remain appropriate. 	<p>No further action required</p> <p>Officers decided not to implement this recommendation because other checks are in place which reduce the risk that the SUN and IMRS systems are not aligned to a very low level.</p> <p>We did not identify any evidence of inconsistencies between the two systems</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>to a misstatement of financial assets or investment income in the accounts.</p> <ul style="list-style-type: none"> • User access rights are not reviewed periodically. There is a risk that members of staff have inappropriate access to key financial systems. 		<p>from our 2021/22 audit testing.</p> <p>We confirmed that key controls over user access rights operated effectively in 2021/22.</p>

Appendix 2. Summary of 2021/22 national performance publications

May

[Local government in Scotland Overview 2021](#)

June

[Covid 19: Personal protective equipment](#)

July

[Community justice: Sustainable alternatives to custody](#)

September

[Covid 19: Vaccination programme](#)

January

[Planning for skills](#)

[Social care briefing](#)

February

[NHS in Scotland 2021](#)

March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

Scottish Enterprise

2021/22 Annual Audit Report

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