

South of Scotland Enterprise

2021/22 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the South of Scotland Enterprise and the Auditor General for Scotland

August 2022

Contents

Key messages	3
Introduction	4
1. Audit of 2021/22 annual report and accounts	7
2. Financial management	14
3. Financial sustainability	17
4. Governance and transparency	18
5. Value for money	20
Appendix 1. Action plan 2021/22	22
Appendix 2. Summary of 2021/22 national performance publications	26

Key messages

2021/22 annual report and accounts

- 1 Our audit opinions on the annual accounts are unmodified.
- 2 Material adjustments have been made to the annual accounts as a result of the audit process. These relate to capital grants which were not adequately evidenced.

Financial management

- 3 SOSE operated within its revised fiscal resources, reporting an underspend of £4.3 million.
- 4 SOSE had appropriate and effective financial management in place with regular budget monitoring reports provided to the board.
- 5 Controls within the main financial systems were operating as expected while standards for the prevention and detection of fraud remain appropriate.

Financial sustainability

- 6 SOSE's medium-term financial plan should continue to be reviewed in light of changing economic conditions.
- 7 In agreeing its budget for 2022/23, SOSE requires to address a deficit position of £0.6 million.

Governance and transparency

- 8 SOSE is finalising its framework agreement with the Scottish Government in line with the other enterprise agencies.
- 9 Further improvements are required in relation to equalities to meet statutory obligations.

Value for money

- 10 SOSE is continuing to develop its three-year action plan in line with other economic strategies.
- 11 Performance indicators in the annual report were satisfactory with room for further improvement.

Introduction

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

Adding value through the audit

4. We add value to SOSE 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 3](#)) and good practice guides.

Responsibilities and reporting

5. SOSE has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the account's direction from the Scottish Ministers.
6. SOSE 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. 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.

8. 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.

9. 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

10. Auditors appointed by the Auditor General for Scotland 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.

11. 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 £83,392 as agreed with SOSE remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

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

13. 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

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

15. 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 SOSE.

16. 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.

17. We would like to thank Board members, ARC members, the chief executive, directors, and other staff, particularly those in finance for their co-operation and assistance over the last two years.

1. Audit of 2021/22 annual report and accounts

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

Main judgements

Our audit opinions on the annual accounts are unmodified.

Material adjustments have been made to the annual accounts as a result of the audit process. These relate to capital grants which were not adequately evidenced.

Our audit opinions on the annual report and accounts are unmodified

18. The SOSE Board approved the annual report and accounts for the year ended 31 March 2022 after consideration by the ARC on 3 August 2022. As reported 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.

There were delays in preparing and auditing the annual report and accounts, but this did not significantly impact on the time to complete the audit

19. Submission dates for the audited annual report and reports and accounts for 2019/20 and 2020/21 were deferred in line with the later dates for producing the annual accounts because of the impact of Covid-19. For 2021/22, the deadline for the audited annual report and accounts is 31 October 2022.

20. The unaudited annual report and accounts were received later than our agreed audit timetable on 8 June 2022. This did not significantly impact on our ability to deliver the audit within agreed timescales. SOSE was able to provide supporting documents in advance of the draft accounts which ensured the process remained on schedule.

Overall materiality is £0.291 million

21. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£0.291 million
Performance materiality	£0.175 million
Reporting threshold	£15,000

Source: Audit Scotland

22. In determining performance materiality, we considered the extent of audit coverage of material account areas, the extent of estimation and judgement in the financial statements, the audit team's understanding of SOSE and the risks identified in the planning process.

23. The overall scope of the audit was adapted to incorporate the significant assessed risks of material misstatement included within [Exhibit 3](#). Assurance procedures were performed to ensure each audit risk was addressed.

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

24. 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 the body's accounting practices. We have reported several issues from the work done on the identified risks of material misstatement. These relate to inadequate checks on supporting information regarding the payment of capital grants, accounting records of property revaluations and late information on pension obligations. These are included in the action plan at [Appendix 1](#).

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

Exhibit 2 Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Capital grants</p> <p>In response to the risk of material fraud, we tested a sample of grants provided by SOSE to third parties. Through this testing SOSE confirmed that one capital grant had not been fully evidenced (in line with the grant conditions) at the point of payment.</p> <p>The recipient had provided an appropriately signed grant claim but had failed to also provide evidence of the reported spend of £1.0 million. When SOSE requested this information it found that many of the claimed areas of spend had not yet occurred.</p>	<p>SOSE adjusted the accounts to reflect an appropriate portion of the transaction as a pre-payment. This treatment was also confirmed as appropriate by the Scottish Government.</p> <p>Further testing by both SOSE and Audit Scotland found one further issue in relation to a payables balance. SOSE agreed to adjust the payables balance to better reflect the value of work completed in the reporting year.</p> <p>We recommend that SOSE review its procedures for future grant payments to ensure all are adequately supported by evidence.</p> <p>Recommendation 1</p> <p>(Refer Appendix 1, action plan)</p>
<p>2. Property revaluation accounting disclosures</p> <p>SOSE carried out a full revaluation of its property portfolio as at 31 March 2022. In line with proper accounting practice, any property valuation decreases should be posted to the revaluation reserve where a balance exists for a particular asset. Where no balance exists in the revaluation reserve, any decreases should be posted to the general fund through net operating costs as an impairment.</p> <p>We found revaluation decreases of £0.3 million (where there was no revaluation reserve balance) had been posted erroneously in other comprehensive expenditure rather than net expenditure. Conversely, revaluation gains of £0.4 million had not been posted to other comprehensive income.</p> <p>These are classification misstatements and do not impact on the outturn position.</p>	<p>SOSE corrected the entries in relation to the property revaluation decreases and gains within the accounts to disclose an impairment in net expenditure and gain in other comprehensive income.</p>

Source: Audit Scotland

26. We also identified that the statement of accountable officer's responsibilities and the fair pay disclosure were not in line with the FReM. Through discussion with SOSE these issues were rectified. Our review of property assets also found that there is an ongoing exercise to transfer titles from the former owner Scottish Enterprise. SOSE should ensure this exercise is completed as swiftly as possible.

27. In addition, we found that the critical accounting estimates and judgements note could be improved in line with best practice. For instance, disclosures should clearly define and differentiate between what is a judgement and what is an estimate. Also, the value of any estimate should be disclosed along with a sensitivity analysis.

Recommendation 2

SOSE should consider implementing some elements of the Audit Scotland best practice guide. This should include clearly differentiating between judgements and estimates, confirming the carrying value of any estimates and providing a sensitivity analysis.

28. We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan audit. 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 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>As stated in International Standard on Auditing (UK)240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<p>Results & Significant Judgements: We sample tested manual journals, significant areas of estimation and unusual transactions as part of our audit. We also carried out walkthrough testing on all major financial controls. We found no issues through our work.</p> <p>Conclusion: Based on our work we have found no evidence of fraudulent misstatement due to management override of controls.</p>
<p>2. Risk of material misstatement due to fraud over expenditure under ISA 240</p>	<p>The Delegation of Authority is in place to control the approval process of invoices and payments</p>	<p>Results & Significant Judgements: We carried out walkthroughs and tests of control during our interim audit. We also tested a</p>

Audit risk	Assurance procedure	Results and conclusions
<p>As most public-sector bodies are net spending bodies, the risk of fraud is more likely to occur in expenditure than income. A significant proportion of SOSE's expenditure (currently forecast to be £20.6 million in 2021/22 representing 63 per cent of total spend) is on business support grants, some of which are specifically to address the impact of Covid-19.</p> <p>As SOSE continues to establish itself, it also continues to develop its controls in relation to the payment of grants. While these controls are being fully embedded there remains a risk of fraud which could result in material misstatement.</p>	<p>14 employees including one director attended a live online training course, over 16 hours, on CIPFA Fraud Awareness and Investigations</p> <p>All new employees complete Counter Fraud, Bribery and Corruption training on the Learning Platform for Government</p> <p>SOSE's Counter Fraud Policy is available on the hub</p>	<p>sample of grants (both revenue and capital) during our interim and financial statements audits. We found errors in relation to capital grants from our financial statements audit work. SOSE accepted these findings and made appropriate adjustments.</p> <p>Conclusion: The process regarding the approval of capital grants requires amending to ensure that all payments are fully supported. See recommendation 1 in Appendix 1.</p>
<p>3. Estimates and judgements: valuation of land and buildings</p> <p>SOSE owns a portfolio of property assets. At 31 March 2021 these were valued at £2.261 million. SOSE's policy of triennial valuations complies with the relevant standard (IAS 16).</p> <p>An overriding aspect of IAS 16 is that asset valuations are kept under review.</p> <p>Given the next valuation is not due until 2023, SOSE must assure itself that any in-year changes in the property market do not result in material changes to the asset valuation. Without this review, there is a risk that carrying value of land and buildings may be materially misstated.</p>	<p>SOSE's Property Board meet on a monthly basis, on 18 February 2022 the Board discussed impairment of assets. Senior Management agreed that assets should be formally valued at 31 March 2022. Procurement are working to engage a Valuer for year-end.</p>	<p>Results & Significant Judgements: We reviewed the work of the valuer and subsequent valuation reports and found errors in accounting disclosures. These errors related to disclosures for revaluation gains and losses in the statement of comprehensive net expenditure. SOSE subsequently made appropriate correcting adjustments.</p> <p>Conclusion: SOSE made appropriate adjustments in light of our audit findings.</p>
<p>4. Estimates and judgements: valuation of</p>	<p>The work of Hymans Robertson, SOSE's independent actuary, will</p>	<p>Results & Significant Judgements: We reviewed the work of the actuary</p>

Audit risk	Assurance procedure	Results and conclusions
<p>retirement benefit obligations</p> <p>SOSE is a member of the Scottish Borders Council pension fund (i.e. the local government pension scheme) and accounts for it under the relevant accounting standard (IAS 19). At 31 March 2021 the obligation was £2.281million.</p> <p>The present value of the retirement (pension) obligations depends on a number of factors that are determined on an actuarial basis underpinned by a series of assumptions.</p> <p>There is a risk that errors in the information provided to the actuary or in the underlying assumptions, or late information, can result in a material misstatement.</p>	<p>provide the basis for the pension liability estimate.</p>	<p>which SOSE employees to calculate its pension obligations and found no issues. From review of correspondence with the pension fund, we identified that fund asset calculations were not based on the most up to date information. As a result, SOSE's actuary prepared a revised report which confirmed an immaterial movement which SOSE opted not to adjust for.</p> <p>Conclusion: SOSE's disclosures were satisfactory, following further review to establish the impact of new information on the value of fund assets.</p>
<p>5. Business support loans</p> <p>During 2021/22 SOSE began offering business loans. These loans (forecast to be £2.5 million) are funded from Financial Transactions (FT) funding from the Scottish Government.</p> <p>There is a risk that the accounting requirements for FT transactions are not followed and that the financial statements are materially misstated as a result.</p>	<p>SOSE will provide details on the loan process and accounting transactions before 31 March 2022 to agree process with Audit Scotland.</p>	<p>Results & Significant Judgements: We carried out walkthrough testing in our interim audit and found controls operated as expected. We also carried out substantive testing in our financial statements audit. This involved a review of the expected credit loss provision.</p> <p>Conclusion: No issues were found from our testing, we therefore concluded that the arrangements and disclosures are satisfactory.</p>

Other areas of audit focus

29. 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. The areas of specific audit focus were:

- Accruals: From a sample of accruals an issue was found in relation to one item. This related to a capital grant and has been captured as part of [Exhibit 2](#), item 1. Otherwise, no further issues were found. This testing also involved a review of the IAS 19 holiday accrual.

30. We kept these areas under review throughout our audit based on the findings of the audit procedures performed, there are no further matters which we need to bring to your attention.

Identified misstatements of £1.7 million were adjusted in the accounts which reduced the outturn position by £1.0 million

31. Total misstatements identified were £1.7 million, as per [Exhibit 2](#), items 1 and 2.

32. We have reviewed the nature and causes of these misstatements and carried out additional testing to provide us with appropriate assurance. The additional testing focused on capital grants occurring late in the financial year, where the issue, and perceived risk, exists. Through this we covered over 50 per cent of the population (by value).

33. Adjustments made in the audited accounts decreased net expenditure in the Statement of Comprehensive Net Expenditure by £0.7 million, increased other comprehensive income by £0.7 million and increased net assets in the Statement of Financial Position by £1.0 million.

34. Misstatements, totalling £34,000 were identified that have not been adjusted by management in the accounts, as they consider these to be immaterial. These resulted from the actuary providing a revised pension valuation report based on updated asset valuation figures after the accounts had been prepared.

35. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected. The final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. The gross sum of the unadjusted errors is below our materiality and has not affected our opinion.

Good progress was made on prior year recommendations

36. SOSE has made good progress in implementing our prior year audit recommendations with two of the four fully actioned. We can see that progress has been made on the other two recommendation and there are valid reasons why they have not been fully implemented. 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

SOSE operated within its revised fiscal resources, reporting an underspend of £4.3 million.

SOSE had appropriate and effective financial management in place with regular budget monitoring reports provided to the board.

Controls within the main financial systems were operating as expected while standards for the prevention and detection of fraud remain appropriate.

The body operated within its revised budget in 2021/22

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

38. The body has reported an outturn of £27.6 million against its overall budget for 2021/22 with an underspend of £4.3 million. The financial performance against fiscal resources is shown in [Exhibit 5](#). This outcome reflects challenges faced by SOSE in its second year. These include recruitment issues impacting on delivery and external issues including Covid-19 and supply chain problems.

Exhibit 5

Performance against fiscal resource in 2021/22

Performance	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Resource	15.803	15.966	14.880	(1,086)
Capital	13.400	13.400	10.670	(2,730)
Financial Transactions	5.000	2.500	2.068	(432)
Total	34.203	31.866	27.618	(4.248)

Source: SOSE Annual Report and Accounts 2021/22

Budget processes were appropriate

39. SOSE's budget was decreased as part of the Spring Budget revision. This was mainly due to an agreed reduction in the financial transactions allocation. We observed that senior management and the board continued to receive regular and accurate financial information on SOSE's financial position.

40. SOSE administers grants to companies and organisations as part of its normal course of business. These were delivered using existing systems and processes established in the previous year. We carried out a system walkthrough and confirmed that controls operated as expected. We also carried out a small amount of controls testing and did not find any issues.

41. However during our audit of the financial statements, we found an issue with one capital grant. This is reflected in [Exhibit 2](#). In light of this, SOSE is reviewing its processes to ensure that this does not re-occur.

Capital expenditure increased in 2021/22 although the full budget allocation was not spent

42. SOSE had a capital DEL budget in 2021/22 of £13.4 million. This is an increase of £4.5 million which is in-keeping with an organisation entering its second full year of operations. The capital outturn was an underspend of £2.7 million which still represents an increase in overall spend from the prior year of £1.7 million.

43. The underspend was partly due to adjustments outlined in [Exhibit 2](#), item 1 and slippage on other projects. These slippages were as a result of supply chain issues and ongoing Covid restrictions.

SOSE has made use of its financial transaction's allocation for the first time and has developed appropriate processes

44. SOSE made use of its financial transaction's allocation for the first time in 2021/22 to provide loans to local businesses. Although only around half of the initial allocation was utilised, this represents a significant step forward for SOSE.

45. As part of our interim audit, we carried out a walkthrough of the process to award these business support loans. This confirmed the controls generally operated as expected. We did find that the decision-making process could be better documented to demonstrate consideration of issues arising from the due diligence process. We have raised a recommendation in Appendix 1 in light of this.

Recommendation 3

SOSE should ensure that minutes which document meetings where decisions are taken in respect of loans are comprehensive and provide clarity regarding due diligence findings.

46. We also reviewed the accounting disclosures as part of our financial statements audit and found that these were appropriate. Part of our work focused on an expected credit loss provision. We examined the process developed by SOSE and concluded that it was reasonable and in line with requirements. This approach includes fully providing for a loan to a company which entered receivership during the year.

Financial systems of internal control are operating effectively

47. Our progress update report presented to the ARC on 23 June 2022 detailed our findings from our walkthroughs of the main financial controls. We concluded that the controls were operating as expected. This also includes those controls operated by Skills Development Scotland (on SOSE's behalf) and controls regarding grants and business loans (covered previously).

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

48. SOSE 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. We confirmed that there are appropriate arrangements in place to manage the risk of fraud.

49. We have also reviewed the arrangements in place to maintain standards of conduct including the code of conduct policy. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

SOSE took part in the National Fraud Initiative exercise for the first time in 2021/22

50. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. SOSE opted to take part in the exercise in 2021/22. As SOSE is a new organisation, the number of matches was very low, and no cases of fraud were found. The number of matches is likely to increase in future years.

51. As part of our audit, we looked at the arrangements which SOSE put in place to review matches identified by NFI. We concluded that these arrangements were appropriate and that SOSE demonstrated a strong willingness to take part in the exercise.

The risk of fraud in procurement is appropriately managed by SOSE

52. We carried out an assessment of the arrangements in place at SOSE to prevent fraud and corruption in the procurement function. We found that SOSE has developed appropriate policies and procedures requiring suitable segregation of duties. These policies also ensure gifts and hospitality are suitably declared. We noted that a recent internal audit report on procurement concluded with a low-risk rating.

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

SOSE's medium-term financial plan should continue to be reviewed in light of changing economic conditions.

In agreeing it's budget for 2022/23, SOSE requires to address a deficit position of £0.6 million.

SOSE's medium-term financial plan should continue to be reviewed in light of changing economic conditions

53. Last year we confirmed that SOSE had developed a five-year financial plan. Having a longer-term financial plan in place allows an organisation to make fully informed strategic decisions.

54. SOSE presented a five-year forecast as part of its budget update to the Board in December 2021. This was based on certain assumptions that will require to be revisited on an ongoing basis. For example, the price of energy will have a significant impact on future financial plans. The Scottish Government's spending review is also a key factor.

In agreeing it's budget for 2022/23, SOSE requires to address a deficit position of £0.6 million

55. The 2022/23 budget was approved by the Board in March 2022. This followed a series of papers presented to the Board in previous meetings, including the update in December referred to previously. The budget paper in March confirmed the application of scenario planning.

56. The approved budget position for 2022/23 is a deficit of £0.6M, which represents 1.4 per cent of forecast spend. SOSE is currently working with the Scottish Government to address this pressure.

4. Governance and transparency

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

Main judgements

SOSE is finalising its framework agreement with the Scottish Government in line with the other enterprise agencies.

Further improvements are required in relation to equalities to meet statutory obligations.

SOSE is finalising its framework agreement with the Scottish Government in line with the other enterprise agencies

57. Last year we confirmed that SOSE was operating with an interim framework agreement with the Scottish Government. The purpose of this document is to set SOSE's overall aims and the key roles and responsibilities which underpin its relationship with the Scottish Government.

58. The delay in finalising this framework is partly due to the intention that it is aligned with the equivalent documents for the other enterprise agencies. We are satisfied that work is progressing to finalise a full framework document.

59. Last year we recommended that SOSE should continue to keep its governance arrangements under ongoing review. During the year we have noted the updating of some key documents such as the counter fraud policy and the code of conduct. The delegated authority policy has also been subject to review as reported to the ARC in March 2022.

60. In addition, we note that internal audit intends to carry out a review of corporate governance in 2022/23. In light of these findings, we are satisfied that SOSE is progressing this recommendation which remains open pending the approval of the framework document.

Further improvements are required in relation to equalities to meet statutory obligations

61. We carried out a review to establish how SOSE complies with its obligations under the Equality Act 2010. We found that this is still an area in development. Some aspects are already in place such as appropriate standards within the code of conduct policy and the application of an equality impact assessment. Areas for development include the finalisation of the equality strategy and the preparation of an equalities mainstreaming and outcomes report.

Recommendation 4

SOSE should finalise its equality strategy and look to develop its first mainstreaming and outcomes report.

The performance report was of a good standard but required some amendments

62. 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 SOSE's performance report. The performance report should provide information on a body, its main objectives and the principal risks faced by the organisation. Additionally, it should provide a fair, balanced and understandable analysis of an organisation's performance as well as helping stakeholders understand the financial statements.

63. The performance report presented to audit was of a good standard. It was well structured, and the use of infographics and case studies helped to illustrate achievements during the year. Our audit review raised issues regarding the section on risk as it did not comply with the FReM requirements. This was subsequently corrected in the revised version. [Part 5](#) takes a more detailed look at the performance measures used.

SOSE completed its first cyber maturity assessment and identified areas for improvement

64. Internal audit carried out a cyber maturity assessment on SOSE during the year. This identifies an organisation's preparedness for a cyber threat and is an important step in managing this risk. The findings from this assessment were reported to the ARC in June 2022, with areas of improvement identified.

5. Value for money

Using resources effectively and continually improving services

Main judgements

SOSE is continuing to develop its three-year action plan in line with other economic strategies.

Performance indicators in the annual report were satisfactory with room for further improvement.

SOSE is continuing to develop its three-year action plan in line with other economic strategies

65. SOSE is currently developing its action plan which will set out its strategic direction and key priorities over a three-year period to 2025. This will be the first such plan and will be aligned with the regional economic strategy and equivalent plans for the other enterprise bodies. SOSE undertook an extensive consultation exercise as part of its work to prepare the plan.

66. Publication of the plan has been delayed to autumn 2022 to ensure it is also aligned with the Scottish Government's National Strategy for Economic Transformation (NSET). The NSET was published in March 2022 and includes five policy programmes covering the next ten years.

Performance indicators in the annual report were satisfactory with room for further improvement

67. Last year we recommended that SOSE should develop a suite of measurable performance indicators. As part of our review of the performance report (within the annual report and accounts) we considered the measures which were reported. These were found to be largely satisfactory and in line with the current operating plan.

68. Key indicators include the number of jobs safeguarded or created by SOSE's support and the range of communication channels open to the public. There remains room for improvement to identify indicators which measure impact and to enhance trend analysis.

69. A recent review by internal audit confirmed that SOSE is developing performance measures. It intends to align these with the Scottish Government's national performance framework (NPF) as well as the NSET. We will continue to monitor developments in this area.

National performance audit reports

70. 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 the body. These are outlined in [Appendix 2](#).

Appendix 1. Action plan 2021/22

2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Capital grants</p> <p>Capital grants should be supported by evidence of underlying activity by the grant recipient. This can take the form of valuation certificates for work performed or invoices for items purchased.</p> <p>Sample testing of capital grants found two examples where the signed grant claim was not fully supported.</p> <p>Risk – SOSE funding could be used inappropriately.</p>	<p>SOSE should implement a process to ensure that all capital grant claims are suitably evidenced prior to payment</p> <p>Exhibit 2</p>	<p>SOSE will further develop its own internal control processes, including an internal audit of all grant claims over £100k. In addition, finance will develop guidance notes to remind all staff of their responsibilities when verifying and approving invoices.</p> <p>Anthony Daye (Director of Finance and Corporate Resources)</p> <p>September 2022</p>
<p>2. Significant accounting estimates and judgements</p> <p>The accounts include a note on critical accounting estimates and judgements. The note refers to significant estimates such as property valuations and retirement benefit obligations. However testing found that the disclosures are not in line with good practice.</p> <p>Risk – the reader of the accounts is unclear about the main areas of judgement and estimation in the accounts</p>	<p>SOSE should consider implementing some elements of the Audit Scotland best practice guide. This should include clearly differentiating between judgements and estimates, confirming the carrying value of any estimates and providing a sensitivity analysis.</p> <p>Paragraph 27.</p>	<p>SOSE will consider the best practice guide and be clear of the requirements for 2022/23 accounts in order to report the disclosures in line with best practice going forward.</p> <p>Anthony Daye (Director of Finance and Corporate Resources)</p> <p>December 2022</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>3. Documentation of loans decisions</p> <p>During our walkthrough of one business support loan, we found that a due diligence report had been prepared which highlighted areas of risk. The minutes of the meeting where the loan was approved did not however fully document the decision taken in light of this report.</p> <p>Risk – SOSE approves a high-risk loan without making its decision-making process fully transparent.</p>	<p>SOSE should ensure that minutes which document meetings where decisions are taken in respect of prospective loans are comprehensive and provide clarity regarding due diligence reports.</p> <p>Paragraph 45.</p>	<p>With immediate effect SOSE will action a fuller note on decisions made.</p> <p>Anthony Daye (Director of Finance and Corporate Resources)</p> <p>Complete</p>
<p>4. Equalities arrangements</p> <p>While SOSE has enshrined standards regarding equalities in the code of conduct and carried out an equality impact assessment, further work is required. Particular areas for action include finalisation of the equalities' strategy and preparation of the mainstreaming and outcomes report.</p> <p>Risk – Without enhancing its arrangements SOSE may not comply with the Equality Act 2010.</p>	<p>SOSE should finalise its equality strategy and look to develop its first mainstreaming and outcomes report.</p> <p>Paragraph 61.</p>	<p>SOSE will continue work on the equality strategy and begin developing its first mainstreaming and outcomes report.</p> <p>Martin Valenti (Director of Net Zero)</p> <p>March 2023</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>5. 2020/21 AAR - Impairment review</p> <p>SOSE did not carry out a formal impairment review as at 31 March 2021, due to the impact of Covid-19 on the</p>	<p>Regular review of the condition of assets should be carried out, with a formal impairment review undertaken at the end of each financial year.</p>	<p>Complete - an impairment paper was taken to the February Property Board meeting. This gave rise to the decision to carry out a full revaluation of all property at 31 March 2022. The values</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>prioritisation of business activities and lack of staffing capacity.</p> <p>Risk: There is a risk that land and property assets are recognised at a value in excess of their carrying amount, overstating the asset values in the accounts.</p>		<p>reflected in the asset register are those taken from the revaluation exercise.</p>
<p>6. 2020/21 AAR - Grants tracker reconciliation</p> <p>SOSE maintains a grants tracker which lists commitments and payments under each grant fund. While this is agreed to the ledger each month, this reconciliation is not formally documented or signed off.</p> <p>Risk: There is a risk that the financial ledger does not correctly record grants committed and paid.</p>	<p>SOSE should formally document the reconciliation between the grants tracker and the ledger to evidence that grant expenditure is accurately recorded in the financial ledger.</p>	<p>Complete – this is now known as the place and enterprise tracker. During our interim review we confirmed that this is formally signed off at the same time as the other ledger reconciliations.</p>
<p>7. 2020/21 AAR - Governance arrangements</p> <p>SOSE has established governance arrangements including an interim framework document between the Scottish Government and a committee structure. Internal audit concluded that SOSE's arrangements were appropriate in the context of a new organisation facing the challenges from Covid-19.</p> <p>Risk: As SOSE develops the governance arrangements may require to be amended to ensure that they are still effective.</p>	<p>SOSE should review its governance arrangements periodically during its first years of operation to confirm that governance is working as intended and is effective.</p>	<p>Ongoing – SOSE has developed a framework document to set out its relationship with the Scottish Government. While this has still to be agreed this is largely due to a desire to align it with similar frameworks for the other enterprise bodies. This is a key area and one which we will continue to monitor.</p> <p>SOSE has also continued to review its current policies and structures.</p>
<p>8. 2020/21 AAR - Performance measurement</p>	<p>SOSE should develop a suite of measurable performance indicators. These should have a clear link to the</p>	<p>Ongoing – SOSE was able to demonstrate performance in line with its operating plan in the annual report and</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>SOSE has started developing a performance measurement framework but progress was delayed as SOSE focused on responding to the impact of Covid-19.</p> <p>Risk: There is a risk that SOSE cannot demonstrate its contribution to Scottish Government priorities.</p>	<p>Scottish Government's National Performance Framework, clearly demonstrating SOSE's contribution to the national priorities.</p>	<p>accounts. There remains room for improvement to develop indicators which measure impact and to align with the Scottish Government's national performance framework and national strategy for economic transformation.</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](#)

SOSE

2021/22 Annual Audit Report

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