Scottish Enterprise

2024/25 Annual Audit Report

Prepared for Scottish Enterprise and the Auditor General for Scotland

June 2025

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2 There was one significant finding to report which related to the valuation of unlisted investments. This resulted in an adjustment of £1.9 million to the annual report and accounts. Additional audit testing was performed with no further issues identified.

Financial Management and Sustainability

3 Scottish Enterprise operated within its allocated budget in 2024/25, with an overall underspend of £5.8 million.

4 Scottish Enterprise has clear policies and procedures in place that ensure financial management is effective.

5 Medium and longer-term financial plans are linked to the Corporate Plan and overarching strategic objectives.

Vision Leadership and Governance

6 Scottish Enterprise continues to have a clear vision and strategy aligned with Scottish Government's National Strategy for Economic Transformation.

7 This vision is supported by strong leadership and robust governance arrangements.

Use of Resources to Improve Outcomes

8 Scottish Enterprise's performance measures are directly aligned to the Scottish Government's National Performance Framework and clearly outline how Scottish Enterprise contributes to the wider Scottish Government performance outcomes.

Introduction

Purpose of the Annual Audit Report

1. The purpose of this Annual Audit Report is to report the significant matters identified from the 2024/25 audit of Scottish Enterprise's annual report and accounts and the wider scope areas specified in the Code of Audit Practice (2021). These are:

- Financial Management
- Financial Sustainability
- Vision, Leadership and Governance
- Use of Resources to Improve Outcomes.

2. The Annual Audit Report is addressed to Scottish Enterprise (the body), and the Auditor General for Scotland, and will be published on Audit Scotland's website in due course.

Scope of the audit

3. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (ISA) (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement, including the regularity of income and expenditure.
- An opinion on statutory other information published with the financial statements in the annual report and accounts, namely the Performance Report and Governance Statement.
- An opinion on the audited part of the Remuneration and Staff Report.
- Conclusions on the body's arrangements in relation to the wider scope areas: Financial Management; Financial Sustainability; Vision, Leadership and Governance; and Use of Resources to Improve Outcomes.
- Reporting on the body's arrangements for securing Best Value.

- Provision of this Annual Audit Report.

Appointed auditor and independence

4. Pauline Gillen, of Audit Scotland, has been appointed as external auditor of the body for the period from 2022/23 until 2026/27. As reported in the Annual Audit Plan, Pauline Gillen and the audit team are independent of the body in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. There have been no developments since the issue of the Annual Audit Plan that impact on the continued independence of the engagement lead or the rest of the audit team from the body, including no provision of non-audit services.

Responsibilities and reporting

5. The Code of Audit Practice sets out the respective responsibilities of the auditor and the body. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

6. The responsibilities of auditors in the public sector are established in the Public Finance and Accountability (Scotland) Act 2000. These include providing an independent opinion on the financial statements and other information reported within the annual report and accounts and concluding on the body's arrangements in place for the wider scope areas and Best Value.

7. The matters reported in the Annual Audit Report are only those that have been identified by the audit team during normal audit work and may not be all that exist. Communicating these does not absolve the body from its responsibilities outlined below.

8. The Annual Audit Report includes an agreed action plan at Appendix 1, (page 26) setting out specific recommendations to address matters identified and includes details of the responsible officer and dates for implementation.

The body's responsibilities

9. The body has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety, and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.

- Preparation of an annual report and accounts, comprising financial statements for the body and its group that gives a true and fair view and other specified information.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

National and performance audit reporting

10. The Auditor General for Scotland and the Accounts Commission regularly publish national and performance audit reports. These cover a range of matters, many of which may be of interest to the body and the Audit and Risk Committee. Details of national and performance audit reports published over the last year can be seen in Appendix 3, (page 30).

Acknowledgements

11. We would like to thank the body and its staff, particularly those involved in preparation of the annual report and accounts, for their cooperation and assistance during the audit. We look forward to working together constructively over the remainder of the five-year audit appointment.

Audit of the annual report and accounts

Main judgements

All audit opinions stated that the annual report and accounts were free from material misstatement.

There was one significant finding to report which related to the valuation of unlisted investments. This resulted in an adjustment of £1.9 million to the annual report and accounts. Additional audit testing was performed with no further issues identified.

Audit opinions on the annual report and accounts

12. The annual report and accounts of Scottish Enterprise and its group were approved by the Board and signed by the appointed auditor on 27 June 2025. The Independent Auditor's Report is included in the annual report and accounts, and this reports that, in the appointed auditor's opinion, these were free from material misstatement.

13. The audit has been delivered in accordance with the agreed timetable In line with the timetable set out in our 2024/25 Annual Audit Plan, we received:

- the unaudited Scottish Enterprise single entity annual report and accounts on 12 May 2025
- the Performance Report and Accountability Report on 26 May 2025
- the Group unaudited annual report and accounts on 26 May 2025.

14. Consistent with prior years, the working papers provided were of a high standard and allowed the audit team to efficiently perform all audit procedures in line with the agreed timetable. Key contacts across Scottish Enterprise provided prompt and comprehensive responses to all audit queries which facilitated audit efficiency.

Audit Fee

15. The audit fee for the 2024/25 audit was reported in the Annual Audit Plan and was set at £242,980. A rebate of £1,930 was issued to Scottish Enterprise in 2024/25 due to an error in the initial fee calculation. The final fee for 2024/25 was therefore £241,050.

Materiality

16. The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual report and accounts.

17. Broadly, the concept of materiality is to determine whether misstatements identified during the audit could reasonably be expected to influence the decisions of users of the annual report and accounts. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

18. Materiality levels for the audit of the body and its group were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan, which also reported the judgements made in determining materiality levels. These were reassessed on receipt of the unaudited annual report and accounts. Materiality levels were updated and these can be seen in Exhibit 1.

Exhibit 1
2024/25 Materiality levels for the body and its group

Materiality	The body	Group
Materiality – set at 2% of gross expenditure	£5.5 million	£5.8 million
Performance materiality – set at 70% of materiality. As outlined in the Annual Audit Plan, this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate further audit procedures are required.	£3.8 million	£4 million
Reporting threshold – set at 5% of materiality.	£275,000	£290,000

Source: Audit Scotland

Significant findings and key audit matters

19. ISA (UK) 260 requires auditors to communicate significant findings from the audit to those charged with governance, which for the Scottish Enterprise is the Audit and Risk Committee.

20. The Code of Audit Practice also requires public sector auditors to communicate key audit matters. These are the matters that, in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit. These include:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.
- The significant findings and key audit matters to report are outlined in Exhibit 2, (page 10).

Exhibit 2
Significant findings and key audit matters

Significant findings and key audit matters	Outcome
Valuation of Level 3 Equity investments Sample testing of Level 3 Equity investments identified two investee companies which had been incorrectly valued. One company was valued using the incorrect price per share from the last funding round resulting in an overstatement of £0.6 million in the valuation of Scottish Enterprise's share in the company. One company was valued incorrectly as the liquidation preferences attached to the investment had not been correctly applied in the valuation template. This resulted in an understatement of £2.5 million in the valuation of Scottish Enterprise's share in the company. The net impact is to decrease Operating Expenditure in the Statement of Comprehensive Net Expenditure by £1.9 million and to increase Financial Assets on the Statement of Financial by £1.9 million.	Additional targeted audit procedures were performed on the valuation of Level 3 Equity investments with no further issues identified. This was adjusted by management in the 2024/25 annual report and accounts. While we are satisfied that the valuation process was adequate, management should consider whether there would be value in revisiting the level of detail in the documentation prepared for future years. See Appendix 1, (page 26) - Action Plan Recommendation

Source: Audit Scotland

Qualitative aspects of accounting practices

21. ISA (UK) 260 also requires auditors to communicate their view about qualitative aspects of the body's accounting practices, including accounting policies, accounting estimates, and disclosures in the financial statements.

Accounting policies

22. The appropriateness of accounting policies adopted by the body was assessed as part of the audit. These were considered to be appropriate to the circumstances of the body, and there were no significant departures from the accounting policies set out in the Government Financial Reporting Manual (FReM).

Accounting estimates

23. Accounting estimates are used in number of areas in the body's financial statements, including the valuation of land and building assets, the valuation of the pension liability and the valuation of investments. Audit work considered management's processes for making accounting estimates, including the assumptions and data used in those estimates, and the use of any management experts. Our audit work concluded:

- There were no issues with the selection or application of methods, assumptions, and data used to make the accounting estimates, and these were considered to be reasonable.

- There was no evidence of management bias in making the accounting estimates.

24. Details of the audit work performed and the outcome of the work on accounting estimates that gave rise to significant risks of material misstatement are outlined in Exhibit 5 (page 14).

Disclosures in the financial statements

25. The adequacy of disclosures in the financial statements was assessed as part of the audit. The quality of disclosures was in line with expectations, with additional levels of detail provided for disclosures around areas of greater sensitivity, such as financial instruments and valuation of the pension liability.

Group audit

26. Scottish Enterprise is part of a group and prepares group financial statements. The group is made up of 13 components, including Scottish Enterprise which is the parent of the group. As outlined in the Annual Audit Plan, audit work was required on a number of the group's components for the purposes of the group audit, and this work was performed by a combination of the audit team and the components' audit teams. Group audit instructions were issued to component auditors, where required, to outline the expectations and requirements in performing the audit work for the purposes of the group audit. The audit work performed on the group's material components is summarised in Exhibit 3, (page 12).

Exhibit 3
Summary of audit work on the group's material components

Group component	Auditor and audit work required	Summary of audit work performed
Scottish Enterprise	**Audit Scotland** Full scope audit of the body's annual report and accounts.	The outcome of audit work performed is reported within the Annual Audit Report, with details of significant findings and key audit matters reported in Exhibit 2, (page 10).
Glasgow Science Centre Charitable Trust	**Thomson Cooper** Yes – audit procedures outlined in Item 1 of Exhibit 5, (page 14).	The specific audit procedures were performed by the component auditor, and these were evaluated and reviewed by the audit team. No significant issues were identified.

Source: Audit Scotland

Other matters to report

27. Auditing standards require auditors to report a number of other matters if they are identified or encountered during an audit. The matters identified or encountered on the audit of the body are outlined in Exhibit 4, (page 13).

Exhibit 4
Other matters to report

Auditing standard requirement	Matter to report	Outcome
Related parties ISA (UK) 550 requires auditors to report any significant matters in connection with related parties identified during the audit.	No issues were identified in connection with the processes in place for the identification of related party relationships or the associated disclosures. Scottish Enterprise continue to implement two additional governance safeguards in relation to transactions with bodies where a Board member has declared an interest.	An area of good practice was identified in relation to additional safeguards implemented by Scottish Enterprise for transactions with related parties. These safeguards have been shared across Audit Scotland as examples of good practice.

Source: Audit Scotland

Significant matters discussed with management

28. All significant matters identified during the audit and discussed with management have been reported in the Annual Audit Report.

Audit adjustments

29. Audit adjustments were required to the financial statements to correct misstatements that were identified during the audit. Details of all audit adjustments greater than the reporting threshold of £0.275 million are outlined in Appendix 2, (page 29).

30. Management processed audit adjustments for all misstatements identified greater than the reporting threshold. As a result, there are no uncorrected misstatement to report.

Significant risks of material misstatement identified in the Annual Audit Plan

31. Audit work has been performed in response to the significant risks of material misstatement identified in the Annual Audit Plan. The outcome of audit work performed is summarised in Exhibit 5, (page 14).

Exhibit 5

Significant risks of material misstatement to the financial statements

Risk of material misstatement	Planned audit response	Outcome of audit work
Fraud caused by management override of controls Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	The audit team will: • evaluate the design and implementation of controls over journal entry processing. • make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries. • test journals at the year-end and post-closing entries and focus on significant risk areas. • consider the need to test journal entries and other adjustments throughout the year. • assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements • review accounting estimates for management bias, including a retrospective review of accounts estimate • evaluate any significant transactions outside the normal course of business. • focused testing of accounting accruals and prepayments.	Audit work performed found: • the design and implementation of controls over journal processing were appropriate. • no inappropriate or unusual activity relating to the processing of journal entries was identified from discussions with individuals involved in financial reporting. • no significant issues were identified from testing of journal entries. • the controls in place for identifying and disclosing related party relationships and transactions were adequate. • no significant issues were identified with changes to methods and underlying assumptions used to prepare accounting estimates and there was no evidence of management bias. • no significant issues were identified from transactions outside the normal course of business. • no significant issues were identified from our testing of accounting accruals and prepayments. **Conclusion:** no evidence of fraud caused by management override of controls.

Risk of material misstatement	Planned audit response	Outcome of audit work
Valuation of Level 3 investments Scottish Enterprise holds a material balance of Level 3 investments on the Statement of Financial Position. The valuation of these investments involves a high degree of estimation and professional judgement. There is a risk that the fair value of these investments may be misstated due to the subjectivity of methodologies and assumptions applied in the valuation process.	The audit team will: • evaluate the design and implementation of controls over the valuation of financial assets, specifically Level 3 investments. • evaluate the competence, capabilities, and objectivity of the valuation team. • review the appropriateness of the methodologies and assumptions used by management including substantive testing of Level 3 investments. • review the adequacy of disclosures in the financial statements regarding the valuation methodology, key assumptions, and sensitivity to changes in estimates.	Audit work performed found: • there were no significant issues identified from our evaluation of the design and implementation of controls over the valuation of financial assets. • no significant issues were identified in relation to the competence, capabilities, and objectivity of the valuation team. • valuation methodologies and assumptions were reviewed for a range of investments across different valuation bases. No significant issues were identified in relation to the methodologies or assumptions applied. • there were no significant issues identified in relation to the adequacy of disclosures in the financial statements regarding valuation methodology, key assumptions, and sensitivity to changes in estimates driving the valuation of financial assets. **Conclusion:** Scottish Enterprise has robust and well-established procedures in place to ensure the accuracy of the valuation of financial assets and the associated disclosures.

Source: Audit Scotland

Prior year recommendations

32. Scottish Enterprise has made good progress in implementing the agreed prior year audit recommendations, as outlined in Appendix 1.

Financial Management and Sustainability

Conclusion

Scottish Enterprise operated within its allocated budget in 2024/25, with an overall underspend of £5.8 million.

Scottish Enterprise has clear policies and procedures in place that ensure financial management is effective.

Medium and longer-term financial plans are linked to the Corporate Plan and overarching strategic objectives.

Financial Management

33. Scottish Enterprise operated within its allocated budget in 2024/25, with an overall underspend of £5.8 million.

34. For the financial year 2024/25, Scottish Enterprise reported an outturn of £224.6 million against its allocation of £230.4 million, representing an underspend of £5.8 million.

35. The underspend was mainly driven by the Fiscal Resource and Fiscal Capital budgets, with underspends in each of £2.4 million and £3.3 million, respectively. This was mainly attributed to:

- In-year slippage on investment deals, a lower-than-expected number of grant claims on the Green Hydrogen Fund, and general reductions in expenditure across projects and grants. These variances are not unusual given the nature of Scottish Enterprise operations.

- Increased investment income towards year-end and a small net reduction in expenditure across a large number of projects in the Fiscal Resource budget.

36. In 2024/25, Scottish Enterprise adopted an over-allocation method of budgeting, reflecting the high number of projects in the pipeline going into the financial year. This approach involved budgeting based on potential projects to be delivered in-year rather than the available income. This approach provided management with flexibility in the delivery of projects and is considered an effective method of budgeting for an organisation of Scottish Enterprise's nature. This facilitated the achievement of an outturn position within budget and optimal delivery of economic development outcomes.

Group net assets increased by £18.7 million in 2024/25

37. Scottish Enterprise's group net assets increased by £18.7 million in the year to 31 March 2025, with fluctuations across multiple lines in the Statement of Financial Position. The most significant movements in 2024/25 are:

- A significant improvement in the net retirement benefit obligation, reducing from a deficit of £43.5 million to £8.2 million. This movement is largely attributed to higher corporate bond yields, changes in demographic assumptions, and lower inflation expectations.

- A decrease in the carrying value of equity investments and loans to companies of £22.6 million (4.5%) which is mainly attributed to a decrease in the fair value measurement of individual investments.

Detailed budget monitoring reports are provided to Executive Leadership Team and the Board on a regular basis

38. Senior management and members receive regular and accurate financial information on Scottish Enterprise's performance against budget. These reports include detailed commentary on financial performance to facilitate effective scrutiny from members and officers throughout the year.

There are appropriate financial control arrangements in place, including effective arrangements for the prevention and detection of fraud and standards of conduct

39. In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

40. From a review of the design and implementation of key controls within Scottish Enterprise's systems of internal control (including those relating to IT) relevant to our audit approach, we did not identify any internal control weaknesses which could affect Scottish Enterprise's ability to record, process, summarise and report financial and other relevant data.

41. Scottish Enterprise has clear policies and procedures in place that ensure effective financial management.

42. The audit work performed on the arrangements the body has in place for securing sound financial management found that these were effective and appropriate. This judgement is further evidenced by the body:

- having clear and up-to-date policies in place for preventing and detecting fraud and other irregularities, and participation in fraud prevention and detection activities such as the National Fraud Initiative (NFI).
- having well qualified and experienced staff leading the finance function, who have sufficient skills, capacity, and capability to effectively fulfil the role.
- having effective arrangements in place for the scrutiny of arrangements that support sound financial management, and effective scrutiny and challenge provided by the Audit and Risk Committee.

43. The Delegation of Internal Authority was revised and approved in February 2024. This identifies the relevant delegations and considerations to be applied across a wide range of scenarios, including budgets, projects, programmes and schemes within Scottish Enterprise.

44. An information paper is taken to each Board meeting as a standing item which outlines the approvals within delegated authority ensuring transparent financial management.

45. The Standing Orders are in the process of being reviewed alongside the review of the Framework Agreement between Scottish Enterprise and Scottish Government. Scottish Enterprise should aim to conclude this review to ensure the Framework Agreement accurately reflects the arrangements between the organisation and Scottish Government.

Modernisation of Finance Estate

46. In the context of the new mission-led strategy and the supporting Digital, Data and AI Strategy, Scottish Enterprise have taken the opportunity to modernise their suite of corporate applications, including the financial systems currently used.

47. The current financial systems have been in place for a number of years and there is scope to achieve significant efficiencies and streamlining of operations through the implementation of a modernised integrated Enterprise Resource Planning (ERP) system.

48. Scottish Enterprise are in the process of reviewing their existing corporate application estate with the objective of eliminating process and digital waste, focusing on value-adding work supporting economic transformation, a stronger financial control environment, and improved decision-making across the organisation. This project aligns with the recently published Digital, Data and AI strategy and the wider corporate strategy.

49. A Project Delivery Board has been established for this modernisation project, reporting to a Corporate Applications Portfolio Steering Group to ensure the successful delivery of this project.

Financial Sustainability

Scottish Enterprise has medium and longer-term financial plans which are linked to the Corporate Plan and overarching strategic objectives

50. Scottish Enterprise's medium-term financial strategy covering financial years 2025/26 to 2027/28 was approved by the Board in June 2024. The strategy focuses on the medium-term outlook for Scottish Enterprise in the context of the Scottish Government's National Strategy for Economic Transformation (NSET).

51. The medium-term strategy is forward-looking and includes an action plan that will help delivery against its ambitions in the context of public sector funding constraints. The strategy includes financial scenario planning for different funding levels and, new income streams, and an in-depth review of resource expenditure. This evidences that Scottish Enterprise has robust plans in place which consider the future financial outlook.

Scottish Enterprise has effective arrangements in place for identifying risks to financial sustainability over the medium and longer-term

52. Scottish Enterprise have a well-established risk management process in place. The Risk Management Policy was updated and approved by Audit and Risk Committee in June 2024. The policy sets out the arrangements for compliance with corporate governance requirements as defined by the SPFM.

53. The Corporate Risk Register is tabled for discussion at each Audit and Risk Committee and clearly sets out the key risks to Scottish Enterprise. Scottish Enterprise's due consideration of risks around financial sustainability is evidenced by the 'Funding Constraints' risk being one of the top risks on the risk register.

54. In September 2024, Audit and Risk Committee members agreed that a series of comprehensive 'deep dive' reviews of key risks should be undertaken each year. In addition to strengthening the assurances that Committee members receive from management, these reviews also aim to enhance the overall understanding and challenges involved in managing different key risks.

55. A deep dive review of the risk around funding constraints was undertaken in March 2025 and included a comprehensive summary of the risk, key mitigations for the risk and planned actions for the risk. It is therefore evident that management display adequate consideration to risk and those charged with governance have a good understanding of risks facing Scottish Enterprise.

2025/26 Budget Position

56. Scottish Enterprise's opening budget for 2025/26 included projected expenditure of £348.7 million against projected income of £301.4 million resulting in an over-allocation of £47.3 million.

57. Consistent with the previous year, the over-allocation represents the high number of investments and projects in the pipeline. Scottish Enterprise anticipate a lower rate of savings from the prior year, and this is reflected in a reduced allocation in the Fiscal Resource budget line. The achievement of successful outturn against budget in 2025/26 is dependent on project slippage being in line with management forecasts.

58. Activity on projects will therefore require careful monitoring, however financial monitoring arrangements at Scottish Enterprise are well established and will allow any deviations from budget to be highlighted as early as possible.

59. The audit work performed on the arrangements the body has in place for securing financial management and sustainability found that these were effective and appropriate.

Vision, Leadership and Governance

Conclusion

Scottish Enterprise continues to have a clear vision and strategy aligned with Scottish Government's National Strategy for Economic Transformation.

This vision is supported by strong leadership and robust governance arrangements.

Vision, Leadership and Governance

Scottish Enterprise continues to have a clear vision and strategy aligned with Scottish Government's National Strategy for Economic Transformation

60. In January 2024, Scottish Enterprise launched its long-term strategic ambition: *Our Focus on Economic Transformation*. This strategy reflects a new 'mission-based' approach for Scottish Enterprise to achieve and deliver the ambitions of the Scottish Government's National Strategy for Economic Transformation (NSET).

61. In May 2025, Scottish Enterprise published its 2025-28 Operating Plan which demonstrates a clear and coherent strategic vision, underpinned by the mission-led approach and a commitment to inclusive, sustainable economic transformation. The plan represents a focused approach to deliver on the three key missions: accelerating the energy transition; scaling innovation; and capital investment to drive productivity.

62. There are a number of supplementary plans and strategies in place to enable the delivery of strategic objectives and priorities. These include a medium-term Financial Strategy, People Strategy, and Digital, Data & AI Strategy which were all implemented in 2024. These strategies are examples of Scottish Enterprise forming a robust and detailed framework for ensuring the achievement of strategic objectives.

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

63. The Chief Executive and Executive Leadership Team are responsible for the delivery of day-to-day services and for ensuring that Scottish Enterprise achieves its corporate priorities as outlined in the Corporate Plan.

64. There continues to be significant uncertainty in the economic and political environment in which Scottish Enterprise operates, with a complex range of opportunities and challenges. There has been evidence of effective leadership and scrutiny during 2024/25 against the new strategy and supporting plans. This revised approach recognises those challenges and opportunities and provides a clearer focus for all future activity.

Governance arrangements are appropriate and Scottish Enterprise operates in an open and transparent way

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

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

67. Scottish Enterprise's website is clear and well structured. Board minutes are available to the public along with key publications including the most recent annual report and accounts.

68. We concluded that the board conducts its business in an open and transparent manner, however there is scope to strengthen Scottish Enterprise's approach to openness and transparency by making the minutes of the Audit and Risk Committee publicly available.

69. Scottish Enterprise performed a 'deep dive' review of Governance and Accountability during 2024/25. The findings of the review were able to demonstrate that Scottish Enterprise has effective arrangements in place for Governance and Accountability, with areas for development identified.

70. One area for development was to undertake an exercise to demonstrate alignment between the various strategies and plans in place align to support the delivery of the Corporate Strategy. This exercise is being progressed in 2025/26.

Use of Resources to Improve Outcomes

Conclusion

Scottish Enterprise's performance measures are directly aligned to the Scottish Government's National Performance Framework and clearly outline how Scottish Enterprise contribute to the wider Scottish Government performance outcomes.

Use of Resources to Improve Outcomes

71. Scottish Enterprise's purpose 'is to enable businesses to innovate and scale to transform the economy'. This purpose is supported by three strategic priorities: to drive up levels of innovation, investment, and internationalisation. Scottish Enterprise aim to achieve this through a mission-based approach, launched in January 2024.

72. The 2024-25 Operating Plan incorporated the strategic ambitions into a framework that demonstrates a clear link between the use of resources and the delivery of Scottish Enterprise strategic priorities.

73. Scottish Enterprise also published an operating plan covering the periods of 2025-2028 in May 2025, setting out the medium-term approach to deliver on the missions identified in the strategic plan.

74. Scottish Enterprise implemented three further strategies in 2024 to support the delivery of strategic priorities: Our People Strategy; a Digital, Data & AI Strategy; and a Financial Strategy. These strategies provide a clear indication of how Scottish Enterprise will achieve its objective of scaling and transforming the Scottish economy.

75. Internal Audit completed a review of Missions Tagging in 2024/25 where they assessed the operation of governance, risk and controls supporting the transition to and embedding of the missions-based approach across Scottish Enterprise. Some improvements were recommended and are being progressed to ensure the accurate reporting of data associated with each mission.

Performance measures are directly aligned to the Scottish Government's National Performance Framework and clearly outline how Scottish Enterprise contribute to the wider Scottish Government performance outcomes

76. In 2024/25, progress against corporate goals was monitored and reported to the Board through quarterly Performance Reports. Performance for the year was reported in the Performance Analysis section of the Performance Report in the 2024/25 Annual Report and Accounts. Our audit of the Annual Report and Accounts did not identify any material inconsistencies or omissions in the Performance Report.

77. Bi-monthly performance reports to the Board include a summary of performance highlights, an overview of performance in key business areas, and movement in key risks.

78. For each of the performance outcomes within the performance framework, Scottish Enterprise achieved an outturn position within the target range for all six measures which is a significant achievement in a challenging economic environment.

79. To highlight practical examples of progress against each of the strategic missions, performance reporting to the Board includes milestones which signify achievements that have contributed to the delivery of each mission. A summary of milestones achieved can be found in the Performance Report in the 2024/25 Annual Report and Accounts.

80. The audit work performed on the arrangements the body has in place around its use of resources found that these were effective and appropriate.

Duty of Best Value

81. The Scottish Public Finance Manual (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. Best Value in public services: guidance for Accountable Officers is issued by Scottish Ministers and sets out their duty to ensure that arrangements are in place to secure Best Value in public services.

82. Consideration of the arrangements the body has in place to secure Best Value has been carried out alongside the wider scope audit.

83. In our 2023/24 Annual Audit Report, we carried forward a recommendation from 2022/23 that management should produce an annual formally agreed document which details how it meets the Best Value characteristics as set out in the Scottish Public Finance Manual (SPFM). In 2023/24, a formalised approach was agreed, and a high-level assessment was undertaken on Scottish Enterprise's arrangements for securing Best Value, with 'deep dive' self-assessments to be undertaken in subsequent years on the different themes outlined in the SPFM.

84. During 2024/25, deep dive assessments were undertaken on the best value themes of Vision and Leadership, and Governance and Accountability. Scottish Enterprise were able to highlight the arrangements currently in place which enable the demonstration of best value across these areas. Areas for improvement were also identified which have been incorporated into an action plan which will be monitored throughout 2025/26.

85. The audit work performed on the arrangements the body has in place for securing Best Value found that these were effective and appropriate.

Conclusions on Fairness and Equality arrangements

86. As reported in the Annual Audit Plan, specific work covering the ‘fairness and equality’ Best Value characteristic was carried out as part of the 2024/25 audit. Our audit work found evidence of appropriate arrangements in place to demonstrate fairness and equality, both strategically and operationally.

87. Scottish Enterprise published their biennial Equality Mainstreaming Report in 2025 which demonstrated that fairness and equality is embedded across Scottish Enterprise’s responsibilities both as an employer and as a service provider.

Appendix 1 - Action plan 2024/25

2024/25 recommendations

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
1**.** Sample testing of Level 3 Equity investments identified two investee companies which had been incorrectly valued. This was due to errors in the share price data used to value the shares at the year end. **Risk -** There is a risk that unidentified errors result in valuations being materially misstated.	While we are satisfied that the valuation process was adequate, management should consider whether there would be value in revisiting the level of detail in the documentation prepared for future years.	**Agreed** A Lesson Learned review will be undertaken with Growth Investments to understand if any improvement can be made to the current process, balancing risks and benefits. **Responsible officer** – Jane Martin **Agreed date** – September 2025

Follow-up of prior year recommendations

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 1. Best value framework Scottish Enterprise does not have a formally agreed document that details the arrangements in place to support the Best Value characteristics. **Risk -** Scottish Enterprise is unable to demonstrate compliance with the duty of Best Value per the characteristics set out in the SPFM.	**Recommendation -** Scottish Enterprise should produce an annual formally agreed document which details how it meets the Best Value characteristics as set out in the SPFM. **Management Response -** Management have undertaken a high-level assessment of Best Value arrangements in March 2024. This exercise has been approved by the Chief Financial Officer. Scottish Enterprise should report this high-level assessment and future annual assessments to the Board to facilitate effective scrutiny of Best Value arrangements. **Responsible officer -** Douglas Colquhoun **Agreed date -** March 2025	**Implemented** The first of the annual self-assessments was completed in 2024/25 with two ‘deep dive’ self-assessments being reported to Audit and Risk Committee in March 2025.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 2. Governance of cyber security Scottish Enterprise is part of the shared Enterprise Information Service (EIS). Information technology services for Scottish Enterprise are mostly managed by EIS. 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. Scottish Enterprise is taking a range of actions to improve its own cyber security arrangements. **Risk -** There is a risk that a cyber-attack could disrupt Scottish Enterprise's key financial systems.	**Recommendation** - Scottish Enterprise should support work to address weaknesses in EIS's cyber security arrangements and review and improve its own governance of cyber security. **Management response** - Progress has been made against the Cyber Security Action Plan. Progress continues to be reported to the Executive Leadership Team on a quarterly basis. Scottish Enterprise regularly undertakes Cyber Maturity Assessments, and the Action Plan is continually evolving to ensure it remains up to date. Scottish Enterprise will continue to monitor progress against the plan in 2024/25. **Responsible officer** - Gill McNeill **Agreed date** - March 2025	**Implemented** A further Cyber Maturity Assessment was undertaken in July 2024. Scottish Enterprise have added the recommendations from this assessment to the iterative Cyber Security Action Plan.

Appendix 2 – Misstatements

Details	Financial statements lines impacted	Statement of Comprehensive Net Expenditure (SoCNE)		Statement of Financial Position (SoFP)	
Adjusted misstatements		**Dr**	**Cr**	**Dr**	**Cr**
		£000	**£000**	**£000**	**£000**
1. As outlined in Exhibit 2, an adjustment was required due to two errors identified in the valuation of Financial Assets.					
	Operating Expenditure		1,887		
	Financial assets			1,887	
Net impact on financial statements			**1,887**	**1,887**	

Appendix 3 – National reports

Report name	Date published
Local government budgets 2024/25	15 May 2024
Scotland's colleges 2024	19 September 2024
Integration Joint Boards: Finance and performance 2024	25 July 2024
The National Fraud Initiative in Scotland 2024	15 August 2024
Transformation in councils	1 October 2024
Alcohol and drug services	31 October 2024
Fiscal sustainability and reform in Scotland	21 November 2024
Public service reform in Scotland: how do we turn rhetoric into reality?	26 November 2024
NHS in Scotland 2024: Finance and performance	3 December 2024
Auditing climate change	7 January 2025
Local government in Scotland: Financial bulletin 2023/24	28 January 2025
Transparency, transformation and the sustainability of council services	28 January 2025
Sustainable transport	30 January 2025
A review of Housing Benefit overpayments 2018/19 to 2021/22: A thematic study	20 February 2025
Additional support for learning	27 February 2025
Integration Joint Boards: Finance bulletin 2023/24	6 March 2025
Integration Joint Boards finances continue to be precarious	6 March 2025
General practise: Progress since the 2018 General Medical Services contract	27 March 2025
Council Tax rises in Scotland	28 March 2025

Scottish Enterprise

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