South of Scotland Enterprise

2024/25 Annual Audit Report

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

August 2025

Contents

Accessibility

You can find out more and read this report using assistive technology on our website www.audit.scot/accessibility.

Key messages

Audit of the annual report and accounts

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

2 There were three key audit matters to report but these had no impact on the main financial statements.

3 All audit adjustments were processed by South of Scotland Enterprise.

Financial management and sustainability

4 In 2024/25, South of Scotland Enterprise operated within its revised fiscal resources, reporting a net underspend of £0.387 million. £0.474 million of Financial Transactions income was also received which was not budgeted for.

5 Arrangements to secure sound financial management are effective and appropriate, with regular budget monitoring reports provided to the Board.

6 Appropriate internal control arrangements, including arrangements for the prevention and detection of fraud, operated throughout 2024/25 but we identified areas where controls could be strengthened.

7 South of Scotland Enterprise has effective IT arrangements in place but improvements could be made around business continuity testing and how they gain assurance over the back up of their data.

8 A medium-term financial plan was presented alongside the 2025/26 budget which details a challenging future outlook.

Vision, leadership and governance

9 South of Scotland Enterprise has a clear plan in place to deliver on its vision, strategy and priorities.

10 South of Scotland Enterprise has effective governance arrangements in place to support decision making and scrutiny of its activity and progress.

Use of resources to improve outcomes and Best Value

11 South of Scotland Enterprise has a performance measurement framework in place and regularly reports progress against its primary measures.

12 Improvements could still be made to performance reporting to ensure it facilitates effective scrutiny and progress against strategic objectives.

13 South of Scotland Enterprise has conducted a specific Best Value review of shared services arrangements but is yet to produce an overarching document setting out their approach to Best Value.

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 South of Scotland Enterprise's annual report and accounts and the wider scope areas specified in the Code of Audit Practice (2021) of:

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

2. The Annual Audit Report is addressed to South of Scotland Enterprise (SOSE), 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 SOSE for the period from 2022/23 until 2026/27. As reported in the Annual Audit Plan, the external auditor and the audit team are independent of SOSE 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 SOSE, including no provision of non-audit services.

Responsibilities and reporting

5. The Code of Audit Practice sets out the respective responsibilities of SOSE and the auditor, with a summary 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 SOSE from its responsibilities outlined below.

8. The Annual Audit Report includes an agreed action plan at Appendix 1. The matters reported are 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 SOSE from its responsibilities outlined below.

South of Scotland Enterprise's responsibilities

9. SOSE 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 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 Audit and Risk Committee. Details of national and performance audit reports published over the last year can be seen in Appendix 2.

Acknowledgements

11. We would like to thank SOSE 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 were three key audit matters to report but these had no impact on the main financial statements.

All audit adjustments were processed by South of Scotland Enterprise.

Audit opinions on the annual report and accounts are unmodified

12. SOSE's annual report and accounts were approved by the Board and signed by the appointed auditor on 20 August 2025. The Independent Auditor's Report is included in SOSE's annual report and accounts, and this reports that, in the appointed auditor's opinion, these were free from material misstatement.

The audit has been delivered in accordance with the agreed timetable

13. The unaudited financial statements, notes to the accounts and working papers excluding the statement of cash flows were received by 9 June 2025 in accordance with the agreed audit timetable. The statement of cash flows and full annual report and accounts was subsequently provided on 10 June 2025.

14. Working papers provided were of a high standard and allowed the audit team to efficiently complete the audit fieldwork. We received good support and comprehensive responses from finance staff which enabled us to complete the audit in accordance with the audit timetable.

The audit fee is unchanged from the level reported at planning

15. The audit fee for the 2024/25 audit was reported in the Annual Audit Plan and was set at £119,670. There have been no developments that impact on planned audit work required, therefore the audit fee reported in the Annual Audit Plan remains unchanged.

Materiality was reviewed on receipt of the unaudited annual report and accounts

16. Materiality is applied by auditors in planning and performing an audit. 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.

17. Materiality levels for the audit of SOSE 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 and are detailed at Exhibit 1.

Exhibit 1
2024/25 Materiality levels for South of Scotland Enterprise

	Materiality level
Materiality – set at 2% of gross expenditure	£610,000
Performance materiality – set at 60% of materiality. As outlined in the Annual Audit Plan, this acts as a trigger point. If the aggregate of misstatements exceeds performance materiality, this could indicate further audit procedures are required.	£370,000
Reporting threshold – set at 5% of materiality.	£30,000

Source: Audit Scotland

The audit has identified significant findings and key audit matters

18. ISA (UK) 260 requires auditors to communicate significant findings from the audit to those charged as governance, which for South of Scotland Enterprise is the Audit and Risk Committee.

19. 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 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.

20. The significant findings and key audit matters to report are outlined in Exhibit 2.

Exhibit 2
Significant findings and key audit matters

Significant findings and key audit matters	Outcome
Classification error within trade and other payables Sample testing of other payables identified a balance which should have been recognised as an accrual within the trade and other payables note. The invoice for the balance of £0.099 million was dated after the year-end but related to services provided during the 2024/25 financial year. This affected the classification within the note only and did not impact on the financial statements.	Management have adjusted for this in the notes section within the audited annual report and accounts.
Pension service costs A review of the retirement benefits note against the IAS 19 report prepared by Hymans Robertson identified that past service costs of £0.615 million had been incorrectly reported within current service costs. Current service costs and past service costs are required to be separately disclosed within the note to the accounts. This affected the note only and did not impact on the financial statements.	Management have adjusted for this in the notes section within the audited annual report and accounts.

Significant findings and key audit matters	Outcome
Exit package disclosure An exit package was disclosed within the Remuneration and Staff Report. It was identified that this had been misstated by £216.87 on a net basis and £1,283.13 on an absolute basis. Exit packages are required to be disclosed to the nearest pound. Although this misstatement is below our reporting threshold, this is being reported due to the nature of the disclosure within the Remuneration and Staff Report.	Management updated this disclosure in the Remuneration and Staff Report within the audited annual report and accounts.

Source: Audit Scotland

Qualitative aspects of accounting practices

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

Accounting policies

22. The appropriateness of accounting policies adopted by SOSE was assessed as part of the audit. These were considered to be appropriate to the circumstances of SOSE, 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 SOSE's financial statements, including the valuation of land and buildings assets and the valuation of the pension liability. Audit work considered the process SOSE has in place, including the assumptions and data used in making the estimates, and the use of any management experts. 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.

Disclosures in the financial statements

24. 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 the valuation of the pension liability.

Significant matters discussed with management

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

Audit adjustments

26. Audit adjustments were required to the notes to the financial statements to correct misstatements that were identified from the audit. We identified total adjustments of £0.715 million. Details of all audit adjustments greater than the reporting threshold of £0.03 million are outlined in Exhibit 2.

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

Our audit work responded to the significant risks of material misstatement identified in the Annual Audit Plan

28. 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 3.

Exhibit 3
Significant risks of material misstatement to the financial statements

Risk of material misstatement	Planned audit response	Outcome of audit work
Significant risks of material misstatement		
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 entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year end. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias.	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. • No significant issues were identified from transactions outside the normal course of business. • 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. **Conclusion:** no evidence of fraud caused by management override of controls.

Source: Audit Scotland

Prior year recommendations are being progressed

29. SOSE has made progress in implementing the agreed prior year audit recommendations as outlined at Appendix 1.

Financial management and sustainability

Conclusions

In 2024/25, South of Scotland Enterprise operated within its revised fiscal resources, reporting a net underspend of £0.387 million. £0.474 million of Financial Transactions income was also received which was not budgeted for.

Arrangements to secure sound financial management are effective and appropriate, with regular budget monitoring reports provided to the Board.

Appropriate internal control arrangements, including arrangements for the prevention and detection of fraud, operated throughout 2024/25 but we identified areas where controls could be strengthened.

South of Scotland Enterprise has effective IT arrangements in place but improvements could be made around business continuity testing and how they gain assurance over the back up of their data.

A medium-term financial plan was presented alongside the 2025/26 budget which details a challenging future outlook.

Financial Management

SOSE operated within its 2024/25 budget and has a strong financial management culture

30. The main financial objective for SOSE is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers. The initial 2024/25 budget was set at £27.364 million which was revised in year. SOSE has reported an outturn of £28.895 million against a revised budget of £29.756 million, representing a net underspend of £0.861 million. The financial performance against fiscal resource is shown in Exhibit 4.

Exhibit 4
Performance against resource limits in 2024/25

	Initial Budget £m	Final Budget £m	Outturn £m	Over / (under) spend £m
Resource	14.310	14.341	14.310	(0.031)
Resource - Pathways	0	1.500	1.429	(0.071)
Capital	13.000	13.004	13.219	0.215
Non-cash	0.054	0.385	0.281	(0.104)
Financial transactions	0	0	(0.474)	(0.474)
Annually Managed Expenditure	0	0.526	0.130	(0.396)
Total	27.364	29.756	28.895	(0.861)

Source: South of Scotland Enterprise 2024/25 Annual Report and Accounts

31. SOSE reported an overspend on capital of £0.215 million. SOSE provided capital grants to recipient bodies and provided loans to bodies through its capital budget in the absence of a Financial Transaction allocation which they previously received. The overspend was approved by the Scottish Government. While SOSE no longer have a budget to issue loans through Financial Transactions, they collected income of £0.474 million from previous loans issued.

Budget processes were appropriate

32. SOSE's budget was adjusted as part of the Scottish Government's in-year budget revision. Details on the budget revisions were reported to the Board throughout the year. The most significant revisions over the course of the year for SOSE included:

- Additional Fiscal Resource allocation of £1.5 million for the Pathways Fund which South of Scotland Enterprise piloted in 2024/25.
- An increase in Annually Managed Expenditure allocation of £0.526 million to cover volatile costs which cannot be predicted or controlled.

Budget monitoring reports are presented to the Senior Leadership Team and the Board on a regular basis

33. Senior management and non-Executive Directors receive regular and accurate financial information on South of Scotland Enterprise's performance against budget throughout the year. These reports include detailed commentary on financial performance to facilitate effective scrutiny from members and officers.

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

34. 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.

35. SOSE has adequate arrangements in place to prevent and detect fraud or other irregularities. This includes having clear and up-to-date policies in place on areas such as counter fraud and whistleblowing, and participation in fraud prevention and detection activities such as the National Fraud Initiative (NFI).

36. We also reviewed arrangements to maintain standards of conduct, including the Board and staff code of conduct and registers of interests. We concluded that SOSE has established procedures for preventing and detecting any breaches of these standards.

Appropriate internal control arrangements operated throughout 2024/25 but we identified areas where controls could be strengthened

37. Skills Development Scotland (SDS) provide financial systems on behalf of SOSE. SOSE then have a number of local controls and checks around the information provided to them from SDS. We reviewed the design and implementation of these local controls (including those relating to IT) relevant to our audit approach. From our review of the design and implementation of systems of internal control, relevant to our audit approach, we identified one internal control weakness which could affect the body’s ability to record, process and report financial and other relevant data to result in a material misstatement in the financial statements.

38. Through our substantive testing of grants, we identified an instance where a payment was made to a recipient body prior to all of the required evidence for the Fair Work requirement being obtained and reviewed. SOSE also recognised this weakness in November 2024 and completed a retrospective check of grants paid until that date and obtained further documentation where required. SOSE have also introduced a new step in the grants process going forward to ensure detailed checks over Fair Work are performed. We have concluded that there were no issues with the regularity of grant payments as there were no recipient bodies who did not meet the Fair Work requirements. However, SOSE should ensure all checks are completed prior to making grant payments, including Pathways Fund grants.

Recommendation 1

South of Scotland Enterprise should ensure that appropriate checks are completed over the documentation provided around Fair Work for all grants, in line with the updated process. This should also be applied for the Pathways Fund grants.

39. We also reviewed the controls relating to IT and identified two instances where these controls could be strengthened:

- SDS are responsible for the management of financial systems, including completing routine back-ups of data. As part of our risk assessment of SOSE's IT environment we requested evidence of these back-ups. This was provided, however we were advised this is not something that is typically provided to SOSE. Receipt of evidence of back-ups undertaken periodically through the year would provide assurance to SOSE over the proper operation of back-up procedures.

- SOSE has a Business Continuity Management policy in place which states that SOSE will conduct an annual exercise for all of its Incident Management Procedure scenarios. A test was scheduled for January 2025, however this was delayed to May 2025. This was completed, however a final report outlining the results of this has not yet been published. Due to the delay, no business continuity testing was completed in the 2024/25 year. SOSE should ensure testing of business continuity plans is completed in line with its policy.

Recommendation 2

South of Scotland Enterprise should obtain evidence of back-ups being completed periodically to gain assurance that these procedures are operating effectively. Business Continuity Management exercises should be completed each year in line with the Business Continuity Management Policy.

Financial Sustainability

Savings are required to meet financial pressures of £0.75 million identified for 2025/26

40. SOSE's 2025/26 budget was approved by the Board at the meeting held in March 2025. The approved budget was set at £31 million, funded by £28 million of grant-in-aid from the Scottish Government.

41. SOSE identified £0.75 million of pressure in the 2025/26 resource budget which will require savings to address this during the year. The financial position is monitored through the year and officers have been developing an action plan to address the financial pressure identified.

42. The capital budget has an overallocation in order to manage in year slippage. The achievement of successful outturn against budget in 2025/26 is dependent on project slippage being in line with management forecasts.

South of Scotland Enterprise have a medium-term financial plan in place that is updated annually

43. The 2025/26 budget was set in March 2025 along with the updated five-year financial plan to 2029/30 based on a static grant-in-aid allocation. The Capital budget is directly linked to SOSE's themes within its Operating Plan.

44. The financial plan forecasts continual resource pressures which increase to £1.49 million in 2029/30, largely due to inflationary pressures around staff costs and collaborative partnerships. The financial plan also identifies consistent over-allocations within the capital budget which will require careful monitoring.

Vision, leadership and governance

Conclusion

South of Scotland Enterprise has a clear plan in place to deliver on its vision, strategy and priorities.

Effective governance arrangements are in place to support decision making and scrutiny of activity and progress.

SOSE has a clear vision and strategy

45. SOSE published its five-year corporate plan in April 2023 outlining their role in delivering the Scottish Government's National Strategy for Economic Transformation (NSET). '*Our Five Year Plan'* sets out SOSE's vision and long-term priorities and is structured around six areas of strategic focus.

46. SOSE's vision is to "create success, increase opportunity, lead a sustainable and just transition to Net Zero and advance equality".

47. The corporate plan is supported by an annual operating plan. The 2025/26 Operating Plan was published in April 2025 following approval by the Board. This sets out the priority activities for SOSE in order to deliver against the six areas of strategic focus:

- Accelerating net-zero and nature positive solutions
- Advocating for fair work and equality
- Activating and empowering enterprising communities
- Attracting ambitious investment
- Awaking entrepreneurial talent
- Advancing innovation and improving productivity.

48. To deliver on these six areas, each one has several key objectives, which are monitored through SOSE's performance measurement framework. Per the corporate plan, SOSE's focus over the five year period was to gather baseline data to measure their impact in future years. We have considered the arrangements in place for performance reporting at SOSE within the *Use of resources to improve outcomes and Best Value* section of this report.

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

49. The Chief Executive and Senior Leadership Team are responsible for the delivery of day-to-day services and for ensuring that SOSE achieves its priorities as outlined in the corporate plan.

50. We have concluded that SOSE's senior management and non-executive directors have demonstrated effective leadership and scrutiny of its activity and performance during 2024/25. The current financial climate continues to be challenging. Going forward, SOSE's leadership will have to make difficult decisions to ensure they deliver on their strategic objectives within this challenging environment.

Governance arrangements continue to operate effectively

51. SOSE's governance arrangements have been set out in the Governance Statement in the annual report and accounts. We have reviewed these arrangements and concluded they are appropriate and effective.

52. There continues to be an increased 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 making decisions and how it is using resources.

53. SOSE's website is clear and well-structured. Board minutes are available to the public along with key publications, including the latest annual report and accounts. We concluded the Board conducts its business in an open and transparent manner.

Use of resources to improve outcomes and Best Value

Conclusion

South of Scotland Enterprise has a performance measurement framework in place and regularly reports progress against its primary measures.

Improvements could still be made to performance reporting to ensure it facilitates effective scrutiny and progress against strategic objectives.

South of Scotland Enterprise has conducted a specific Best Value review of shared services arrangements but is yet to produce an overarching document setting out their approach to Best Value.

There is still work to be done to ensure SOSE's performance measurement framework provides clear information on performance

54. During 2022/23 SOSE developed a new performance measurement framework to monitor progress against its operating plan and six areas of strategic focus. The Government Financial Reporting Manual (the FreM) requires performance measures to be disclosed in the performance report with comparative data and trend analysis. 2023/24 was the first full year of the new performance measurement framework and therefore comparative data was not available for disclosure in the performance report. Instead, SOSE included target ranges it had developed from baseline data to provide some context for performance. In our 2023/24 Annual Audit Report, we recommended SOSE continue to improve public reporting of performance against targets and use comparative information to monitor performance.

55. While collating the data for the 2024/25 performance report officers identified issues with the targets that had previously been developed. These were largely based on the data from the prior year and officers advised that a small number of projects had a disproportionate impact in 2023/24. Therefore, a decision was made to reduce targets by 14 per cent in line with the reduction in the capital budgets. SOSE publish a substantial number of performance measures in the performance report, and it is not clear how all of these have a direct link to capital expenditure and therefore whether this was the most appropriate approach to adjusting targets. A further change was made to targets for 2024/25 as these were set at a specific figure rather than a target range as included in the previous year.

56. We reviewed the performance report to ensure compliance with the FReM and to ensure performance measures support SOSE to deliver on its strategic objectives. We concluded that the performance report was compliant with the FReM but that improvements could be made to ensure performance reporting facilitates effective scrutiny and progress. SOSE should consider:

- Reviewing the number of measures and having a smaller number of specific and measurable indicators.

- Reviewing targets to ensure they are ambitious but realistic and including targets as a range.

57. SOSE recognise the need for robust targets and have advised that targets for 2025/26 are being reviewed to capture the lessons learned from the previous two years of data collection.

58. SOSE monitors performance through the year by providing a summary of performance to the Senior Leadership Team (SLT) meetings throughout the year and to the Board at each meeting through the Chief Executive's report. SOSE reports on 14 performance measures against target. For 2024/25 SOSE has exceeded the target position or is within the tolerable range (20 per cent of the target) for 11 of these measures. For the three measures out with the tolerable range, SOSE advised this was largely due to the target being based on limited data, further emphasising the need for robust targets.

Recommendation 3

South of Scotland Enterprise should continue to improve performance reporting. Specifically, they should review measures to ensure they are meaningful and measurable and ensure targets are robust enough to monitor performance over time.

Duty of Best Value

59. 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.

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

61. In our 2023/24 Annual Audit Report, we carried forward a recommendation from 2022/23 that management should produce an annually agreed document which details how it meets the Best Value characteristics set out in the Scottish Public Finance Manual (SPFM). In September 2023 a paper was presented to the Audit and Risk Committee outlining SOSE's approach to Best Value and how each of the Best Value characteristics, at both strategic and operational level are addressed.

62. In 2023/24 we were advised that a draft Best Value plan for 2024/25 was in progress. However, this has not yet been published. While an overarching document setting out SOSE's approach to Best Value has not been published, a specific Best Value review of shared services was completed. This was presented to the November 2024 Audit and Risk Committee alongside an overview of the requirements of Best Value reporting.

Recommendation 4

South of Scotland Enterprise should produce an annually agreed document which details how it meets the Best Value characteristics as set out in the SPFM.

Fairness and Equality

63. 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 work found evidence of appropriate arrangements in place to demonstrate fairness and equality, both strategically and operationally.

64. SOSE published their biennial Equality Mainstreaming Report in 2025 which demonstrated that fairness and equality is embedded across SOSE's responsibilities both as an employer and a service provider.

Appendix 1 – Action plan 2024/25

2024/25 recommendations

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
1. **Internal Controls (Fair Work)** SOSE identified weaknesses in the controls in place for reviewing Fair Work documentation provided by grant recipients. This was also identified during sample testing completed by audit. Additional procedures have since been implemented to address this and a retrospective review of all grants carried out, with the exception of the Pathways Fund. Risk - There is a risk that grants are paid to recipients that do not meet the Fair Work requirements within the terms and conditions of the grant.	SOSE should ensure that appropriate checks are completed over the documentation provided around Fair Work for all grants issued prior to payment, in line with the updated process. This should also be applied for the Pathways Fund grants.	**Accepted** In Q3 24/25 SOSE implemented an additional check in Agresso to review fair work evidence at the purchase requisition stage. Pathways grants do not require a requisition, the process for small grants will be reviewed to ensure a robust process around Fair Work evidence is maintained. Director of Business Enablement 31 December 2025

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
2. **Business Continuity and Back-up Procedures** The planned business continuity exercise for the 2024/25 financial year was not carried out. This was delayed until May 2025. Evidence of back-up procedures being performed is not regularly obtained by SOSE. Risk – SOSE do not conduct Business Continuity exercise in line with the Incident Management policy. Back-up procedures are not carried out in line with expectations.	SOSE should obtain evidence of back-ups being completed periodically to gain assurance that these procedures are operating effectively. Business Continuity Management exercises should be completed each year in line with the Business Continuity Management Policy.	**Accepted** SOSE are content back-ups are being performed regularly by our shared service provider and will further develop this process to receive routine evidence of the back-ups. SOSE will be mindful of diaries when arranging BCP events to ensure annual events to comply with Policy. Director of Business Enablement 31 December 2025
3. **Performance Reporting** SOSE have made progress in this area but further work is required to ensure the performance measures are specific and targets set are realistic, with a range applied which recognises these measures are not static. Risk – There is a risk that measures and targets do not provide meaningful information for performance to be monitored and scrutinised.	South of Scotland Enterprise continue to improve performance reporting. Specifically, they should review measures to ensure they are meaningful and measurable and ensure targets are robust enough to monitor performance over time.	**Accepted** Targets will become more realistic as intelligence is built upon from the limited intelligence available from 2 years of measures. 2025/26 targets will be reviewed and a range re-employed. Measures' review will also consider SG's Common Measures' ongoing work. Targets/measures to be approved by SLT. Director of Investment, Business and Entrepreneurship 30 September 2025

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
4. **Best Value** SOSE have completed a specific Best Value review of shared services in year. However, they have not yet produced an overarching document to set out their approach to Best Value. Risk – There is a risk SOSE does not meet all of the Best Value characteristics as set out in the SPFM.	SOSE should produce an annually agreed document which details how it meets the Best Value characteristics as set out in the SPFM.	**Accepted** SOSE will produce an Annual Best Value Report and report this through Audit and Risk Committee. Director of Business Enablement 31 March 2026

Follow-up of prior year recommendations

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 1. Maintenance of the Fixed Asset Register A number of minor issues were identified with the updating of the Fixed Asset Register for additions acquired in year. These assets should be added to the register timeously with the appropriate accounting policies applied and asset ID assigned. There is a risk that the Fixed Asset Register is not complete and assets are incorrectly classified.	**Recommendation** - SOSE should ensure assets acquired in the year are correctly recorded in the Fixed Asset Register. **Management Response** - Finance to explore potentially closing the fixed asset module later at year-end to remove manual intervention required around cut-off. Or the finance team will manually depreciate any asset adjustment made after the fixed asset module has closed in Agresso or formally note judgements not to do so due to minor balance. **Responsible Officer** - Director of Business Enablement (formerly known as Director of Finance and Corporate Resources) **Agreed date** - March 2025	**Implemented** Audit procedures confirmed that the issues identified in 23/24 did not recur and the Fixed Asset Register had been appropriately updated and maintained in 24/25.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 2. National Fraud Initiative SOSE participates in the biennial National Fraud Initiative. The 2022/23 exercise concluded during 2023/24 financial year. SOSE completed a review of a sample of the 91 matches identified for them and outcomes were reported to the Head of Governance and Assurance. These were not reported to the Audit and Risk Committee. There is a risk that those charged with governance are not aware of the issues identified from the exercise or the progress or actions that come from it.	**Recommendation** - SOSE should report to those charged with governance on the NFI process and conclusions from the investigations undertaken. **Management Response** - SOSE will report all NFI matches and outcomes to ARC on a bi-annual basis. **Responsible Officer** - Director of Business Enablement (formerly known as Director of Finance and Corporate Resources) **Agreed date** - September 2024 ARC	**Implemented** An update paper on the National Fraud Initiative was presented to the Audit and Risk Committee on 27 November 2024. This advised members on the purpose and scope of the exercise, alongside an overview of results from the recent 22/23 exercise completed.
b/f 3. Five-year financial plan SOSE presented a five-year financial plan to the Board alongside the 2023/24 budget in March 2023. This contains forecasts for the five years based on several assumptions. The five-year plan has not been updated since. There is a risk that the financial forecasts in the plan are no longer accurate as new information has become available.	**Recommendation** - SOSE should ensure its medium-term financial plan is updated to ensure accurate forecasting. **Management Response** - Finance will present the 5-year plan to Board on an annual basis alongside the Budget. **Responsible Officer** - Director of Business Enablement (formerly known as Director of Finance and Corporate Resources) **Agreed date** - March 2025	**Implemented** An updated Five-Year financial plan was presented to the Board in March 2025 alongside the 2025/26 budget.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 4. Performance Measurement 2020/21 AAR SOSE has started developing a performance measurement framework, but progress was delayed as SOSE focused on responding to the impact of Covid-19. Risk - There is a risk that SOSE cannot demonstrate its contribution to Scottish Government priorities.	**Recommendation** - SOSE should develop a suite of measurable performance indicators. These should have a clear link to the Scottish Government's National Performance Framework, clearly demonstrating SOSE's contribution to the national priorities. **Management Response** - Baseline data has been gathered since the new measures within the Performance Measurement Framework have been in place and SOSE has formed targets for each measure. **Revised action** - SOSE should continue to improve their public reporting of performance against targets and use of comparative information to monitor progress. **Responsible officer** – Director of Investment, Business and Entrepreneurship (formerly Director of Place and Enterprise) **Revised date** - 31/3/2025	**Superseded** SOSE have made progress in this area but further work is required to ensure the performance measures are specific and targets set are realistic, with a range applied which recognises these measures are not static. **See 2024/25 recommendations (point 3).**

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 5. Best Value Framework 2022/23 AAR SOSE does not have a formally agreed document that details the arrangements in place to support the Best Value characteristics. Risk – SOSE is unable to demonstrate compliance with the duty of Best Value per the characteristics set out in the SPFM.	**Recommendation** - SOSE should produce an annually agreed document which details how it meets the Best Value characteristics as set out in the SPFM. **Management Response** - Papers on Best Value Reporting have been presented to the SOSE Senior Leadership Team and the Audit and Risk Committee. A draft plan for 2024/25 is in progress. **Revised action** - SOSE should agree the draft plan for Best Value for 2024/25 and prepare annual reports going forward. **Responsible officer** – Director of Investment, Business and Entrepreneurship (formerly Director of Place and Enterprise) **Revised date** - 31/3/2025	**Superseded** The Best Value plan setting out SOSE's approach to Best Value has not yet been finalised and remains in progress. SOSE have completed a specific Best Value review of shared services during the year. **See 2024/25 recommendations (point 4).**

Appendix 2 – 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

South of Scotland Enterprise

2024/25 Annual Audit Report

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 **Email: info@audit.scot**
www.audit.scot

AS.5.0