

South of Scotland Enterprise

2023/24 Annual Audit Report



 AUDIT SCOTLAND

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

August 2024

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Key messages

2023/24 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified.
- 2 Key risks identified for the audit of South of Scotland Enterprise were included in our Annual Audit Plan and presented to the Audit and Risk Committee on 13 March 2024. There are no significant matters from that work to draw to the attention of the Committee.
- 3 The financial statements and supporting workings were prepared to a good standard, however there was a slight delay in the receipt of the unaudited annual report and accounts.

Financial management

- 4 Arrangements to secure sound financial management are effective and appropriate, with regular budget monitoring reports provided to the Board.
- 5 In 2023/24 South of Scotland Enterprise operated within its revised fiscal resources, reporting an underspend of £0.6 million.
- 6 Financial controls and arrangements for the prevention and detection of fraud remain appropriate.
- 7 Minor improvements are required for the maintenance of the Fixed Asset Register.

Financial sustainability

- 8 South of Scotland Enterprise has arrangements in place to continue to deliver services. Options to address financial pressures identified for 2024/25 of £0.5m are being considered.
- 9 South of Scotland Enterprise has a five-year financial plan in place but this has not been updated since its production.

Vision, leadership, and governance

- 10 South of Scotland Enterprise has clear plans in place to implement its vision, strategy and priorities.

- 11 Effective and appropriate governance arrangements are in place to support scrutiny of decisions made by the Board.
- 12 South of Scotland Enterprise continue to develop their cyber security arrangements.

Use of resources to improve outcomes

- 13 Progress has been made in developing a Best Value framework that demonstrates how each of the Best Value characteristics are being addressed. The reporting arrangements have been discussed at the Audit and Risk Committee, with a Best Value Report planned for 2024/25.
- 14 South of Scotland Enterprise has made good progress in implementing an effective performance management framework.

Introduction

1. This report summarises the findings from the 2023/24 audit of South of Scotland Enterprise (SOSE). The scope of the audit was set out in the Annual Audit Plan presented to the March 2024 meeting of the Audit and Risk Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of South of Scotland Enterprise's annual report and accounts
- conclusions on the following wider scope areas that frame public audit as set out in the [*Code of Audit Practice 2021*](#):
 - Financial Management
 - Financial Sustainability
 - Vision, Leadership, and Governance
 - Use of Resources to Improve Outcomes.

2. This report is addressed to the Board of South of Scotland Enterprise and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment

3. I, Pauline Gillen, have been appointed by the Auditor General for Scotland as auditor of South of Scotland Enterprise for the period from 2022/23 until 2026/27.

4. My team and I would like to thank Board members, Audit and Risk Committee members, executive directors, and other staff, particularly those in finance, for their cooperation and assistance in this year's audit, and we look forward to working together constructively over the course of the remainder of the five-year appointment.

Responsibilities and reporting

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

6. My responsibilities as the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000, the Code of Audit Practice 2021, supplementary guidance and International Standards on Auditing in the UK (ISAs).

7. Weaknesses or risks identified are only those which have come to the attention of the audit team during our normal audit work and may not be all that exist. Communicating these does not absolve management of SOSE from its responsibility to address the issues raised and to maintain adequate systems of control.

8. This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

Auditor Independence

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2023/24 audit fee of £117,058 as set out in our 2023/24 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

10. The annual audit adds value to SOSE by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice identified.

1. Audit of 2023/24 annual report and accounts

Public bodies are required to prepare annual reports and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual report and accounts are unmodified.

Key risks identified for the audit of South of Scotland Enterprise were included in our Annual Audit Plan and presented to the Audit and Risk Committee on 13 March 2024. There are no significant matters from that work to draw to the attention of the Committee.

The financial statements and supporting workings were prepared to a good standard, however there was a slight delay in the receipt of the unaudited annual report and accounts.

Audit opinions on the annual report and accounts are unmodified

11. The Board approved the annual report and accounts for SOSE for the year ended 31 March 2024 on 22 August 2024. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were in accordance with applicable enactments and guidance
- the audited part of the Remuneration and Staff Report was prepared in accordance with the Government Financial Reporting Manual
- the Performance Report and Governance Statement were consistent with the financial statements and properly prepared in accordance with the Government Financial Reporting Manual.

Overall materiality was assessed as £0.68 million

12. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

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

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£0.68 million
Performance materiality	£0.40 million
Reporting threshold	£35,000

14. The overall materiality threshold was set with reference to gross expenditure which was judged as the figure most relevant to the users of the financial statements.

15. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 60% of overall materiality, reflecting a small number of errors identified in the previous year's audit and the level of estimation and judgement in the valuation of key accounts areas (land and buildings within non-current assets and the retirement benefit obligation).

16. It is our responsibility to request that all misstatements are corrected other than those below the reporting threshold. The final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

17. Under ISA (UK) 260, we communicate significant findings from the audit to the Board, including our view about the qualitative aspects of the Board's accounting practices.

18. The Code of Audit Practice also requires key audit matters which are defined in ISA (UK) 701 as those matter judged to be of most significance to be highlighted.

19. The significant findings and key matters from the audit are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
<p>1. Retirement Benefits</p> <p>SOSE accounts for its retirement benefit obligations on a defined benefit basis under IAS 19 Employee Benefits, with a pension asset or liability disclosed in the Statement of Financial Position. The present value of the assets and liabilities depends on factors that are determined on an actuarial basis using assumptions and estimations made by the fund's actuary. Part of this includes measuring the rate of return on assets held by the pension fund.</p> <p>Due to early timing of the audit, the actuary's report used by SOSE to prepare the unaudited financial statements included an estimated rate of return on assets. The actuary confirmed in July 2024 that the actual rate of return on assets was higher than estimated and this increased the net asset position by £0.25 million. Due to the effect of the asset ceiling limitation and assumptions involved, there is no impact on the net asset that could be recognised.</p>	<p>Management obtained a revised IAS 19 schedule of results from Hymans Robertson in July 2024. This confirmed that the actual valuation was not materially different from the estimated asset valuation.</p> <p>Note 19 – Retirement Benefit Scheme has been amended to reflect the actual rate of return on assets shown in the revised results. The primary financial statements have not changed because the application of the asset ceiling in accordance with IAS 19 and IFRIC 14 resulted in the the net funded pension asset remaining the same.</p>
<p>2. Remuneration Disclosures</p> <p>The following minor misstatements were identified in the unaudited Remuneration and Staff Report including:</p> <ul style="list-style-type: none"> • Remuneration reported for one Board member was incorrectly disclosed. • Pay in lieu of notice for one individual was incorrectly disclosed as an exit package. 	<p>Management updated these disclosures within the Remuneration and Staff Report.</p>

Issue	Resolution
<p>3. Taxation Note</p> <p>The Taxation figures were omitted from the unaudited annual report and accounts provided to audit alongside the supporting working papers. This was acknowledged by management and brought to our attention on receipt of these accounts.</p> <p>The working papers were subsequently provided and figures accurately reported within the revised accounts prepared by management. The values involved were below our materiality levels individually. The absolute value of the adjustments across the financial statements was £354k.</p>	<p>Management updated this within the annual report and accounts.</p>

Audit work responded to the risks of material misstatement we identified in the annual report and accounts

20. The significant risks of material misstatement to the financial statements identified in the 2023/24 Annual Audit Plan are set out at [Exhibit 3](#). It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Identified Significant risks of material misstatement in the annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • Assess 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 and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. 	<p>We undertook the assurance procedures as planned and found:</p> <ul style="list-style-type: none"> • The authorisation control over journal entries continues to operate effectively. • Management is not aware of inappropriate or unusual activity. • Detailed testing of journal entries and unusual transactions did not identify any errors.

Audit risk	Assurance procedure	Results and conclusions
	<ul style="list-style-type: none"> • Consider the need to test journal entries and other adjustments throughout the year. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments. 	<ul style="list-style-type: none"> • There were no significant transactions outside the normal course of business. • The methodology used in preparing significant accounting estimates is reasonable and consistent with the previous year. <p>We did not identify any instances of management override of control.</p>

21. In addition, other “areas of audit focus” were identified in the 2023/24 Annual Audit Plan where there may be risks of material misstatement to the financial statements. These areas of specific audit focus were:

- **Risk of material misstatement caused by fraud and error in capital grants expenditure** – we completed a walkthrough of the key controls in the grant approval process and substantively tested a sample of capital grant payments to ensure appropriate evidence is obtained before approval and that subsequent monitoring of grant conditions had been carried out. This testing confirmed the arrangements in place are appropriate and capital grants had been accurately processed.
- **Estimations in valuation of land and buildings** – we assessed the design and implementation of controls over the valuation of land and

buildings. We carried out 'reliance on a management expert' work on the valuer and concluded that we could place reliance on their valuation of the property portfolio. We reviewed the revaluation adjustments throughout the financial statements and confirmed that these had been accurately processed.

- **Estimations in valuation of pension assets and liabilities** – we assessed the design and implementation of controls over the valuation of pensions. We carried out 'reliance on a management expert' work on the actuary. Based on the findings of the audit procedures performed we concluded that we could place reliance on the actuary's valuation of the pension asset. We reviewed the pension adjustments throughout the financial statements and confirmed that these had been accurately processed. Two instances were identified where the disclosures within the notes to the accounts were not in line with IAS 19. These were corrected by management.

22. Based on the findings of the audit procedures performed, the only matters which we need to bring to your attention relate to the pensions disclosure requirements reported above and the revised IAS 19 schedule of results provided by the Actuary as reported at [Exhibit 2](#).

There were no material misstatement identified within the financial statements

23. As reported at [Exhibit 2](#), there was one misstatement relating to the taxation figures which was above our reporting threshold. The adjustments relating to retirements benefits and the remuneration report were disclosure changes. There was one further adjustment made to the annual report and accounts. This related to the Statement of Cashflows. The incorrect column from the working paper had been used to populate the Statement of Cashflows and this was corrected in the updated annual report and accounts. With the exception of these, no further misstatements were identified which exceeded the reporting threshold.

The unaudited annual report and accounts were received slightly later than the audit timetable

24. Working papers were received on 5 June 2024 in line with the agreed timetable, however the unaudited annual report and accounts were received slightly later on 11 June 2024. This did not impact on our ability to complete the audit. At the time of providing the accounts management advised of the incomplete taxation note, as explained in [Exhibit 2](#), and of an error in the Statement of Cashflows, as explained above. We received good support from finance staff which enabled us to complete the audit in accordance with the agreed timetable.

Progress was made on prior year recommendations

25. SOSE has made good progress in implementing the agreed prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusion

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

In 2023/24 South of Scotland Enterprise operated within its revised fiscal resources, reporting an underspend of £0.6 million.

Financial controls and arrangements for the prevention and detection of fraud remain appropriate.

Minor improvements are required for the maintenance of the Fixed Asset Register.

SOSE operated within its revised budget in 2023/24

26. The main financial objective for SOSE is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers. SOSE has reported an outturn of £31.43 million in 2023/24, with an underspend of £0.67 million against the overall resource, capital and financial transactions allocations. As in 2022/23, there were revisions in year to these allocations. The financial performance against fiscal resources is shown in [Exhibit 4](#).

Exhibit 4

Performance against fiscal resource in 2023/24

Performance	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Resource	15.103	15.128	15.201	0.07
Capital	15.2	15.2	14.839	(0.361)
Financial Transactions	3.65	1.768	1.39	(0.378)

Total	33.95	32.096	31.43	(0.666)
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Source: South of Scotland Enterprise 2023/24 Annual Report and Accounts

Budget processes and reporting were appropriate.

27. The budget setting and monitoring processes at SOSE continued to be effective. The 2023/24 budget was reduced by £2 million in comparison to the previous year. SOSE's budget was decreased further as part of the Spring Budget revision (SBR). The main area of reduced income related to Financial Transactions. At the time of the SBR, SOSE were aware that the demand levels for these loans would not be sufficient to utilise all of the initial budget (£3.65 million) and therefore agreed to return £1.8 million of this funding.

28. While there was an underspend in Financial Transactions for SOSE, spend in 2023/24 was significantly higher than in 2022/23 (£0.06 million). SOSE have undertaken various marketing activities to promote the loans to those who are eligible. This has included a specific event to ensure businesses were aware of this option for support while raising the profile of SOSE as an organisation.

29. During 2023/24, the Board received regular financial monitoring reports. The financial position is reported with sufficient accuracy, detail and timeliness to support scrutiny of performance by members on a regular basis. Actual expenditure compared to budgeted figures are part of a rolling forecast within the management accounts. Commentary on each element of the budget is provided to give more detail on the figures presented and to aid scrutiny.

SOSE has appropriate financial control arrangements in place

30. Skills Development Scotland (SDS) provide financial systems on behalf of SOSE. SOSE then have number of local controls and checks in place around the information provided to them from SDS. We reviewed the design and implementation of those local controls (including those relating to IT) relevant to our audit approach and, we did not identify any internal control weaknesses which could affect SOSE'S ability to record, process, summarise and report financial and other relevant data and result in a material misstatement in the financial statements.

31. We also obtained assurances from the external audit team for SDS under ISA 402 that the related controls operating at SDS are suitably designed to achieve the controls objectives.

Improvements could be made around accounting for non-current assets

32. During our audit of the non-current assets within the financial statements, we identified the following:

- Assets acquired during the year had been correctly included in the fixed asset register, however a small number of these did not have an asset identification number assigned to them.
- Two instances were identified where additions in the year did not have depreciation charged to them in line with the accounting policy. This was a management judgement due to the timing of the additions being at the year end. The values involved were below our reporting threshold and did not impact our audit opinion.
- It was identified that an addition in year had been recognised as 'Land', however this was an asset in development and was therefore not subject to revaluation in year. This should have been disclosed separately at note line level within the annual report and accounts. This did not impact on the values reported at financial statement level.

Recommendation 1

South of Scotland Enterprise should ensure assets acquired in the year are appropriately recorded in the Fixed Asset Register.

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

33. 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.

34. SOSE has adequate arrangements in place to prevent and detect fraud or other irregularities. We also reviewed arrangements to maintain standards of conduct, including the Board and staff code of conduct and register of interests. We concluded that SOSE has established procedures for preventing and detecting any breaches of these standards.

National Fraud Initiative

35. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. SOSE participates in this biennial exercise. The 2022/23 exercise concluded during 2023/24 financial year and the final report is due to be published in Summer 2024.

36. We reported last year that 91 NFI data matches were identified for SOSE as part of the 2022/23 exercise. SOSE completed a review of a sample of these matches and outcomes were reported to the Head of Governance and Assurance. Sample sizes were considered to be reasonable. The outcomes of

the NFI exercise were not reported to those charged with governance. We were advised this was due to the low number of matches identified and that if any issues were to be identified this would be communicated to them. This is the second time SOSE has participated in the NFI process so the arrangements for this continue to progress.

Recommendation 2

South of Scotland Enterprise should report to those charged with governance on the NFI process and conclusions from the investigations undertaken.

3. Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

South of Scotland Enterprise has arrangements in place to continue to deliver services. Options to address financial pressures identified for 2024/25 of £0.5m are being considered.

South of Scotland Enterprise has a five-year financial plan in place but this has not been updated since its production.

SOSE has identified £0.5 million of financial pressure where savings are required for 2024/25

37. The 2024/25 budget for SOSE was approved by the Board at the meeting held in February 2024. The approved budget was set at £35 million, funded by £28 million of grant-in-aid from the Scottish Government.

38. SOSE identified £0.5 million of pressure in the 2024/25 resource budget. SOSE identified expenditure of £16.3 million, while resource income (made up of grant-in-aid and other income) totalled only £15.8 million. The capital budget has been set at £13 million with no such pressures identified. SOSE has no Financial Transactions budget for 2024/25.

39. The financial position is monitored through the year and officers have been developing an action plan to address the £0.5 million financial pressure identified. Identified areas where savings could be made relate to staffing, the new CRM system (MySOSE) and loans. Other potential areas are also under consideration.

South of Scotland Enterprise has a five-year financial plan in place

40. When the 2023/24 budget was set in March 2023, this was presented to the Board with a five-year financial plan. This forecasted a break-even position in each year to 2027/28. It forecasts that resource grant-in-aid will decrease over the five-year period and therefore to achieve this break-even position each year, client and project resource expenditure will decrease while other expenditure (such as staff costs and estates) will increase due to inflationary pressures.

41. The five-year plan is based on a number of assumptions, including a five percent payroll uplift and incremental increases. The plan also identifies risks which could impact on the assumptions and delivery of the this, such the pay uplift being higher than five percent. There was no update to the five-year plan this year. SOSE should ensure that these assumptions are kept under regular review throughout the duration of the plan and updated to reflect any changes in circumstances.

Recommendation 3

South of Scotland Enterprise should ensure its medium-term financial plan is kept up to date so that the forecast position remains accurate.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusion

South of Scotland Enterprise has clear plans in place to implement its vision, strategy and priorities.

Effective and appropriate governance arrangements are in place to support scrutiny of decisions made by the Board.

South of Scotland Enterprise continue to develop their cyber security arrangements.

SOSE has a clear vision and strategy

42. SOSE published its corporate plan in April 2023 outlining their role in delivering the Scottish Government's National Strategy for Economic Transformation (NSET). 'Our Five Year Plan' covers the period 2023-28 and was presented to the Board in March 2023. The plan sets SOSE's vision and long-term priorities and is structured around six areas of strategic focus.

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

44. The corporate plan is then supported by an annual Operating Plan. The 2024/25 Operating Plan was approved by the Board at its meeting in June 2024 and subsequently published on the SOSE website. 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

- Awakening entrepreneurial talent
- Advancing innovation and improving productivity.

45. To deliver on these six areas, each one has several key objectives, which will be monitored through a new performance measurement framework. Per 'Our Five Year Plan', SOSE's focus over the period of the plan is to start collecting data in line with the performance measurement framework and establish a baseline to measure their impact in the coming years. We have considered SOSE's performance management arrangements at [section 5](#).

Governance arrangements are effective and appropriate

46. 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 that they are appropriate and effective.

47. 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.

48. 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 that the Board conducts its business in an open and transparent manner.

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 critical day-to-day services as well as leading the changes to how services are accessed and delivered within SOSE.

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 2023/24. Going forward, they will have some challenging decisions to make in terms of how services are best delivered in the current financial climate.

Cyber security arrangements are appropriate

51. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation.

52. Information technology services for SOSE are managed by its internal IT service and by the the externally led Enterprise Information Services (EIS) partnership. The EIS partnership board provides the strategic oversight of the EIS partnership (also involving Scottish Enterprise, Highland and Islands Enterprise, and Skills Development Scotland).

53. Overall, responsibility for cyber security lies with each partner body. Cyber Essentials Plus was accredited to SOSE and all EIS partner bodies in September 2023. IT security tools and measures are in place to mitigate any cyber security risks, including anti-virus and virus scanning software, intrusion prevention and detection systems, firewalls, and security information and event management systems.

54. SOSE, alongside the other three bodies involved in the EIS partnership, are continuing to work with EIS to develop a more robust IT strategy across the partnership bodies. SOSE are in the process of reviewing their “Cyber Playbook” to ensure robust business continuity arrangements are in place.

55. There is evidence that both South of Scotland Enterprise and the EIS partnership board are committed to cyber security and ongoing improvement in this area. Cyber-related risks are reported to the EIS partnership board and are shared by the EIS partnership at the cross-organisational security council. The Audit and Risk Committee receives regular updates on cyber security, due to its inclusion as a risk within the corporate risk register. The risk register sets out the mitigations in place to manage the risk around cyber security.

New sustainability reporting requirements are coming into force from 2024/25

56. The Task Force on Climate-related Financial Disclosures (TCFD) has developed a framework to help organisations including those in the public sector to more effectively disclose climate-related risks and opportunities through their existing reporting processes. Public bodies are recommended to disclose how they make decisions with regards to climate-related issues and their plan to mitigate risks and embrace opportunities within their annual report.

57. Annual reports should include sustainability reporting and make appropriate disclosures in line with the FReM and related guidance. Guidance has been issued by Scottish Government on the Task Force on Climate-related Financial Disclosures (TCFD) and recommends a phased approach to the implementation of this. In order to promote best practice reporting in annual accounts it is recommended that Scottish public bodies comply with these requirements. Therefore, SOSE should become familiar with these requirements ahead of the preparation of the 2024/25 annual report and accounts.

5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

Progress has been made in developing a Best Value framework that demonstrates how each of the Best Value characteristics are being addressed. The reporting arrangements have been discussed at the Audit and Risk Committee, with a Best Value Report planned for 2024/25.

South of Scotland Enterprise has made good progress in implementing an effective performance management framework.

SOSE has made progress in developing its Best Value framework

58. [Ministerial guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

59. In our 2022/23 Annual Audit Report, we reported that while SOSE had appropriate arrangements in place for securing Best Value, there was not a formally agreed document that details those. We recommended that the Best Value process could be enhanced by producing a document that is updated annually detailing the arrangements that support the Best Value characteristics.

60. In August 2023, the Senior Leadership Team discussed the Best Value reporting process and discussed arrangements for future reporting in this area. In September 2023, the Audit and Risk Committee was presented with a paper on SOSE's Best Value approach. The paper provides background on the responsibilities of SOSE in relation to Best Value before going through each characteristic and providing evidence of how they address it at both a strategic and operational level.

61. A Best Value Report is currently in progress for 2024/25 which details the actions required by SOSE to demonstrate best value in various areas and how the achievement of this will be monitored.

SOSE have established a baseline level for performance measures and have set targets for future performance reporting

62. We commented in our 2022/23 Annual Audit Report, that SOSE has developed a new performance measurement framework to monitor progress against its operating plan and the six areas of strategic focus. We recognised that this would take time to embed within the organisation, but recommended that SOSE set targets to assess progress for 2023/24 and beyond.

63. During our audit we identified that the performance measures included in the Performance Report of the Annual Report and Accounts did not include comparative information or any trend analysis. The inclusion of prior year comparative data is a requirement of the Government Financial Reporting Manual (the FReM). However, the FReM also states that where data is disclosed without relevant comparative information, this is permitted as long as the reason for this is disclosed. Given this is year one of the new performance measurement framework, prior year data was not available. A disclosure was added to the Annual Report and Accounts to satisfy the FReM requirements.

64. From discussion with officers, baseline data has been gathered since the new measures within the framework have been in place and this has formed targets for each measure. SOSE agreed to add these in to the Performance Report to add more context to the results disclosed. These targets alongside comparative information should be used going forward to monitor progress.

65. SOSE monitors performance through the year by providing a summary of performance to the Senior Leadership Team (SLT) meetings throughout the year. This provides an update on the key development activities ongoing at SOSE and highlights for the period being reported. SOSE has a number of primary measures in place which are reported to SLT through the use of dashboards.

66. Further, a summary of performance for the period is also presented in line with the six areas of Strategic Focus, known as the 6A's which are detailed at paragraph 44.

Recommendation 4

SOSE should continue to improve their public reporting of performance against targets and use comparative information to monitor progress.

Appendix 1. Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Maintenance of the Fixed Asset Register</p> <p>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.</p> <p>There is a risk that the Fixed Asset Register is not complete and assets are incorrectly classified.</p>	<p>SOSE should ensure assets acquired in the year are correctly recorded in the Fixed Asset Register.</p> <p>Paragraph 32.</p>	<p>Accepted</p> <p>Finance to explore potentially closing the fixed asset module later at year-end to remove manual intervention required around cut-off.</p> <p>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.</p> <p>Responsible officer – Director of Finance and Corporate Services</p> <p>Agreed date – March 2025</p>
<p>2. National Fraud Initiative</p> <p>SOSE participates in the biennial National Fraud Initiative. The 2022/23 exercise concluded during 2023/24 financial year.</p> <p>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</p>	<p>SOSE should report to those charged with governance on the NFI process and conclusions from the investigations undertaken.</p> <p>Paragraph 36.</p>	<p>Accepted</p> <p>SOSE will report all NFI matches and outcomes to ARC on a bi-annual basis.</p> <p>Responsible officer – Director of Finance and Corporate Services</p> <p>Agreed date – September 2024 ARC</p>

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<p>reported to the Audit and Risk Committee.</p> <p>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.</p>		
<p>3. Five-year financial plan</p> <p>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.</p> <p>The five-year plan has not been updated since.</p> <p>There is a risk that the financial forecasts in the plan are no longer accurate as new information has become available.</p>	<p>SOSE should ensure it's medium term financial plan is updated to ensure accurate forecasting.</p> <p>Paragraph 41.</p>	<p>Accepted</p> <p>Finance will present the 5 year plan to Board on an annual basis along side the Budget.</p> <p>Responsible officer – Director of Finance and Corporate Services</p> <p>Agreed date – March 2025</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation and Agreed Action	Progress
<p>4. Performance Measurement 2020/21 AAR</p> <p>SOSE has started developing a performance measurement framework, but progress was delayed as SOSE focused on responding to the impact of Covid-19.</p> <p>Risk – There is a risk that SOSE cannot demonstrate its</p>	<p>Recommendation:</p> <p>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.</p>	<p>Work in progress</p> <p>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.</p> <p>Revised action - SOSE should continue to improve their public reporting of</p>

Issue/risk	Recommendation and Agreed Action	Progress
<p>contribution to Scottish Government priorities.</p>	<p>Agreed action:</p> <p>SOSE should ensure it sets measurable targets for performance to be assessed against for 2023/24 and beyond.</p> <p>Propose targets will be measured for 6 months of 2023/24.</p> <p>Agreed date: March 2024</p>	<p>performance against targets and use of comparative information to monitor progress.</p> <p>Paragraph 64.</p> <p>Responsible officer – Director of Place and Enterprise</p> <p>Revised date - 31/3/2025</p>
<p>5. Grant award process and monitoring</p> <p>Our audit testing identified improvements are required to the processes in place for evidencing the approval of grants and the subsequent monitoring of grant conditions and whether these are being met by recipients. For example, SOSE was unable to provide evidence of checks carried out prior to the award of a grant that we selected for substantive testing.</p> <p>Risk – SOSE makes grant payments to bodies who do not meet the terms and conditions of the grant award.</p>	<p>Recommendation:</p> <p>SOSE should review the controls and processes in place around the award of grants and subsequent monitoring of recipients and ensure these are applied consistently across the organisation.</p> <p>Agreed action:</p> <p>SOSE issued a Finance Guidance Note on the grant claims process on the 28/6/23 to all staff, reminding everyone of the correct claim process and their responsibilities. This document was shared with Audit Scotland on 11/07/23.</p> <p>Effective 1/7/23 SOSE added an extra step for all grant invoice approvals so finance verify a spreadsheet has been completed and attached in Agresso. This spreadsheet will detail the evidence checked against the Grant Offer Letter criteria and intervention rate. Finance will approve an invoice in Agresso once they confirm existence of this documentation.</p>	<p>Implemented</p> <p>SOSE issued a Finance Guidance Note on the grant claims process on the 28/6/23 to all staff, reminding everyone of the correct claim process and their responsibilities. This document was shared with Audit Scotland on 11/07/23.</p> <p>Effective 1/7/23 SOSE added an extra step for all grant invoice approvals so finance verify a spreadsheet has been completed and attached in Agresso which details the evidence checked against the Grant Offer Letter criteria and intervention rate. Finance will approve an invoice in Agresso once they confirm existence of this documentation.</p> <p>Audit procedures confirmed that this spreadsheet or an equivalent is in operation.</p>

Issue/risk	Recommendation and Agreed Action	Progress
	Agreed date: Immediate effect.	
<p>6. Local controls</p> <p>Skills Development Scotland (SDS) provide financial systems on behalf of SOSE. SOSE then have number of controls and checks in place around the information provided to them from SDS. Our evaluation of the design and implementation of these local controls found that the month-end reconciliations which have been prepared and reviewed by SDS are checked by SOSE, but this is not evidenced by a signature.</p> <p>Risk – Financial information provided by the service organisation is not accurate.</p>	<p>Recommendation:</p> <p>SOSE should consider implementing evidenced checks on the financial information provided to them by the service provider (SDS).</p> <p>Agreed action:</p> <p>During 2022/23 SOSE reviewed the details of aged creditor listing in their signed month-end pack but acknowledge on a monthly basis two reconciliation documents are received from SDS 3 days after the general ledger has been locked for the period. The reconciliations include details of the preparer and reviewer with formal sign off, SOSE at present are reviewing but not signing so with effect from July 2023 month-end SOSE will sign these documents to evidence our check.</p> <p>Agreed date: 31/08/2023 (July month-end)</p>	<p>Implemented</p> <p>Audit procedures confirmed that during the month-end process, signatures are added to the reconciliations by SOSE as evidence of review.</p>
<p>7. Climate change targets</p> <p>The Sustainability and Environment Report shows SOSE's carbon emission data for 2022/23. We have been advised no targets have been set around the achievement of net zero.</p> <p>Risk – SOSE cannot monitor its progress towards the achievement of net zero.</p>	<p>Recommendation:</p> <p>SOSE should develop clear and measurable targets to monitor progress in the achievement of net zero.</p> <p>Agreed action:</p> <p>SOSE has completed multiple actions to further our ambitions in this space we recognise that more work needs to be done to identify specific targets that can be</p>	<p>Implemented</p> <p>SOSE are committed to transitioning to Net Zero and this is a focus area when working with local businesses and organisations. SOSE have now committed to a net zero target for their operational footprint by 2038.</p>

Issue/risk	Recommendation and Agreed Action	Progress
	<p>measured to evidence our achievements towards Net Zero.</p> <p>Agreed date: 31/3/2024</p>	
<p>8. Best Value Framework</p> <p>SOSE does not have a formally agreed document that details the arrangements in place to support the Best Value characteristics.</p> <p>Risk – SOSE is unable to demonstrate compliance with the duty of Best Value per the characteristics set out in the SPFM.</p>	<p>Recommendation:</p> <p>SOSE should produce an annually agreed document which details how it meets the Best Value characteristics as set out in the SPFM.</p> <p>Agreed action:</p> <p>SOSE agree to the recommendation and will produce the document proposed on annual basis going forward.</p> <p>Agreed date: 31/3/2024</p>	<p>Work in progress</p> <p>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.</p> <p>Revised action – SOSE should agree the draft plan for Best Value for 2024/25 and prepare annual reports going forward.</p> <p>Paragraph 61.</p> <p>Responsible officer – Director of Place and Enterprise</p> <p>Revised date - 31/3/2025</p>
<p>9. Significant accounting estimates and judgements 2021/22 AAR</p> <p>The accounts include a note on critical accounting estimates and judgements. The note refers to significant estimates such as property valuations and retirement benefit obligations. However, testing found that the disclosures are not in line with good practice.</p> <p>Risk – the reader of the accounts is unclear about the main areas of judgement and estimation in the accounts.</p>	<p>Recommendation:</p> <p>SOSE should consider implementing some elements of the Audit Scotland best practice guide. This should include clearly differentiating between judgements and estimates, confirming the carrying value of any estimates and providing a sensitivity analysis.</p> <p>Agreed action:</p> <p>SOSE agreed to consider separating out the note to ensure that judgements are distinguished from estimates.</p> <p>Agreed date: March 2024</p>	<p>Implemented</p> <p>SOSE addressed this within the 'Critical accounting estimates and judgements' section of the Accounting Policies within the annual report and accounts.</p>

South of Scotland Enterprise

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