

South of Scotland Enterprise

2025/26 Annual Audit Report



Prepared for South of Scotland Enterprise and the Auditor General for Scotland
August 2026

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Accessibility

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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 was one significant finding to report. A convertible loan with a carrying value at the year-end of £0.96 million was incorrectly classified as a Financial Asset held at Amortised Cost. This asset should be classified as a Financial Asset held at Fair Value through Profit & Loss. This adjustment was processed by South of Scotland Enterprise. The adjustment was made in a note to the financial statements. There was no impact on the Statement of Financial Position.
- 3 There was one unadjusted error identified. This is related to incorrectly providing for an expected credit loss allowance on a financial asset. Management has chosen not to adjust for this misstatement on the basis that it is not material to the financial statements.

Wider scope and Best Value audit

- 4 The Mountain Bike Innovation Centre is a significant project for South of Scotland Enterprise. The overall governance of the project is adequate, however budget monitoring reports could be strengthened.
- 5 Challenges remain with the progression of the Adventure Bike Park element of the Mountain Bike Innovation Centre project. A suitable site has yet to be secured to allow work to progress before the deadline of February 2027 set by the funding provider.
- 6 With the exception of the key messages noted above in relation to the Mountain Bike Innovation centre, South of Scotland Enterprise has effective and appropriate arrangements in place:
 - for Financial Management; Financial Sustainability; Vision, Leadership and Governance; and Use of Resources to Improve Outcomes.
 - for securing 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 2025/26 audit of South of Scotland Enterprise's annual report and accounts and the wider scope areas specified in the [Code of Audit Practice \(2021\)](#).
2. The Annual Audit Report is addressed to South of Scotland Enterprise 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 South of Scotland Enterprise'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 South of Scotland Enterprise'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 South of Scotland Enterprise for the period from 2022/23 until 2026/27. As reported in the Annual Audit Plan, Pauline Gillen and the audit team are independent of South of Scotland Enterprise 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 South of Scotland Enterprise, including the provision of non-audit services.

Responsibilities and reporting

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

Auditor's responsibilities

6. The responsibilities of auditors in the public sector are established in the Public Finance and Accountability (Scotland) Act 2000. These include providing an independent opinion on the financial statements and other information reported within the annual report and accounts, and concluding on South of Scotland Enterprise'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 South of Scotland Enterprise from its responsibilities outlined below.

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

South of Scotland Enterprise's responsibilities

9. South of Scotland Enterprise 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 South of Scotland Enterprise 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 South of Scotland Enterprise and the Audit and Risk Committee. Details of national and performance audit reports published over the last year can be seen in [Appendix 3](#).

Acknowledgements

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

Audit of the annual report and accounts

Main judgements

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

There was one significant finding to report. A convertible loan with carrying value at the year-end of £0.96 million was incorrectly classified as a Financial Asset held at Amortised Cost. This asset should be classified as a Financial Asset held at Fair Value through Profit & Loss. This adjustment was processed by South of Scotland Enterprise. The adjustment was made in a note to the financial statements. There was no impact on the Statement of Financial Position.

There was one unadjusted error identified. This is related to incorrectly providing for an expected credit loss allowance on a financial asset. Management has chosen not to adjust for this misstatement on the basis that it is not material to the financial statements.

Audit opinions on the annual report and accounts

12. South of Scotland Enterprise's annual report and accounts were approved by the Board and signed by the appointed auditor on 20 August 2026. The Independent Auditor's Report is included in South of Scotland Enterprise's annual report and accounts, and reports that, in the appointed auditor's opinion, these were free from material misstatement.



Audit timetable

13. The audit has been delivered in accordance with the agreed timetable. The unaudited annual report and accounts were provided to audit on 8 June 2026 in accordance with the timetable. We received some key working papers in advance of that date to allow for early sample selection.

14. Consistent with prior years, the working papers provided were of a high standard and allowed the audit team to efficiently

perform audit procedures in line with the agreed timetable. Key contacts across South of Scotland Enterprise provided prompt and comprehensive responses to all audit queries which facilitated audit delivery.

Audit Fee

15. The audit fee for the 2025/26 audit was reported in the Annual Audit Plan and was set at £124,860. There have been no developments that impacted on the planned audit work, therefore the audit fee reported in the Annual Audit Plan remains unchanged.

Materiality

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

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

18. Materiality levels for the audit of South of Scotland Enterprise were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan, which also reported the judgements made in determining materiality levels. These were reassessed on receipt of the unaudited annual report and accounts. Materiality levels were updated and these can be seen in [Exhibit 1](#).

Exhibit 1

2025/26 Materiality levels for South of Scotland Enterprise

	Materiality level
Materiality – set at 2% of gross expenditure	£580,000
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 identified during the audit exceeds performance materiality, this could indicate further audit procedures are required.	£348,000

	Materiality level
Reporting threshold – set at 5% of materiality.	£30,000

Source: Audit Scotland

Significant findings and key audit matters

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

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

21. In determining key audit matters, auditors consider:

- 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.

22. 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
1. Incorrect classification of Convertible Loan A convertible loan with a carrying value at the year-end of £0.96 million had been incorrectly classified as a “Financial Asset held at Amortised Cost”. The contract terms provided a future option for the principal amount to be converted to an equity holding in the issuing company. Repayments of the loan made to South of Scotland Enterprise consisted of interest only. Due to these characteristics, accounting standards require the loan to be classified as a “Financial Asset held at Fair Value through Profit & Loss”. There is no impact on the Statement of Financial Position. This adjustment is reflected within Note 9 “Financial Assets” and results in an increase in Equity Assets, with a corresponding decrease in Assets held at Amortised Cost. Due to this incorrect classification, an expected credit loss allowance was incorrectly deducted from the financial asset. If corrected, this would reduce the charge to the Statement of Net Expenditure by £88,000 and increase Financial Assets held at Amortised Cost in the Statement of Financial Position by £88,000.	Management corrected the classification of the financial asset in the 2025/26 annual report and accounts. However, the expected credit loss allowance has not been adjusted for as it was not material. This is set out in Appendix 2.

Source: Audit Scotland

Qualitative aspects of accounting practices

- 23.** ISA (UK) 260 also requires auditors to communicate their view about qualitative aspects of South of Scotland Enterprise’s accounting practices, including accounting policies, accounting estimates, and disclosures in the financial statements.

Accounting policies

- 24.** The appropriateness of accounting policies adopted by South of Scotland Enterprise was assessed as part of the audit. These were considered to be appropriate to the circumstances of South of Scotland Enterprise, and there were no significant

departures from the accounting policies set out in the Government Financial Reporting Manual (FReM).

25. The 2025/26 FReM introduced a revised approach to the valuation of non-investment assets, requiring either quinquennial valuations supported by annual indexation or a rolling five-year programme of valuations with indexation applied to non-inspected assets. In 2025/26, South of Scotland Enterprise undertook a full annual valuation of its assets under an existing contract in place with their external valuer. This is line with the transitional arrangements permitted by the FReM.

Recommendation 1

South of Scotland Enterprise should review the arrangements it has in place for the valuation of non-investment assets to ensure compliance with the FReM for 2026/27 onwards.

Accounting estimates

26. Accounting estimates are used in a number of areas in South of Scotland Enterprise's financial statements, including the valuation of land and building assets, the valuation of pension assets and liabilities, and the valuation of investments. Audit work considered the process management has in place around making accounting estimates, 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

27. The adequacy of disclosures in the financial statements was assessed as part of the audit. The quality of disclosures was adequate, with additional levels of detail provided for disclosures around areas of greater sensitivity, such as financial instruments and the valuation of pension assets and liabilities.

Other matters to report

28. Auditing standards require auditors to report a number of other matters if they are identified or encountered during an audit. There are no other matters to report.

Significant matters discussed with management

29. All significant matters identified during the audit and discussed with South of Scotland Enterprise's management have been reported in the Annual Audit Report.

Audit adjustments

30. Audit adjustments were required to the financial statements to correct misstatements that were identified from the audit. Details of all audit adjustments greater than the reporting threshold of £30,000 are outlined in [Appendix 2](#).

31. In addition to the corrected misstatement outlined in [Appendix 2](#), there was one other misstatement identified greater than the reporting threshold. It is the auditor's responsibility to request that all misstatements greater than the reporting threshold are corrected, even if they are not material.

32. The final decision on whether an audit adjustment is processed to correct a misstatement rests with the Audit and Risk Committee as those charged with governance.

33. The value, nature, and circumstances of the uncorrected misstatements were considered, individually and in aggregate, by the audit team, and it was concluded these were not material to the financial statements. As a result, these did not have any impact on the audit opinions given in the Independent Auditor's Report.

Significant risks of material misstatement identified in the Annual Audit Plan

34. 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
Fraud caused by management override of controls International Standard on Auditing (UK) 240, states that management is in a unique position to perpetrate fraud because of the ability to override controls that otherwise appear to be operating effectively. The risk of fraud caused by management override of controls is therefore a mandatory risk for all audits.	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.

Prior year recommendations

35. South of Scotland Enterprise has made good progress with the agreed prior year audit recommendations. All prior year recommendations are now considered 'implemented' as outlined in [Appendix 1](#).

Wider scope and Best Value audit

Conclusion

The Mountain Bike Innovation Centre is a significant project for South of Scotland Enterprise. The overall governance of the project is adequate however budget monitoring reports could be strengthened.

Challenges remain with the progression of the Adventure Bike Park element of the Mountain Bike Innovation Centre project. A suitable site has yet to be secured to allow work to progress before the deadline of February 2027 set by the funding provider.

With the exception of the conclusions noted above in relation to the Mountain Bike Innovation centre, South of Scotland Enterprise has effective and appropriate arrangements in place for Financial Management; Financial Sustainability, Vision, Leadership and Governance; and Use of Resources to Improve Outcomes.

South of Scotland Enterprise has effective and appropriate arrangements in place for securing Best Value.

Audit approach to wider scope and Best Value

Wider scope

36. As reported in the Annual Audit Plan, the wider scope audit areas are:

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

37. Audit work is performed on these four areas and a conclusion on the effectiveness and appropriateness of the arrangements South of Scotland Enterprise has in place for each of these is reported in this chapter.

Duty of Best Value

38. 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.

39. Consideration of the arrangements South of Scotland Enterprise has in place to secure Best Value has been carried out alongside the wider scope audit.

Significant wider scope risk

40. The 2025/26 Annual Audit Plan included a significant wider scope risk in relation to the Mountain Bike Park and Innovation Centre project. In response to this risk, we reviewed the progress with the project during 2025/26 including financial management and overall governance arrangements. We also considered the accounting treatment of funding for the project in the financial statements.

Appropriate governance arrangements have been established for delivering significant strategic projects

41. The Mountain Bike Innovation Centre (MBIC) project is a significant strategic project for South of Scotland Enterprise. The project involves working with a range of partner organisations and other stakeholders. The wider project includes a separate Adventure Bike Park to be operated by a private company and a Trail Lab, managed by Edinburgh Napier University.

42. South of Scotland Enterprise has established an appropriate governance structure for over-seeing the MBIC project. A Programme Board meets fortnightly and the Audit and Risk Committee receive Mountain Bike Programme Updates at each meeting, as well as extra papers where requested. An example of this was the Exit Strategy paper presented to the June meeting following a request from the Audit and Risk Committee. Papers also go to the Board at key points in the project such as the approval of the business case.

43. Non-Executive members bring a range of knowledge, skills and experience which provides a sound base for seeking clarity on complex issues associated with a significant infrastructure project of this nature. The governance arrangements in place ensure that appropriate challenge and accountability are being exercised.

44. A group comprising representatives from key partner organisations including Scottish Borders Council, Edinburgh Napier University, Borderlands and Scottish Cycling was also established with the purpose of involving key stakeholders in the progress of the

project and to support decision making by South of Scotland Enterprise.

Financial management of the project is complex and monitoring could be enhanced

45. The final business case for the Mountain Bike Innovation Centre was approved in February 2026. This set the budget for the project at £17.35 million. The majority of the project (£15.5 million) is to be funded through a grant from Borderlands Inclusive Growth Deal with the remainder to be funded from South of Scotland Enterprise. The project has evolved since the original business case from 2021 where the budget was set at £14.8 million. The Caerlee Mill was selected as the site for the centre with a view to renovating the existing building. However, as work started it became clear that the building was irreparable and so the decision was taken to demolish and rebuild a new facility. This resulted in the increase in budget and a £2 million sunk cost to South of Scotland Enterprise.

46. The 2025/26 Annual Report and Accounts include £2.6 million of expenditure incurred on the MBIC project during the financial year. The Borderlands funding is claimed in arrears; therefore South of Scotland Enterprise initially incurred the expenditure and then submitted a grant claim to Borderlands to reclaim these funds. Due to the timing of the grant claim, the annual accounts include £2.8 million of accrued income due at the year-end. We reviewed the grant claim, tested individual items of expenditure from the grant claim and ensured the funding had been received after the financial year end to get assurance over this balance.

47. Due to the significant value of expenditure South of Scotland Enterprise incurred on the project prior to grant funding being received, the Scottish Government provided £2 million to support the cash flow position at the end of the financial year. The sponsor team provided a letter to support the arrangement and to clarify this was not to be treated as additional grant-in-aid funding for 2025/26. We reviewed the accounting treatment for this and confirmed the funds were returned to the Scottish Government through a reduction in South of Scotland Enterprise's grant-in-aid drawdown in 2026/27. A similar arrangement is expected in future years.

48. The Programme Board receive budget monitoring reports on a monthly basis in the form of 'highlight reports'. The reports provide detailed budget monitoring for the current year showing actual or forecast spend by month with comments to support the forecast figures within the current year. The reports also show forecast spend for the remaining years of the project. During 2025/26 there was fluctuation in the forecast spend in future years with spend being moved between years as the project developed. There was minimal

narrative to explain these movements between years. Budget monitoring beyond the current year is at a high level.

49. The Audit and Risk Committee are presented with quarterly project updates which include financial information. This also focusses on the current year and gives a brief narrative on variances. Given the significance of the project and the challenges already faced, more detail could be provided for variances and mitigating actions, particularly over the longer term of the project.

Recommendation 2

Budget monitoring reports for significant projects should include more information on variances and mitigating actions to allow for robust scrutiny and challenge of progress and spend on a project.

Delivery of the Mountain Bike Innovation Centre and Adventure Bike Park presents key challenges to achieving expected economic benefits

50. The wider project comprises 3 separate workstreams: Mountain Bike & Innovation Centre; Adventure Bike Park and the Trail Lab. Each workstream has encountered different challenges, particularly in the early stages of development.

51. Development of the combined project is complex and relies upon the co-ordination and collaboration of a number of stakeholders and partner organisations. The project has fallen behind original timescales with the construction phase currently in progress. To date significant challenges have been encountered which have required South of Scotland Enterprise management, in collaboration with its Board and the Project Board, to make key choices in the commitment of resources to the project.

52. Following resolution of the issues with the Caerlee Mill building, South of Scotland Enterprise now face the challenge of securing land for the site of the Adventure Bike Park. Despite early identification of suitable sites, difficulties have been encountered in securing the sale of land to allow further work to progress. A deadline of February 2027 has been set by the funding providers to secure a suitable site, otherwise funding may be withdrawn. Alternative lower cost / lower benefits options have been developed by the Project Programme Board as fall-back options.

53. The scale of the proposed Adventure Bike Park must be financially viable for the successful operation of the facilities by a private company. Rising costs of land and capital costs in installing facilities to make the site attractive to customers have been cited as potential problems. There is a risk that a suitable site cannot be

secured, resulting in the loss of grant funding, or that the project may need to be scaled back, reducing its ability to deliver the anticipated benefits in full.

Recommendation 3

South of Scotland Enterprise should undertake scenario planning and develop contingency plans for the Adventure Bike Park and future projects to ensure they secure the maximum funding and achieve intended benefits.

54. The three elements of the project are closely related, and the maximum economic benefits are expected from delivery of each element. South of Scotland Enterprise has a pivotal role and a vested interest in the delivery of each element. The role of the South of Scotland Enterprise Board is vital in supporting management to make key decisions by providing robust oversight and ensuring that decisions taken about the future direction of the project represents an effective use of public funds.

Conclusions on wider scope audit

Financial Management

South of Scotland Enterprise reported an overspend in 2025/26

55. The main financial objective for South of Scotland Enterprise is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

56. The initial 2025/26 budget was set at £29.087 million which was revised in year to £30.701 million. South of Scotland Enterprise has reported an outturn of £31.135 million, representing an overspend of £0.166 million. When the non-cash, financial transactions and Annually Managed Expenditure amounts are removed, South of Scotland Enterprise report an overspend of £0.183 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	14.390	16.279	16.384	(0.105)
Capital	14.097	14.422	14.500	(0.78)
Non-cash	0.6	0.6	0.551	0.049
Financial transactions	0	0	(0.739)	0.739
Annually Managed Expenditure	0	0	0.439	(0.439)
Total	29.087	30.701	31.135	0.166

Source: South of Scotland Enterprise 2025/26 Annual Report and Accounts

57. The reported overspends in resource and capital budgets are mainly attributed to:

- **Resource** – an approved overspend on the Resource Pathways ring-fenced budget.
- **Capital** - An overspend of £0.078 million due to the timing of delivery at the year-end.

58. While South of Scotland Enterprise no longer has a Financial Transactions budget to issue loans, they collected repayment income of £0.739 million from loans issued in previous years.

59. South of Scotland Enterprise'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 included:

- **Resource** - Additional allocation of £1.9 million was largely for the Pathways Fund, which aims to widen access to entrepreneurship.
- **Capital** - Additional allocation of £0.325 million for the Small Producer Pilot. This is a Scottish Government initiative to provide capital grants to small-scale food, drink and textile producers.

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

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

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

61. 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.

62. South of Scotland Enterprise 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).

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

Appropriate internal control arrangements operated throughout 2025/26

64. Skills Development Scotland (SDS) provide financial systems on behalf of South of Scotland Enterprise. There are a number of local controls and checks in place around the information provided to South of Scotland Enterprise from SDS. We reviewed the design and implementation of these local controls (including those relating to IT) relevant to our audit approach and obtained assurances from the external auditor of SDS. No issues were identified 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.

Financial Sustainability

Savings are required to meet financial pressures of £0.6 million identified for 2026/27

65. South of Scotland Enterprise's 2026/27 budget was approved by the Board in February 2026. The approved budget was

set at £43.75 million (£31 million in the previous year). The significant increase in the budget can largely be attributed to the Mountain Bike Innovation Centre project with approximately £10.8 million of expenditure planned for this in 2026/27. The budget is funded by £31.518 million of grant-in-aid from the Scottish Government and £12.2 million of other funding, which includes £10.6 million from the Borderlands Inclusive Growth Deal for the Mountain Bike Innovation Centre.

66. South of Scotland Enterprise identified £0.6 million of pressure in the 2026/27 resource budget. The financial position is monitored through the year and officers have been working to identify potential savings to address the financial pressure identified.

67. The capital budget has been set at £17.1 million and includes £3 million of ring-fenced funding for a specific strategic project. The budget contains an overallocation in order to manage in year slippage. The achievement of successful outturn against budget in 2026/27 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

68. Prior to the approval of the 2026/27 budget the Board considered a medium-term financial plan covering the period to 2029/30. This included scenario planning based on a static grant-in-aid allocation for 2026/27 and a five per cent increase in the years after. The medium-term plan forecasts continuing resource pressures in each year of approximately £0.75 million, largely due to assumptions over increases in staff and other operating costs.

69. The capital budget assumes a static settlement in 2026/27 with £1 million increases each year thereafter. The financial plan also identifies consistent over-allocations within the capital budget which will require careful monitoring.

Vision, Leadership and Governance

South of Scotland Enterprise has a clear vision and strategy

70. South of Scotland Enterprise published its five-year corporate plan in April 2023 outlining its role in delivering the Scottish Government's National Strategy for Economic Transformation (NSET). 'Our Five Year Plan' sets out South of Scotland Enterprise's vision and long-term priorities and is supported by an operating plan which is updated annually. The 2026/27 Operating Plan was published in June 2026.

71. South of Scotland Enterprise has six areas of strategic importance (the 6 As) which structure its work:

- 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.

72. The operating plan sets out the key activities South of Scotland Enterprise will undertake themselves and also in collaboration with stakeholders and partner bodies to deliver against each area. This activity is monitored through performance measures which are mapped to each area. We have considered the arrangements in place for performance reporting in the *Use of resources to improve outcomes and Best Value* section of this report.

South of Scotland Enterprise's executive and non-executive directors demonstrate effective leadership, however they should develop succession plans to ensure continued effective challenge and scrutiny of performance

73. The Chief Executive and Senior Leadership Team are responsible for the delivery of day-to-day services and for ensuring that South of Scotland Enterprise achieves its priorities as outlined in the corporate plan. Non-Executives are appointed to provide strategic leadership, challenge and accountability.

74. A new Chair was appointed to the Audit and Risk Committee (ARC) in May 2025. At the time an agreement was made for the outgoing Chair to remain as a co-opted member of the ARC to allow for a transition period. This appointment has since been extended to March 2027 in order to continue the provision of specific knowledge and expertise, particularly in project management and finance. We reviewed the approval process for this extension and found it was in line with the ARC's revised Terms of Reference and was approved by the Scottish Government.

75. A further member of the ARC is due to complete their term in September 2026, and recruitment is underway to appoint three new Board members. This recruitment exercise aims to appoint individuals with the necessary skills, knowledge, and experience, with a particular focus on financial expertise. The Scottish Public Finance Manual specifically states that audit committees should have at least one member with recent and relevant financial experience. Going forward, the Board should ensure that robust succession

planning and continuity arrangements are in place for both the Board and the ARC.

Recommendation 4

South of Scotland Enterprise should ensure that succession plans are in place for the appointment of Board Members to maintain an appropriate balance of skills, knowledge, and experience necessary to provide effective scrutiny and challenge.

Governance arrangements continue to operate effectively

76. South of Scotland Enterprise's governance arrangements have been set out in the Governance Statement in the annual report and accounts. We have reviewed these arrangements and concluded they are appropriate and effective.

77. The Board conducts its business in an open and transparent manner. However, there is scope to strengthen South of Scotland Enterprise's approach to openness and transparency by making the minutes of the Audit and Risk Committee publicly available.

Recommendation 5

To enhance openness and transparency, South of Scotland Enterprise should consider making the minutes of the Audit and Risk Committee publicly available on its website, where appropriate.

Use of Resources to Improve Outcomes

South of Scotland Enterprise continues to develop its Performance Framework

78. The Performance Framework has continued to evolve over the years as the quantity and quality of information available to the organisation matures. We have previously recommended improvements to South of Scotland Enterprise's performance framework, in particular last year we recommended they should review measures to ensure they are meaningful and measurable and ensure targets are robust enough to monitor performance over time.

79. In 2025/26 South of Scotland Enterprise improved and strengthened its target setting process by developing more informed target ranges rather than specific values. The setting of targets can be complex and may vary from year to year. Performance may be skewed in a particular year due to an individual project having a disproportionate impact on performance against target. By setting a target range and regularly confirming that it remains realistic while being suitably ambitious will ensure that performance measures

accurately demonstrate the achievement of corporate objectives. Targets were established at the start of the year based on emerging and approved projects within the pipeline and are reviewed after six months. As a result, target levels may vary from year to year.

80. Performance measures are aligned to corporate objectives and Scottish Government performance framework measures. This allows the organisation to demonstrate progress towards the achievement of key goals, ensuring the services are delivering for the businesses and individuals within the region.

81. Performance is reported on a regular basis to the Senior Leadership Team (SLT) throughout the year and is included in the Chief Executive's report to each Board meeting. In a year of economic and global uncertainty South of Scotland Enterprise reported a strong performance against its 13 Primary Measures and, with all targets being exceeded.

South of Scotland Enterprise entered into its first equity investment during the year

82. South of Scotland Enterprise has expanded the nature of financial investments offered to businesses with the first equity-based investment being made in 2025/26. This represents a significant shift in the provision of financial support and demonstrates a risk-based approach to support a greater range and size of business within the South of Scotland region.

South of Scotland uses IT systems to make the best use of its resources.

83. South of Scotland Enterprise demonstrates an ongoing commitment to the principle of generating efficiencies from shared services. Key corporate services utilise a platform of common systems, supported by Enterprise Information Services hosted by Skills Development Scotland. This sharing of services allows South of Scotland Enterprise to benefit from the efficiencies of scale offered by this arrangement.

84. Developments in IT based infrastructure allows access to a range of new services designed to improve customer engagement with the organisation. A key milestone achieved in 2025/26 was the implementation of the MYSoSE Customer Relationship Management (CRM) system, which allows the effective use of information to support individuals and businesses and improve the customer experience. The system also allows grant applicants to upload documentation electronically and to monitor the progress of their application.

Conclusions on duty of Best Value

85. The audit work performed on the arrangements South of Scotland Enterprise has in place for securing Best Value found these were effective and appropriate. This judgement is evidenced by:

- South of Scotland Enterprise presented its first Annual Best Value Report in March 2026. This report outlined how Best Value themes are demonstrated within the delivery of key business activities across the organisation. An assessment of performance during 2025/26 was undertaken and actions identified for strengthening arrangements in future years.
- A commitment to continuous improvement and stewardship of resources contribute to the organisation being able to secure Best Value. Key areas of governance, risk management and financial management highlight the effectiveness of arrangements in place which align to the values within the Best Value framework.
- South of Scotland Enterprise has invested in new systems and processes to drive efficiencies and collate intelligence and data to aid decision making. The foundations for a robust performance management framework have been established. This area will continue to improve as the maturity of internal and external data sources develops and aids the development of performance measures and targets to monitor organisational performance and impact.

Appendix 1

Action Plan 2025/26

2025/26 recommendations

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
1. Valuation of Non-Investment Assets The 2025/26 FReM introduced a revised approach to the valuation of non-investment assets, requiring either quinquennial valuations supported by annual indexation or a rolling five-year programme of valuations with indexation applied to non-inspected assets. In 2025/26, South of Scotland Enterprise undertook a full annual valuation of its assets under an existing contract in place with their external valuer. This is line with the transitional arrangements permitted by the FReM. Risk – There is a risk that the approach to future valuation exercises is not fully FReM compliant.	South of Scotland Enterprise should review the arrangements it has in place for the valuation of non-investment assets to ensure compliance with the FReM for 2026/27 onwards	Accepted The finance team have reviewed the current arrangements in place to ensure SOSE no longer have valuation contracts in place for year-end accounting. I can therefore confirm SOSE will account under the new FReM reporting valuation methodology for the year ending 31 March 2027 Responsible Officer - Allan Harrow Agreed date - 31/03/2027

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
2. Budget monitoring for the Mountain Bike Innovation Centre project Budget monitoring reports are presented to the Programme Board and the Audit and Risk Committee at regular intervals. High level explanations are provided for in-year variances. However, there is a lack of narrative to explain significant movements in forecast spend between years. Risk - There is a risk that the budget for the project, or the progress which goes alongside this, is not being appropriately scrutinised.	Budget monitoring reports for significant projects should include more information on variances and movements to allow for robust scrutiny and challenge of the progress and spend on a project.	Accepted The finance team will further develop the reporting to include a more comprehensive monthly report to the Programme Board and to ARC when required. This will be implemented for the August month-end figures to report to Programme Board. Responsible officer – Allan Harrow. Agreed date - 30/09/2026.
3. Adventure Bike Park South of Scotland Enterprise are currently working with the Scottish Government to secure land for the Adventure Bike Park. A deadline of February 2027 has been set by the funding providers to secure a suitable site, otherwise funding may be withdrawn. Risk - There is a risk that a suitable site cannot be secured, resulting in the loss of grant funding, or that the project may need to be scaled back, reducing its ability to deliver the anticipated benefits in full.	South of Scotland Enterprise should undertake scenario planning and develop contingency plans for the Adventure Bike Park and future projects to ensure they secure the maximum funding and achieve intended benefits.	Accepted The Infrastructure team will review the audit recommendation and ensure contingency planning is addressed where possible, recognising the complexity of the project and the limited options available. Contingency planning is already underway but remains commercially sensitive. Alternative site options and delivery scenarios are being explored with a positive outcome expected. Responsible officer – Andy King. Agreed date – 31/10/2026

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
4. Succession planning for Board membership There have been changes to the Board which have required a former member to be co-opted to the Audit and Risk Committee to provide finance and project management experience. Risk - There is a risk that without the necessary skills and experience, Board members are not able to provide effective scrutiny and challenge.	South of Scotland Enterprise should ensure that succession plans are in place for the appointment of Board members to maintain an appropriate balance of skills and experience.	Accepted SOSE accept the recommendation as this has already been actioned in the latest recruitment round. SOSE identified the interim finance gap in Board and incorporated succession planning into the recent recruitment process / criteria, successfully recruiting a new Board member with a finance background due to start in the coming months. This had previously been discussed between the Chair and Scottish Government, with the risk mitigated through the continued service of a co-opted Board member. Responsible officer - Jane Morrison-Ross Agreed date - 30/09/2026
5. Audit and Risk Committee minutes The meeting minutes of the Audit and Risk Committee are not currently publicly available. Risk – There is a risk that stakeholders are not able to easily access information on the Audit and Risk Committee’s decision making and governance role.	To enhance openness and transparency, South of Scotland Enterprise should consider making the minutes of the Audit and Risk Committee publicly available on its website.	Rejected Management has reviewed the recommendation, and SOSE’s preference remains not to publish ARC minutes. ARC often discuss deep dives into major projects and sensitive matters that would not be for public sharing and need heavily redacted. SOSE have also not seen demand for ARC decisions as part of FOIs or public enquiries and therefore do not propose to change approach at this time. Responsible officer - Allan Harrow

Follow-up of prior year recommendations

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
1. Internal Controls (Fair Work) South of Scotland Enterprise 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.	South of Scotland Enterprise 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. In Q3 24/25 South of Scotland Enterprise 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	Implemented

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
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 South of Scotland Enterprise. Risk – South of Scotland Enterprise do not conduct Business Continuity exercise in line with the Incident Management policy. Back-up procedures are not carried out in line with expectations.	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. South of Scotland Enterprise 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. South of Scotland Enterprise will be mindful of diaries when arranging BCP events to ensure annual events to comply with Policy. Director of Business Enablement 31 December 2025	Implemented

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
3. Performance Reporting South of Scotland Enterprise 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. 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	Implemented
4. Best Value South of Scotland Enterprise 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 South of Scotland Enterprise does not meet all of the Best Value characteristics as set out in the SPFM.	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. South of Scotland Enterprise will produce an Annual Best Value Report and report this through Audit and Risk Committee. Director of Business Enablement 31 March 2026	Implemented

Appendix 2

Misstatements

Details	Financial statements lines impacted	Statement of Comprehensive Net Expenditure (SoCNE)		Statement of Financial Position (SoFP)	
Adjusted Misstatements		Dr	Cr	Dr	Cr
		£000	£000	£000	£000
1. Misclassification of Financial Asset					
	Equity Assets held at FVTPL			960	
	Assets held at Amortised Cost				960
Net Impact on financial statements				960	960

Details	Financial statements lines impacted	Statement of Comprehensive Net Expenditure (SoCNE)		Statement of Financial Position (SoFP)	
Unadjusted Misstatements		Dr	Cr	Dr	Cr
		£000	£000	£000	£000
2. Expected Credit Loss Allowance applied incorrectly to an Equity Asset held at FVTPL					
	Expected Credit Loss Provision			88	
	Operating Expenditure		88		
Net impact on financial statements			88	88	

Appendix 3

Supporting national and performance audit reports

Report name	Date published
Local government budgets 2025/26	22 May 2025
NHS in Scotland: Spotlight on governance	28 May 2025
Delivering for the future: Responding to the workforce challenge	7 August 2025
Flooding in communities: Moving towards flood resilience	28 August 2025
Adult Disability Payment	18 September 2025
Scotland's colleges 2025	2 October 2025
Improving care experience: Delivering The Promise	8 October 2025
Local government performance: Spotlight on culture and leisure services	23 October 2025
Financial sustainability and taxes	13 November 2025
NHS in Scotland 2025: Finance and performance	4 December 2025
Delayed discharges: A symptom of the challenges facing health and social care	8 January 2026
Community health and social care: Performance 2025	8 January 2026
Administration of Scottish income tax 2024/25	16 January 2026
Local Government in Scotland: Financial bulletin 2024/25	29 January 2026
The Scottish Budget 2026/24: Supplement to the Financial bulletin 2024/25	12 February 2026
Integration Joint Boards: Finance bulletin 2024/25	26 February 2026
Annual Assurance and Risks Report: A review of 2024/25 local government audits in Scotland	12 March 2026

South of Scotland Enterprise

2025/26 Annual Audit Report



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