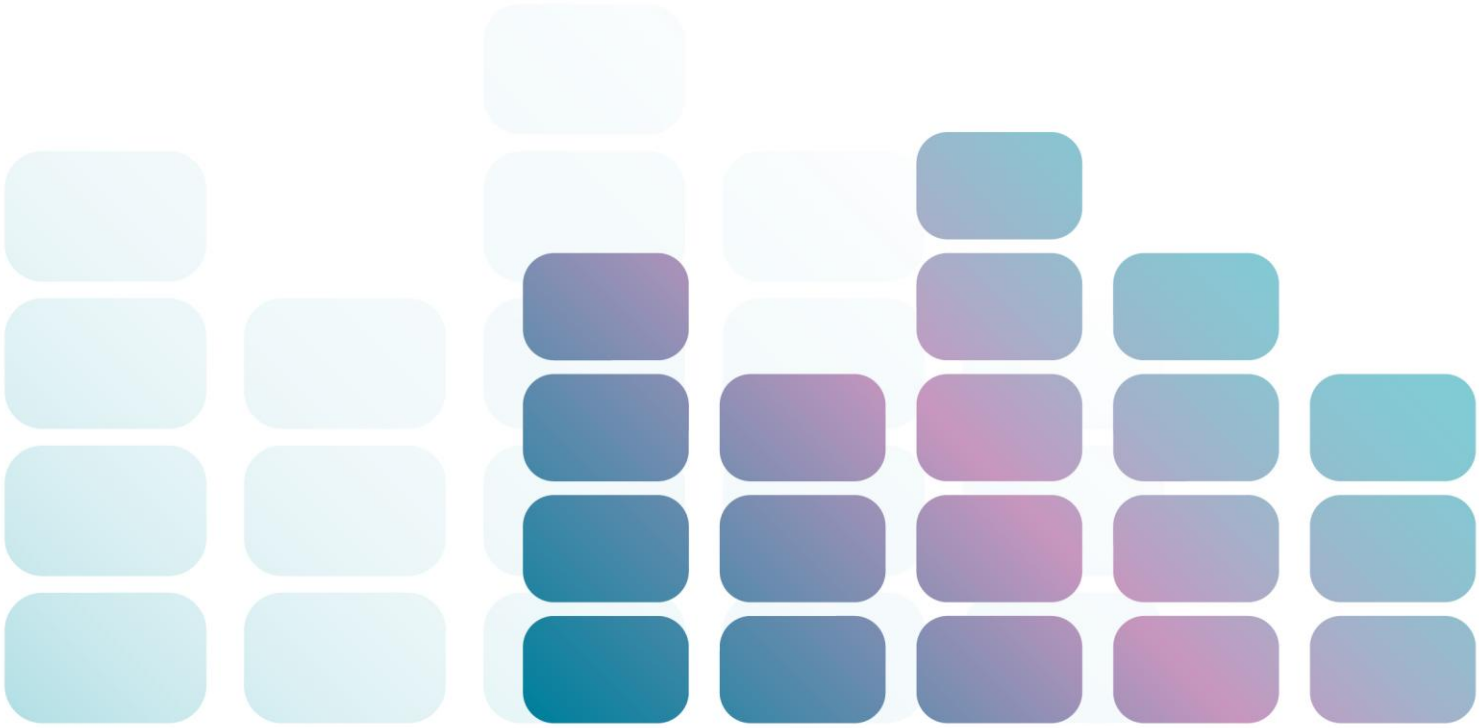
Scottish Enterprise

2025/26 Annual Audit Report



AUDIT SCOTLAND

Prepared for Scottish Enterprise and the Auditor General for Scotland
June 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 were two significant findings to report which related to the valuation of Level 3 equity and non-equity investments. One resulted in an adjustment of £0.7 million to the annual report and accounts. A further misstatement of £1.0 million was identified during the final stages of the audit process and arose from updated effective interest rate calculations not being fully reflected in the final valuation model. Management has chosen not to adjust for this misstatement on the basis that it is not material to the financial statements, either individually or in aggregate, and given the timing of its identification within the audit timetable.

Wider scope and Best Value audit

3 Scottish Enterprise has effective and appropriate arrangements in place for the four wider scope areas:

- Financial Management; Financial Sustainability; Vision, Leadership and Governance; and Use of Resources to Improve Outcomes
- and 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 Scottish 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 Scottish 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 Scottish 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 Scottish 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 the external auditor of Scottish 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 Scottish 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 Scottish 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 Scottish 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 Scottish 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 Scottish Enterprise from its responsibilities outlined below.

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

Scottish Enterprise's responsibilities

9. Scottish 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 Scottish Enterprise and its group that gives a true and fair view and other specified information.

- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

National and performance audit reporting

10. The Auditor General for Scotland and the Accounts Commission regularly publish national and performance audit reports. These cover a range of matters, many of which may be of interest to Scottish 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, (page 32).

Acknowledgements

11. We would like to thank Scottish 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 were two significant findings to report which related to the valuation of Level 3 equity and non-equity investments. One resulted in an adjustment of £0.7 million to the annual report and accounts. A further misstatement of £1.0 million was identified during the final stages of the audit process and arose from updated effective interest rate calculations not being fully reflected in the final valuation model. Management has chosen not to adjust for this misstatement on the basis that it is not material to the financial statements, either individually or in aggregate, and given the timing of its identification within the audit timetable.

Audit opinions on the annual report and accounts

12. Scottish Enterprise and its group's annual report and accounts were approved by the Board and signed by the appointed auditor on 26 June 2026. The Independent Auditor's Report is included in Scottish Enterprise's annual report and accounts, and this 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. In line with the timetable set out in our 2025/26 Annual Audit Plan, we received:

- the unaudited Scottish Enterprise single entity financial statements and notes on 11 May 2026
- the Performance Report and Accountability Report on 25 May 2026
- the complete Group unaudited annual report and accounts on 25 May 2026.

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

Audit Fee

15. The audit fee for the 2025/26 audit was reported in the Annual Audit Plan and was set at £253,510. There have been no developments that impact on the planned audit work required, 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 Scottish Enterprise and its group were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan, which also reported the judgements made in determining materiality levels. These were reassessed on receipt of the unaudited annual report and accounts. Materiality levels were updated and these can be seen in Exhibit 1.

Exhibit 1

2025/26 Materiality levels for Scottish Enterprise and its group

Materiality	Scottish Enterprise	Group
Materiality – set at 2% of gross expenditure	£6.7 million	£7.0 million
Performance materiality – set at 70% of materiality. As outlined in the Annual Audit Plan, this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate further audit procedures are required.	£4.6 million	£4.9 million

Materiality	Scottish Enterprise	Group
Reporting threshold – set at 5% of materiality.	£335,000	£350,000

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 Scottish Enterprise is the Audit and Risk Committee.

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

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, (page 10).

Exhibit 2
Significant findings and key audit matters

Significant findings and key audit matters	Outcome
1.Valuation of Level 3 Equity investments A variance of £0.7 million was identified between the value of level 3 equity investments recognised in the financial statements and the valuation on the investments system. This related to investments included in the valuation system which had not been reflected in the financial statements. The net impact is to decrease Operating Expenditure in the Statement of Comprehensive Net Expenditure by £0.7 million and to increase Financial Assets on the Statement of Financial Position by £0.7 million.	This was adjusted by management in the 2025/26 annual report and accounts.
2. Incorrect valuation for Level 3 Non-Equity investments A misstatement of £1.0 million was identified in relation to the valuation of Level 3 non-equity investments, arising from updated effective interest rate calculations not being fully reflected in the final consolidation of the valuation model. The valuation process spans several months and involves iterative updates as further information becomes available, including revised assumptions regarding loan repayments. In this instance, updated calculations were prepared but were not incorporated into the final master model used for the financial statements. The net impact would increase Operating Expenditure in the Statement of Comprehensive Net Expenditure by £1.0 million and decrease Financial Assets on the Statement of Financial Position by £1.0 million.	This was not adjusted by management in the 2025/26 annual report and accounts.

Source: Audit Scotland

Qualitative aspects of accounting practices

23. ISA (UK) 260 also requires auditors to communicate their view about qualitative aspects of Scottish 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 Scottish Enterprise was assessed as part of the audit. These were considered to be appropriate to the circumstances of Scottish 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, Scottish 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

Scottish 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 Scottish Enterprise's financial statements, including the valuation of land and buildings, the valuation of the 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, and the use of any management experts. Our audit work concluded:

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

27. Details of the audit work performed and the outcome of the work on accounting estimates that gave rise to significant risks of material misstatement are outlined in Exhibit 4, (page 15).

Disclosures in the financial statements

28. 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 valuation of the pension assets and liabilities.

Group audit

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

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

Group component	Auditor and audit work required	Summary of audit work performed
Scottish Enterprise	**Audit Scotland** Full scope audit of Scottish Enterprise's annual report and accounts.	The outcome of audit work performed is reported in the Annual Audit Report, with details of significant findings and key audit matters reported in Exhibit 2, (page 10).
Glasgow Science Centre Charitable Trust	**Thomson Cooper** Yes – audit procedures outlined in Item 1 of Exhibit 4, (page 15).	The specific audit procedures were performed by the component auditor, and these were evaluated and reviewed by the audit team. No significant issues were identified.

Source: Audit Scotland

Other matters to report

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

Significant matters discussed with management

31. All significant matters identified during the audit and discussed with Scottish Enterprise's management have been reported in the Annual Audit Report.

Audit adjustments

32. 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 are outlined in Appendix 2, (page 31).

33. In addition to the corrected misstatement outlined in Appendix 2, (page 31), 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.

34. Management of Scottish Enterprise has not processed audit adjustments to correct this misstatement. 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.

35. The value, nature, and circumstances of the uncorrected misstatement was 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.

Whole of Government Accounts (WGA) return

36. Scottish Enterprise is part of the WGA boundary and therefore prepares a return that is used by HM Treasury to prepare the WGA. The National Audit Office (NAO) is the auditor for the WGA and issues instructions outlining audit procedures auditors must follow when auditing a WGA return. The threshold for requiring audit procedures to be performed on the WGA return was set at £2 billion. Scottish Enterprise is below this threshold and therefore only limited audit procedures will be required, and submission of an assurance statement to the NAO.

Significant risks of material misstatement identified in the Annual Audit Plan

37. 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 4, (page 15).

Exhibit 4
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.

Risk of material misstatement	Planned audit response	Outcome of audit work
Estimation of level three investment assets International Financial Reporting Standard 13, Fair Value Measurement (IFRS 13) defines level three investments as those financial assets where there are no observable data inputs to determine fair value. Scottish Enterprise held level three investments valued at £539.9 million at 31 March 2025. The year end valuation of these investments involves a significant degree of subjectivity and estimation based on market assumptions and professional judgement. This uncertainty represents a risk of material misstatement in the valuation of level three investments.	The audit team will: • Evaluate the design and implementation of controls over the valuation of level three investments. • Evaluate the competence, capabilities, and objectivity of the valuation team. • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • Agree year-end valuations to valuation reports, or equivalent, prepared by the valuation team. • Review the appropriateness of the key data and assumptions used by management for the valuation of level three investments, and challenge these where required.	Audit work performed found: • The design and implementation of controls over the valuation of level three investments were appropriate. • The valuation team have sufficient competence, capability, and objectivity to perform their work. • Management are involved in the estimation process and have an appropriate level of oversight. • Agreement of year-end valuations to valuation reports resulted in an adjustment of £0.7 million to the annual report and accounts. A further error of £1.0 million was unadjusted as outlined in Exhibit 2, (page 10). • The data and assumptions used in the estimation process were appropriate. **Conclusion**: the valuation of level three investments is not materially misstated.

Source: Audit Scotland

Prior year recommendations

38. Scottish Enterprise has implemented the prior year audit recommendation.

Wider scope and Best Value audit

Conclusion

Scottish Enterprise has effective and appropriate arrangements in place for Financial Management; Financial Sustainability, Vision, Leadership and Governance; and Use of Resources to Improve Outcomes.

There are effective and appropriate arrangements in place for securing Best Value.

Audit approach to wider scope and Best Value

Wider scope

39. 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.

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

Duty of Best Value

41. 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.

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

Conclusions on wider scope audit

Financial Management

Scottish Enterprise operated within its 2025/26 budget with an underspend of £3.9 million

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

44. Scottish Enterprise operated within its allocated budget for the financial year 2025/26, with an outturn of £246.2 million against its allocation of £250.1 million, representing an underspend of £3.9 million.

45. The overall underspend was mainly driven by underspends in the Fiscal Resource and Fiscal Capital budgets, of £2.1 million and £1.8 million, respectively. This was mainly attributed to:

- **Resource** – The under-spend was primarily due to small reductions in expenditure towards the year-end.
- **Capital** – There were no individually material reasons for the under-spend.

46. The year end outturn demonstrates strong financial management with a small underspend in line with Scottish Enterprise's prudent approach to budget setting and monitoring. Scottish Government has recently provided the flexibility for up to £3.0 million of any budget underspend to be carried forward to 2026/27.

Group net assets decreased by £45.9 million in 2025/26

47. Scottish Enterprise's group net assets decreased by £45.9 million in the year to 31 March 2026, with fluctuations across multiple lines in the Statement of Financial Position. The most significant movements in 2025/26 were:

- A decrease in the carrying value of other investments of £80.6 million due to a decrease in the fair value measurement of individual investments.
- Current liabilities reducing by £22.1 million primarily due to reductions in trade payables and provisions reflecting the timing of expenditure and settlement of liabilities during the year.
- A significant improvement in the retirement benefit scheme, moving from a deficit of £8.3 million to a surplus of £11.3 million. This movement is largely attributed to higher corporate bond yields, voluntary exit scheme leading to a decrease in liabilities offset by higher levels of inflation, an increase in future life expectancies and lower than expected asset returns.

Financial management is strong with detailed budget monitoring reports provided to Executive Leadership Team and the Board on a regular basis

48. In 2025/26, Scottish Enterprise adopted an over-allocation method of budgeting, reflecting the high number of projects in the pipeline going into the financial year. This approach involved budgeting based on potential projects to be delivered in-year rather than the available income.

49. This approach provided management with flexibility in the delivery of projects and is considered an effective method of budgeting for an organisation of Scottish Enterprise's nature. This facilitated the achievement of an outturn position within budget and optimal delivery of economic development outcomes.

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

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

51. 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.

52. From our review of the design and implementation of systems of internal control at the year-end (including those relating to IT) relevant to our audit approach, we noted the following areas where there is scope for minor improvement to the operation of certain controls:

- **Changes to Standing Data (Payroll)** - The payroll system owner is responsible for maintaining and updating statutory Tax and National Insurance (NI) rates through system patch releases. HR complete a review of these changes on a sample basis to confirm accuracy however evidence of these checks being performed is not retained.

- **Segregation of Duties for Property Income Reconciliations** - The property income reconciliations that were prepared during the first half of the financial year were not subject to secondary review. It was confirmed that this was due to the team structure and a vacancy during the year. The issue has now been resolved, and the year-end reconciliations were subject to secondary review.

- **Evidence of Approval (Investments)** - Documentation supporting the approval of an investment disposal had not been appropriately signed in line with the Scheme of Delegation. We were provided

with evidence that a verbal discussion had taken place. A further instance was identified through sample testing of revaluations where evidence of approval of the annual valuation was not documented, and agreement had again been communicated verbally.

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

- having clear and up-to-date policies and procedures, for example, financial regulations and scheme of delegation, in place that ensure effective financial management.
- having clear and up-to-date policies in place for preventing and detecting fraud and other irregularities, and participation in fraud prevention and detection activities such as the National Fraud Initiative (NFI).
- having suitably qualified and experienced staff leading the finance function, which has sufficient skills, capacity, and capability to effectively fulfil its role.

Financial Sustainability

Scottish Enterprise has robust medium-term financial plans which recognise the challenging financial outlook for the public sector in Scotland

54. The 2026/27 Scottish Budget was accompanied by the Scottish Spending Review. This sets out the Scottish Government's multi-year spending plans from 2026/27 to 2028/29 (2029/30 for capital funding) and notes the uncertain fiscal context, including identifying £1.5 billion in public sector efficiencies and reforms to help address the gap between demand and available resources.

55. Over the spending review period total resource funding is projected to grow steadily, from £51.1 billion in 2026/27 to £57 billion in 2028/29, representing a 5.3 per cent cash terms increase, or a 1.4 per cent real terms increase. Over the period to 2029/30, capital expenditure is expected to fall by 1 per cent in cash terms, from £7.32 billion in 2026/27 to £7.25 billion in 2029/30. This amounts to a 6 per cent real terms reduction.

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

sustainable model which achieves Scottish Enterprise's strategic objectives in a challenging financial environment.

57. We reported in paragraphs 48-50 that Scottish Enterprise has good financial management arrangements in place. The medium-term financial strategy recognises the potential benefits of automation and AI and the key role that technology will play in the future of the organisation. Work to review financial and budgeting systems and processes will identify ways that financial management can better aid the delivery of strategic objectives. New budget allocation and finance systems will be integral to this. We will follow up on progress of these key projects in future audit work.

The Medium-Term Financial Strategy recognises the importance of external sources of funding and the need to take a more dynamic approach to generating income in future

58. While the majority of Scottish Enterprise's funding comes from Scottish Government, the strategy highlights that between 20 per cent and 25 per cent of income is generated from a range of external sources including from public and private partners. Other sources of income include property sales, rental income and returns from financial investments; however, these are limited, uncertain and are dependent on factors that are often out with Scottish Enterprise's control. The strategy recognises the need to take a more dynamic approach to generating income from external sources to address the declining levels of baseline funding. A key element of this will be the rebasing of assets with the aim of increasing the strategic property portfolio by £25 million to £50 million over the next 5 to 10 years.

Recommendation 2

Scottish Enterprise should continue to seek opportunities to generate additional income to support delivery through rebasing of assets and exploring new funding sources.

59. The strategy also considers the Scottish Government's wider public service reform agenda by aiming to maximise the impact that Scottish Enterprise has on the performance of the Scottish economy and by identifying opportunities to increase collaborative working with public sector partners. The main opportunities for greater collaboration with Scottish Government centre around the potential for:

- Streamlining of administrative processes, in particular Accountable Officer templates
- Enhancing clarity for businesses around funding sources
- Multi-year funding settlements for core activities

- An external funding strategy that increases resources specifically for economic transformation
- Increased flexibility in budget management, including the ability to carry forward funds and repurpose investment returns.

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

60. Scottish Enterprise have a well-established risk management process in place. The Risk Management Policy sets out the arrangements for compliance with corporate governance requirements as defined by the SPFM.

61. The Corporate Risk Register is tabled for discussion at each Audit and Risk Committee and clearly sets out the key risks to Scottish Enterprise. Consideration of risks around financial sustainability is evidenced by the 'Funding Constraints and Financial Flexibilities' risk being one of the top risks on the risk register. The key mitigation for this risk is the current Financial Strategy and the development of a more sustainable funding model, including the generation of income from external sources and through its own asset base as outlined at paragraph 58.

2026/27 Budget Position

62. Scottish Enterprise's opening budget for 2026/27 (excluding expected credit losses and write-offs) included projected expenditure of £283.4 million against projected income of £262.4 million resulting in an over-allocation of £21.0 million. Over allocation against budget has been an established method of budget setting for Scottish Enterprise in order to allow for flexibility by recognising the pipeline of potential projects that exceed the available budget. Over-allocations for 2026/27 have reduced in comparison to 2025/26 (£47.4 million) reflecting an increase in legal commitments with less capacity for slippage, combined with a lower level of slippage in 2025/26.

63. Financial monitoring arrangements are well established and allow for any deviations from budget to be highlighted as early as possible. However, planning for the 2026/27 budget reflects the introduction of a new rolling budgeting process which considers quarterly and half yearly reviews. Our audit work in 2026/27 will consider the effectiveness of the rolling process in optimising the use of budget allocations.

64. Scottish Enterprise continues to receive Financial Transactions funding from the Scottish Government for the specific purpose of financing equity investments and the provision of loans. However, this funding will be gradually phased out and has decreased significantly from £10.3 million in 2025/26 to £0.9 million in 2026/27. Scottish Enterprise will need to consider the use of their CDEL budget to limit the impact on this key area of operational activity.

Vision, Leadership and Governance

Scottish Enterprise has stable leadership and strong governance arrangements to support the delivery of the Operating Plan

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

66. We reported in 2024/25 that Scottish Enterprise planned to undertake an exercise to assess and demonstrate alignment between the various strategies and plans in place to support the delivery of the Corporate Strategy. In December 2025, Scottish Enterprise launched Ambition28: Fit for Future Operating Model. This is an overarching transformation plan that brings together key strategies across four areas: People, Finance, Digital/Data/AI, and Customer Engagement and sets strategic priorities developed across the following key enablers:

- Future Customer Experience
- People, Skills and Culture
- Digital, Data and AI
- Financial Resilience, Income and Efficiency.

67. Considerable work has taken place during 2025/26 across two phases of work: Efficiency Focus and Transformation, with the new operating model planned to be in place in Summer 2026. We will report further as part of our 2026/27 audit work.

68. In any organisational change programme, there is a need for clear leadership and regular communication with staff to ensure understanding, support and buy-in. Scottish Enterprise has made use of quarterly Peakon staff surveys to engage with staff on a range of issues. The most recent survey in March 2026 reported a score of 5.4 in relation to Transformation and Change, below the benchmark target of 6.9. The next planned Peakon survey will take place in June 2026.

Recommendation 3

Scottish Enterprise should ensure that regular leadership communication and engagement with staff on transformation and change programmes is consistent and clear to ensure confidence and buy-in.

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

Recommendation 4

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

70. The audit work performed on the arrangements Scottish Enterprise has in place around its Vision, Leadership and Governance found that these were effective and appropriate.

Use of Resources to Improve Outcomes

Scottish Enterprise has arrangements in place to report performance, and achieved five of its six performance targets

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

72. In 2025/26, progress against corporate goals was monitored and reported to the Board through quarterly Performance Reports. Bi-monthly performance reports include a summary of performance highlights, an overview of performance in key business areas, and movement in key risks.

73. Performance for the year was reported in the Performance Analysis section of the Performance Report in the 2025/26 Annual Report and Accounts. Our audit did not identify any material inconsistencies or omissions in the Performance Report.

74. For five of the six key performance measures within the performance framework, Scottish Enterprise achieved an outturn position within the target range. The target for real living wage jobs was slightly below target alongside the number of planned higher paid jobs. The outturn position for all six outcome measures has reduced in comparison to the prior year.

75. However, these results should be viewed as positive in the context of the challenging financial and geopolitical environment that Scottish Enterprise operates in. These wider challenges have had an impact on the projects that are supported by Scottish Enterprise which have resulted in outcomes not being met.

76. The audit work performed on the arrangements Scottish Enterprise has in place around its Use of Resources to Improve Outcomes found that these were effective and appropriate overall.

Conclusions on duty of Best Value

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

- Scottish Enterprise having well established and effective governance arrangements in place, with the Best Value being a key aspect of the governance arrangements.
- the arrangements Scottish Enterprise has in place around the four wider scope audit areas, which are effective and appropriate, contribute to it being able to secure Best Value.
- progress Scottish Enterprise is making to embed sustainability into corporate and operational plans and enhance reporting arrangements around sustainability.

Good practice

78. The audit team identified examples of good practice from the audit work performed. Details are outlined below:

- **Lessons learned reviews** – During the year, a paper was presented to the Audit and Risk Committee on Lessons Learned and Benchmarking SE with Other Bodies which considered the findings of recent section 22 or section 102 reports of other bodies against the current arrangements in place at Scottish Enterprise. The results of this were used to identify areas Scottish Enterprise perform well and to highlight any actions required by Scottish Enterprise to mitigate the risk of similar issues occurring within the organisation. This has been added to the forward planner of the Audit and Risk Committee as a recurring item to consider the results of similar exercises going forward. This is considered to be an area of good practice.
- **Use of a central mailbox and responsiveness to audit queries** – Consistent with prior years, a central mailbox within Scottish Enterprise's Finance team was utilised for issuing all audit queries to allow for effective monitoring by senior colleagues and prompt response. Both the timeliness and quality of responses provided as a result was recognised and appreciated by the audit team in the delivery of the financial statements audit.

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, Scottish 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.	Scottish Enterprise should review the arrangements in place for its valuation of non-investment assets to ensure compliance with the FReM for 2026/27 onwards.	**Partially Accepted** Scottish Enterprise undertook a full annual valuation in 2025/26 in line with transitional FReM arrangements. Management considers that the current annual valuation approach provides more accurate and decision useful information for operational purposes than the revised FReM methodologies based on periodic valuation and indexation. Notwithstanding this, a review will be undertaken to ensure compliance with FReM requirements from 2026/27. This may result in maintaining a FReM compliant valuation basis alongside a more detailed internal valuation for business use. Scottish Enterprise would welcome further engagement with Audit Scotland on the practical implications of the revised approach where it may reduce valuation accuracy. **Agreed action** – Review and implement a FReM compliant valuation approach for 2026/27, while considering internal valuation requirements and engaging

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
		with Audit Scotland on application. **Responsible Officer** – Chief Finance and Investment Officer **Agreed date** – March 2027
2. Income Generation While the majority of Scottish Enterprise's funding comes from Scottish Government, the Financial Strategy highlights that between 20 and 25% of income is generated from a range of external sources including from public and private partners. Other sources of income include property sales, rental income and returns from financial investments; however, these are limited, uncertain and are dependent on factors that are often out with Scottish Enterprise's control. **Risk** – Sources of external income fall due to wider environmental factors and are not available to support service delivery.	Scottish Enterprise should continue to seek opportunities to generate additional income to support delivery through rebasing of assets and exploring new funding sources.	**Accepted** Scottish Enterprise recognises that external income streams are inherently variable and influenced by wider economic factors. Through its Financial Strategy and Ambition28 programme, it is actively progressing initiatives to strengthen income generation, including asset rebasing, optimisation of the property portfolio and development of new funding models such as repayable grants, blended funding and funding partnerships. These actions will support increased and more sustainable income over time, while continuing to manage financial planning prudently alongside core Scottish Government funding. **Agreed action** – Continue delivery of the Financial Strategy initiatives to enhance income generation, including asset rebasing, property optimisation and development of new funding sources and partnerships. **Responsible Officer** – Chief Finance and Investment Officer **Agreed date** – March 2027

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
3. Staff Engagement In any organisational change programme, there is a need for clear leadership and regular communication with staff to ensure understanding, confidence and buy-in. Scottish Enterprise has made use of quarterly Peakon staff surveys to engage with staff on a range of issues. The most recent survey in March 2026 reported a score of 5.4 in relation to Transformation and Change, below the benchmark target of 6.9. **Risk** – There is a risk that staff do not feel informed and involved in transformation and change activity.	Scottish Enterprise should ensure that regular leadership communication and engagement with staff on transformation and change programmes is consistent and clear to ensure confidence and buy-in.	**Accepted** Scottish Enterprise recognises the importance of effective leadership communication and staff engagement in supporting transformation and change activity. Through its transformation and Ambition28 programme, a range of engagement activity is underway, including regular leadership communications, structured staff engagement channels and use of feedback mechanisms such as the Peakon survey to inform continuous improvement. While recent survey results indicate scope to strengthen engagement, these insights are being actively used to enhance the clarity, consistency and frequency of communication, ensuring staff feel informed, involved and confident in the organisation's transformation agenda. **Agreed Action** – Continue to strengthen leadership communication and staff engagement on transformation and change programmes, using staff feedback to inform ongoing improvements. **Responsible Officer** – Chief People Officer **Agreed date** – March 2027

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
4. 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, Scottish Enterprise should consider making the minutes of the Audit and Risk Committee publicly available on its website.	**Partially Accepted** Scottish Enterprise recognises and demonstrates the importance of transparency and openness in its governance arrangements. Consideration will be given to the publication of Audit and Risk Committee minutes as part of a wider review of governance disclosures and reporting, taking into account confidentiality requirements and the need to ensure that information is presented appropriately for external stakeholders while maintaining effective governance processes. **Agreed Action** – Review the approach to publication of Audit and Risk Committee outputs, including consideration of making minutes publicly available. **Responsible Officer** – Chief Finance and Investment Officer **Agreed date** – March 2027

Follow-up of prior year recommendations

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
1. Equity Valuations Sample testing of Level 3 Equity investments identified two investee companies which had been incorrectly valued. This was due to errors in the share price data used to value the shares at the year end. **Risk** – There is a risk that unidentified errors result in valuations being materially misstated	While we are satisfied that the valuation process was adequate, management should consider whether there would be value in revisiting the level of detail in the documentation prepared for future years. A Lesson Learned review will be undertaken with Growth Investments to understand if any improvement can be made to the current process, balancing risks and benefits. **Responsible officer** – Managing Director of Innovation and Investment **Agreed date** – September 2025	**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. As outlined in Exhibit 2, an adjustment was made due to errors identified in the valuation of Financial Assets.					
	Operating Expenditure		666		
	Financial Assets			666	
Net impact on financial statements			**666**	**666**	

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. As outlined in Exhibit 2, an unadjusted misstatement was identified due to the valuation not being updated to reflect revised calculations.					
	Operating Expenditure	980			
	Financial Assets				980
Net impact on financial statements		**980**			**980**

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

Scottish Enterprise

2025/26 Annual Audit Report

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