AUDIT SCOTLAND

Scottish Enterprise

Annual audit report 2014/15

June 2015

Contents

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This report will be published on our website after it has been considered by the audit committee. The information in this report may be used by Audit Scotland in any reporting to the Scottish Parliament.

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Key Messages

Audit of financial statements	• Unqualified independent auditor's report on the 2014/15 financial statements. • Debts and investment losses of £23 million were appropriately written off during the year.
Financial management and sustainability	• Scottish Enterprise operated within its resource budgets for 2014/15. • Total equity increased by £34 million, which can be attributed to an increase in the value of investment assets. • The financial position remains stable with an excess of total and current assets over liabilities and positive cashflows. A balanced budget of income and expenditure is projected for a 3 year period to 2018 based on continuing Grant in Aid provision.
Governance and transparency	• We found that Scottish Enterprise had effective governance arrangements. • Overall there were no material weaknesses in the systems of internal control.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of Scottish Enterprise.

2. The management of Scottish Enterprise is responsible for:
   - preparing financial statements which give a true and fair view
   - ensuring the regularity of transactions, by putting in place systems of internal control
   - maintaining proper accounting records
   - preparing and publishing with their financial statements an annual governance statement and a remuneration report.

3. Our responsibility, as the external auditor of Scottish Enterprise, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.

4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; that have been prepared by management with the oversight of those charged with governance. This does not relieve management of their responsibility for the preparation of financial statements.

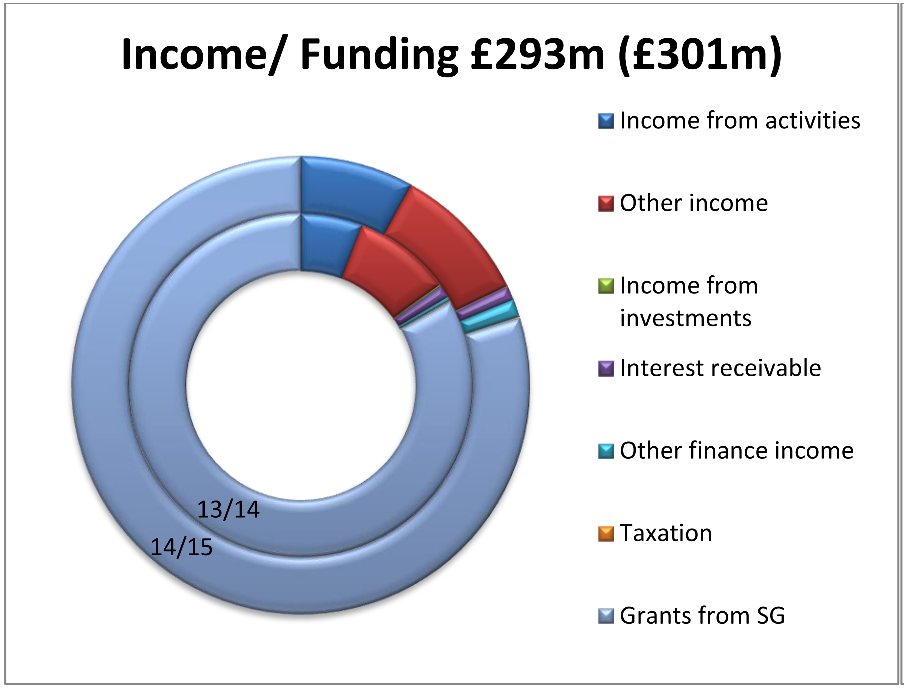
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports are summarised at **appendix II** and **appendix III**.

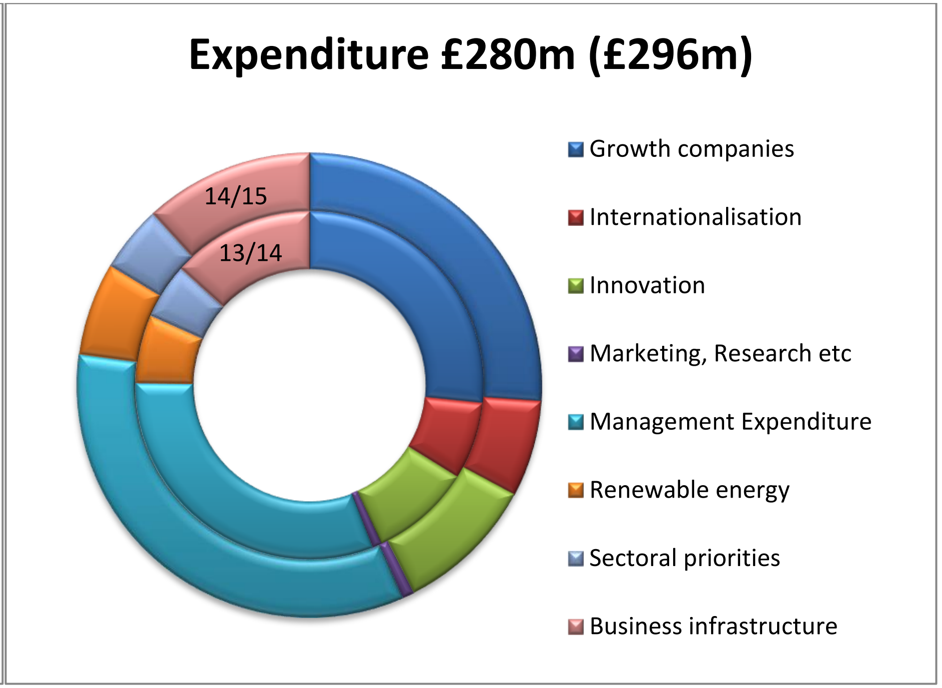
6. We have not identified any high level risks from the audit that would result in a recommendation for management. We recognise that not all risks can be eliminated or even minimised. What is important is that Scottish Enterprise understands its risks and has arrangements in place to manage these risks.

7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

2014/15 financial statements





The financial statements show income and funding of £293 million this year, £8 million (3%) less than last year. This was mainly due to a 6% decrease in Scottish Government funding. The surplus from the disposal of investments and associates (included within "income from activities" above) totalled £6.3 million, an increase of 36% from the previous year. Included in this amount is a gain from Scottish Enterprise's disposal of its interest in the Aberdeen Science Parks Joint Venture.

Expenditure was down by £16 million (6%) from last year, with reductions in most areas of expenditure.

Audit of the 2014/15 financial statements

Audit opinions

Financial Statements	• The financial statements of Scottish Enterprise for 2014/15 give a true and fair view of the state of the body's affairs and of its net expenditure for the year. • We confirm that the financial statements have been properly prepared in accordance with the 2014/15 FReM and the requirements of the Enterprise and New Towns (Scotland) Act 1990 and directions.
Regularity	• In all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.
Other prescribed matters	• The remuneration report to be audited has been properly prepared in accordance with the requirements of the Enterprise and New Towns (Scotland) Act 1990 and directions. • The information in the strategic report and directors' report is consistent with the financial statements.

Submission of financial statements for audit

9. We received the unaudited single entity financial statements on 11 May 2015 and the first version of the unaudited group accounts on 26 May 2015, in accordance with the agreed timetable. The complete version of the unaudited annual report and accounts was received on 1 June 2015. The working papers were of a high standard and the staff provided good support to the audit team which allowed us to complete our on-site fieldwork on 5 June 2015.

Overview of the scope of the audit of the financial statements

10. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit Committee on 28 November 2015.

11. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

12. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance.

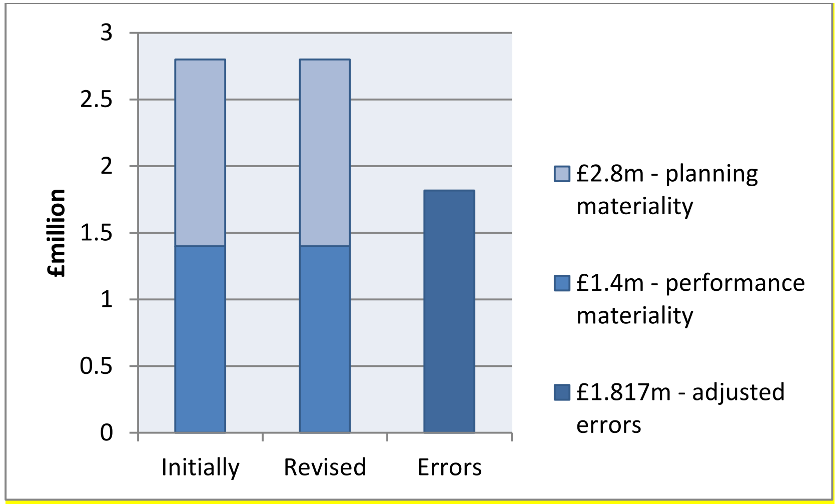
13. **Appendix I** sets out the significant audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

15. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

16. We summarised our approach to materiality in our Annual Audit Plan. Based on the financial statements, we revised our planning materiality for 2014/15 to £2.6 million (1% of gross expenditure). Performance materiality of £1.3 million is determined to ensure that uncorrected and undetected audit differences do not exceed our planning materiality level. We report all misstatements greater than £50,000.



Evaluation of misstatements

17. There were no misstatements identified during the audit, which have not been adjusted in the statement of comprehensive net expenditure in the financial statements.

18. During the audit process Scottish Enterprise officers identified a number of adjustments in the accounts which were amended during the preparation of the group financial statements. Only one adjustment had a significant impact on net expenditure (+£1.817 million). As this was a re-classification of income there was no impact on total equity. Refer to paragraph 0 below.

19. There were also re-classification adjustments within total operating expenditure of £12.4 million (between Equity Investment and Loans and Renewable Energy headings) and in the Group Statement of Cash Flows between movements in trade and other receivables and grants from the Scottish Government (£4.6m).

20. The total value of adjustments exceeded our performance materiality of £1.3 million. However, we consider the adjustment to the treatment of subsidiaries' income/funding to be an isolated instance, which does not indicate that further systematic undetected errors exist within the account area or more pervasively within the financial statements. The adjustment to income was matched by an addition to Scottish Government funding. This adjustment was identified and corrected by Scottish Enterprise during the audit process. We considered the impact of these errors on our audit approach and decided that further audit procedures were not required.

Significant findings from the audit

21. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit:
   - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and disclosures.
   - Significant difficulties encountered during the audit.
   - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
   - Written representations requested by the auditor.

- Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

22. A number of presentational adjustments were identified during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. There was no effect on the core financial statements.

23. During the course of the audit we identified the following matters, which we wish to draw your attention in accordance with ISA260.

Significant findings from the audit in accordance with ISA260
Adjustments to income/ government funding of subsidiaries on consolidation. During the audit process, Scottish Enterprise officers identified an adjustment that had a significant impact on net expenditure (+£1.817 million). Scottish Government grant-funding to two subsidiary companies had previously been included in the Group Statements as income (rather than funding in the Statement of Changes in Taxpayers Equity). This correction resulted in a prior period adjustment as disclosed in Note 26 in the financial statements. We reviewed this change in treatment, in consultation with our technical service unit, and agree that FReM doesn't specifically refer to this situation, but IFRS 10 requires group entities to have uniform accounting policies. The effect is that government funding to subsidiaries is now treated as funding rather than income in the group financial statements.
Scottish Government approval for write offs: A significant element of Scottish Enterprise's business is the provision of grants, loans and equity investment to businesses. As a result of the inherent risks in this funding activity, Scottish Enterprise is required to write off amounts which are not recoverable due to the financial or legal position of the recipients. At present, the Management Statement between Scottish Enterprise and Scottish Government requires Scottish Government approval for write offs over £250,000. This requirement exists even when companies have gone into liquidation or been dissolved and there is no prospect of any repayment. A revised Management Statement has been drafted by Scottish Government in consultation with Scottish Enterprise which states that SE shall have delegated authority to write-off the original cost of equity investments, bad debt and/or waive/abandon claims for sums due to it where the debtor company has been dissolved or liquidated. During 2014/15 Scottish Enterprise wrote off debts and investment losses amounting to £23 million, 6 of which exceeded the delegated authority limit (totalling £21.6 million). We have reviewed the basis for the write downs and are satisfied that these are appropriate and the recoverable values are correctly reflected in the financial statements.

Future accounting and auditing developments

Revisions to the Financial Reporting Manual (FReM)

24. The financial statements are prepared in accordance with the Government financial reporting manual (FReM). Three significant revisions will apply from 2015/16:

- Adoption of IFRS13 *Fair value measurement* for the first time – this also includes IAS 16 and IAS 38 adaptations.
- Adoption of IAS 36 Impairment of assets - to be applied when IFRS 13 is introduced in the FReM.
- Simplification and Streamlining Project – changes to the form and content of the annual report and accounts.

25. **International Financial Reporting Standards (IFRS) 13 Fair value measurement:** sets out the requirements for assets to be valued at fair value and is applied in full by the FReM only to assets that are not held for their service potential (i.e. investment properties and assets held for sale). It also applies to operational assets which are surplus to requirements where there are no restrictions on disposal which would prevent access to the market.

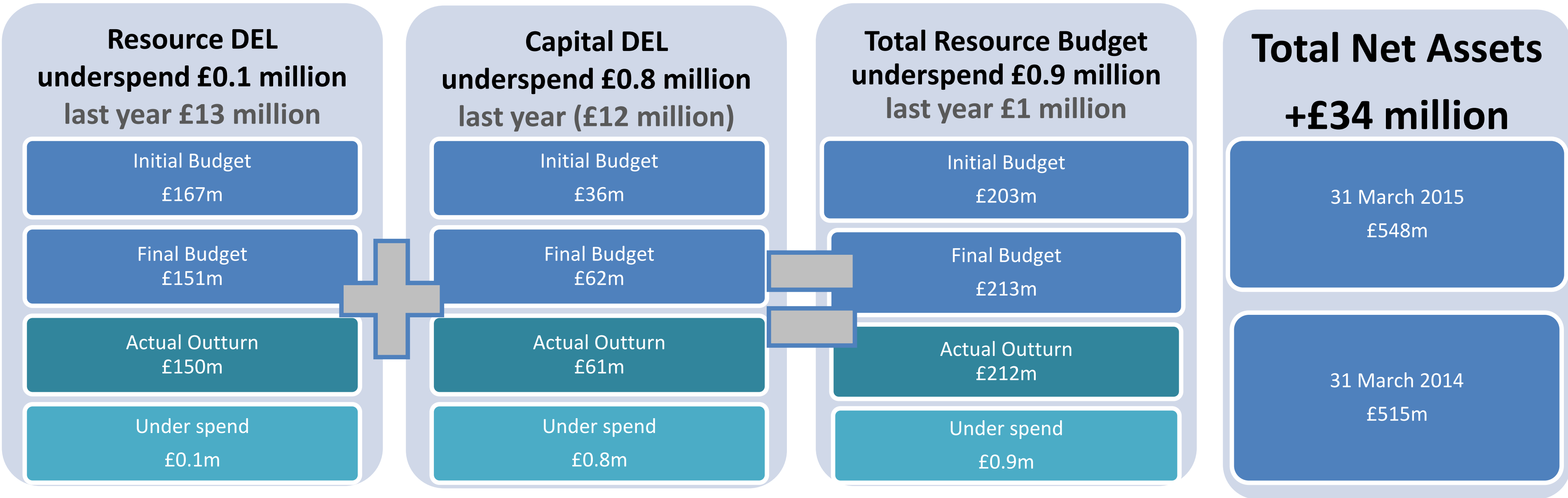
26. IFRS 13 does not apply to operational assets which are in use delivering front line services or back office functions, and surplus assets with restrictions on their disposal. These will be valued in accordance with the adaptions to *IAS (International Accounting Standard) 16 property, plant and equipment.*

27. **International Accounting Standard (IAS) 36 Impairment of assets:** this amendment seeks to address the implications of references to IFRS 13 'Fair Value Measurement', and modifies some of the disclosure requirements regarding measurement of the recoverable amount of impaired assets.

28. **Restructuring of the annual audit report**: the 2015/16 FReM has been extensively re-written to require the annual report and accounts to include:

- a performance report which will give a fair, balanced and understandable analysis of performance and will include and overview section and a performance analysis section.
- An accountability report incorporating the following three main sections:
  - corporate governance report consisting of a directors' report, a statement of the Accountable Officer's responsibilities and a governance statement
  - remuneration and staff report which will cover a number of prescribed disclosures including remuneration policy, payments to directors, staff numbers and sickness absence rates
  - parliamentary and accountability report which will include information on the regularity of expenditure and the independent auditor's report.

Financial management and sustainability



In addition to its resource budget above, Scottish Enterprise also had a non-cash DEL budget and an AME budget, both of which were underspent (by £19 million and £6 million respectively). The overspend against the C-DEL allocation in 2013-14 was with the prior approval of the Scottish Government to switch activity from resource to capital.

29. The main financial objective for Scottish Enterprise is to ensure that the financial outturn for the year is within the resource budget allocated by Scottish Ministers. Scottish Enterprise operated within the resource budgets for 2014/15 as detailed above with a small underspend of £0.9 million.

30. Following the Spring Budget Review the Scottish Government authorised an additional £5 million of capital expenditure to be committed to the Scottish Co-Investment Fund and the Scottish Loan Fund. This is included in the capital budgets above.

31. The most significant movement in budget during the year was a decrease of funding provided directly by the Scottish Government. This was in the main due to changes to REIF and POWERS funding. During the year the Scottish Government requested a recommitment of £10 million of funding from core budgets to the REIF project in 2014/15. This funding had been used on other projects in previous years due to delays in REIF and POWERS projects. This was managed by deferring other projects as part of the mid year budget re-basing process. There was a budget transfer of £19 million during the year from revenue to capital. This was in part to enable funding of REIF projects in the marine and community owned renewables sector.

2014/15 financial position

32. At 31 March 2015 Scottish Enterprise's statement of financial position shows an increase in total net assets of £34 million. The majority of this increase (£70 million) can be attributed to the upward revaluation of the carrying value of investment assets to £230 million.

33. The overall increase in net assets is also affected by a reduction in value of the pension fund surplus assets by £29 million. The assets and liabilities of a pension scheme are sensitive to a number of external factors e.g. bond rates, inflation etc. so that year-on-year fluctuations are typical. The pension scheme remains in a surplus position with assets exceeding liabilities by £48 million.

34. The financial position of Scottish Enterprise remains stable with the body operating within its available income and funding (on an accounting and resource basis) and an excess of total and current assets over liabilities.

35. The 2015-18 Business Plan and associated financial model was approved at the February board meeting with a balanced budget of £321 million for 2015/16 and an anticipated total grant in aid allocation of £243.5 million. Indicative budgets for the following 2 years have been prepared based on an assumption of relatively stable grant-in-aid provision.

36. Future budgets also take account of the £17 million reduction, which is required as a contribution to the Strategic Forum partners' savings.

Financial management

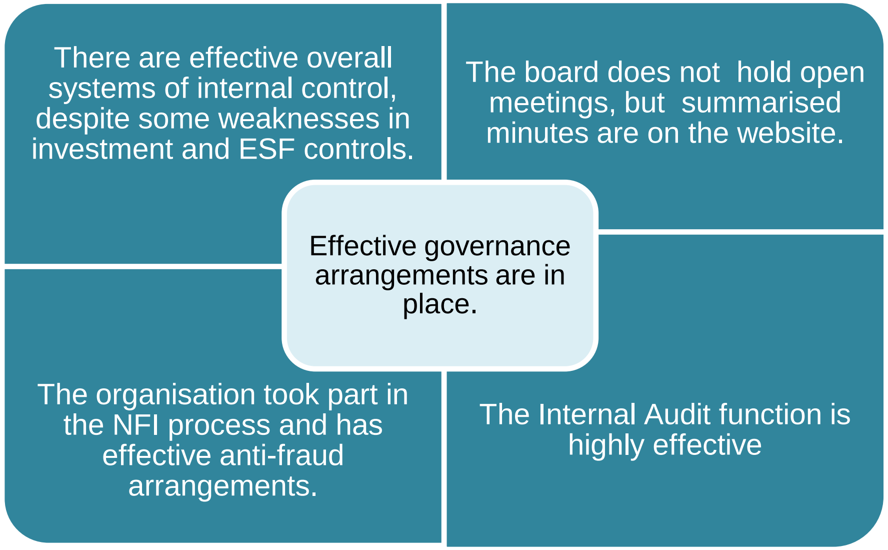
37. As auditors we need to consider whether bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the Chief Financial Officer has sufficient status to be able to deliver good financial management
- standing financial instructions and standing orders are comprehensive, current and promoted within the body
- reports monitoring performance against budgets are accurate and provided regularly to budget holders

- monitoring reports do not just contain financial data but are linked to information about performance
- members provide a good level of challenge and question budget holders on significant variances.

38. Based on our accumulated knowledge, our review of board papers and through our attendance at committees we conclude that Scottish Enterprise has strong financial management arrangements in place.

Governance and transparency



Corporate governance

39. The board and Accountable Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of Scottish Enterprise and for monitoring the adequacy of these arrangements.

40. Scottish Enterprise is managed by a board of non-executive directors and is accountable through Scottish Minsters to the Scottish Parliament. The board's Chair and non-executives are appointed by Scottish Ministers.

41. Three new members were appointed to the board in March 2015. A comprehensive induction and training programme is in place for new members.

42. The board is supported in its role by a number of standing committees as illustrated below:

43. The board met eleven times during the year and the audit and investment committees quarterly. The other sub-committees met on a regular basis throughout the year to consider relevant matters.

44. As reported previously Scottish Enterprise was advised by Scottish Government that the terms of its severance scheme should be brought in line with those in the Civil Service Compensation Scheme. The revised voluntary severance scheme has received approval by the Scottish Government Remuneration Committee. The process required before implementation of the revised scheme is underway.

45. We concluded that the Scottish Enterprise has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

Transparency

46. The Scottish Government's On Board guidance (http://www.gov.scot/Publications/2015/04/9736/0), for board members of public bodies was updated and reissued in April 2015. On Board states that boards should demonstrate high standards of corporate governance at all times including openness and transparency in decision making. It recommends boards should consider:

- Holding an annual open meeting
- Holding board meetings in public unless there is a good reason not to
- Publishing summary reports and/or minutes of meetings
- Inviting evidence from members of the public in relation to matters of public concern
- Consulting stakeholders and users on a wide range of issues
- Making corporate plans and the annual report widely available.

47. Audit Scotland also believes in transparency of financial reporting within the Annual Report and Accounts including:

- A clear reconciliation between expenditure and the outturn against Scottish Government Resource budgets.
- Identification of, and explanation of, any significant movements in budget during the year.

48. Scottish Enterprise makes available a range of information on their website. The recently published business plan 2015-18 is available in a new more accessible format. The plan contains links to case studies and to further sources of evaluation evidence and research which support the strategy underlying the business plan.

49. The discussions that typically take place at board meetings are often commercially sensitive, however summarised minutes of all board meeting are made available on the website. Overall we conclude that Scottish Enterprise is open and transparent.

Internal control

50. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain sufficient audit evidence to support our opinion on the financial statements.

51. A review of the Scottish Investment Bank (SIB) by internal audit highlighted a number of compliance related weaknesses. An action plan was put in place and a follow up review carried out by internal audit in November 2014.

52. As a result of the issues, relating to the payment approval of investments in line with delegated authority, we amended our audit approach to include additional testing. We concluded that the new procedures in place were operating effectively and that no weaknesses were identified.

53. Scottish Enterprise has received considerable funding from the EU via European Structural Funds. The Scottish Government Structural Funds Division is subject to audit by the Scottish Government Internal Audit team on behalf of the European Commission annually. Audits carried out in 2013 and 2014 identified errors of 13.5% and 1.1% respectively. The overall error rate for Scotland for 2014 exceeded the European Commission's tolerance level of 2% resulting in a suspension of the programme for Scotland from April 2015.

54. Internal audit have been asked by the Scottish Enterprise Chief Executive to carry out a review of European funding to establish the contributing factors and the actions taken to address them. An early review of the 2014-20 programme will be included in the Internal Audit Plan.

55. Overall, no material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the organisation's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

56. We reported our findings on internal controls to the Audit Committee on 20 March 2015.

Internal audit

57. Internal audit provides the audit committee and accountable officer with independent assurance on the overall risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.

58. Our review of internal audit concluded that the internal audit service operates in accordance with the Public Sector Internal

Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

59. The internal audit plan for 2014/15 was complete. We were able to place formal reliance on aspects of internal audit work on a number of systems.

Arrangements for the prevention and detection of fraud

60. We assessed the arrangements for the prevention and detection of fraud during the planning phase of our audit. This involved reviewing the Fraud and Irregularities Response Plan and the Whistleblowing Policy.

61. We conclude that there are effective arrangements for the prevention and detection of fraud.

National Fraud Initiative in Scotland

62. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.

63. Auditors are required to assess the arrangements that bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

64. The National Fraud Initiative has a high profile within the Scottish Enterprise with data matches actively investigated and findings regularly reported to the Audit Committee.

65. As part of this year's NFI exercise, Scottish Enterprise submitted payroll and creditors data and the matching process identified 2,380 records for investigation with 364 of these recommended for investigation. Internal audit reviewed all of the recommended matches and an additional 12 payroll matches. They have referred eight cases to Finance who determined that VAT overpayments totalling approximately £2,000 had been made. No other issues have been identified.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

66. Scottish Enterprise has in place a range of measures designed to maintain standards of conduct including separate Codes of Conduct for board members and employees. There are established procedures for preventing and detecting corruption including annual reviews of Standing Financial Instructions and Standing Orders.

67. Given the nature of its business Scottish Enterprise requires all staff and board members to complete annually a register of interest form to highlight any circumstances which may pose a potential conflict of interest.

68. Procedures require that during board discussions involving organisations in which a board member has an interest, that interest must be declared and recorded in the minutes and the member take no further part in the discussion. Details of board members interests are disclosed on the website and the financial statements include details of all bodies which have had material transactions with Scottish Enterprise during the year where a board member has an interest.

69. Based on our review of the evidence we concluded that there are appropriate arrangements in place for the prevention and detection of corruption and we are not aware of any specific issues that we need to record in this report.

Correspondence referred to the auditor by Audit Scotland

70. A number of correspondents wrote to Audit Scotland in 2014 and 2015 identifying concerns with payments made (£253,000) from Scottish Enterprise Dunbartonshire in December 2006 to cover part of £1 million abnormal site costs associated with a development. Scottish Enterprise Dunbartonshire identified that it would safeguard its contribution by ensuring the terms of the legal agreement are adhered to.

71. In a related agreement between SED and Lennoxtown Initiative in August 2007, SED agreed that the funding would be paid through Lennoxtown Initiative.

72. Audit Scotland's wider review of the role of public sector organisations in Lennoxtown Initiative is nearing completion and reporting options are being considered.

Best Value

73. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.

Arrangements for securing Best Value

74. During 2014/15 Internal Audit carried out a review of the risk management processes within Scottish Enterprise using Audit Scotland's risk management toolkit. The assessment was positive with most areas achieving 'advanced practice'.

Performance targets 2014/15

75. The business plan for 2014/15 includes sixteen specific performance measures with all except 3 exceeding or in the top half of the target range. There were no measures which did not achieve their target. The 8 key milestones in the plan were achieved with the exception of one; secure commitment to major infrastructure, demonstration projects and supply chain developments that help realise Scotland's competitive advantage in offshore renewables.

76. This target has been challenging due to the many difficulties facing that sector globally. Progress in the wave energy sector in particular has been affected by the business failure of leading Scottish companies in this sector that have been unable to exploit their early competitive advantage in this area.

77. Scottish Enterprise has provided funding to these two companies totalling £27 million, leveraging in considerable private sector investment. The financial statements have been prepared on the basis of these investments being fully impaired / written off.

78. In its response to the new Programme for Government and the revised Government Economic Strategy, Scottish Enterprise has changed its strategic approach to the emerging renewable energy sector to focus on support for research and development and test and demonstration, in particular through the European Marine Energy Centre (EMEC) and the newly established Wave Energy Scotland (WES).

Performance management

79. Scottish Enterprise's Business Plan for 2015-18 has been prepared on a rolling 3-year basis and will be subject to annual changes, as appropriate.

80. The new business plan covers four main themes, which have been established as the main drivers of growth in the Scottish economy: innovation, internationalisation, investment and inclusive growth. This is in line with Scotland's Economic Strategy, published by the Scottish Government in March 2015.

81. The approach to setting and measuring progress against business plan performance measures and milestones will change for the period covered by this plan. There has been a change in focus away from measuring activities and towards specific outcomes and impact measures. The measures have a 3-year horizon to direct focus to Scottish Enterprise's long term ambitions while allowing the flexibility to refocus targets based on changes in the economic or political environment.

National performance audit reports

82. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which are of direct interest. These are outlined in **appendix III.**

83. Scottish Enterprise has processes in place to ensure that all relevant national performance reports are considered by the Audit Committee.

84. **The Scottish Government's purchase of Glasgow Prestwick Airport.** This report by Audit Scotland identified that the process followed by the Scottish Government in its purchase of Glasgow Prestwick Airport was reasonable, and it now has to develop comprehensive plans to clearly map out potential future development of the airport. Scottish Enterprise was an important participant in the purchase of the Airport as part of a multi-agency working group (MAG), which consisted of the Scottish Government, Transport Scotland, Scottish Enterprise, and the three Ayrshire councils (East, North and South Ayrshire), to support potential private sector buyers. This is cited as a good example of a number of public bodies working together to achieve a common goal. The Scottish Government's decision drew on an economic analysis commissioned by Scottish Enterprise.

85. The report recommended that public bodies:

- use a checklist, developed by Audit Scotland, to help inform their approach to future investment decisions
- make sure that they have appropriate skills for the preparation of business cases, including include the ability to challenge the findings provided by external advisers
- ensure for any future investment decisions that they fully evaluate all potential risks, quantify the impact these are likely to have, and include this impact in their financial projections.

Outlook

86. A national performance and best value study of economic development will be carried out during 2015/16. Discussions have taken place with the Chief Financial Officer, Managing Director of Operations (Growth Companies, Innovation and Infrastructure) and Managing Director, (Strategy and Sectors) to help develop a scope for this audit.

Appendix I – Significant audit risks

The table below sets out the audit risks, how we addressed each risk and our judgement in arriving at our opinion on the financial statements.

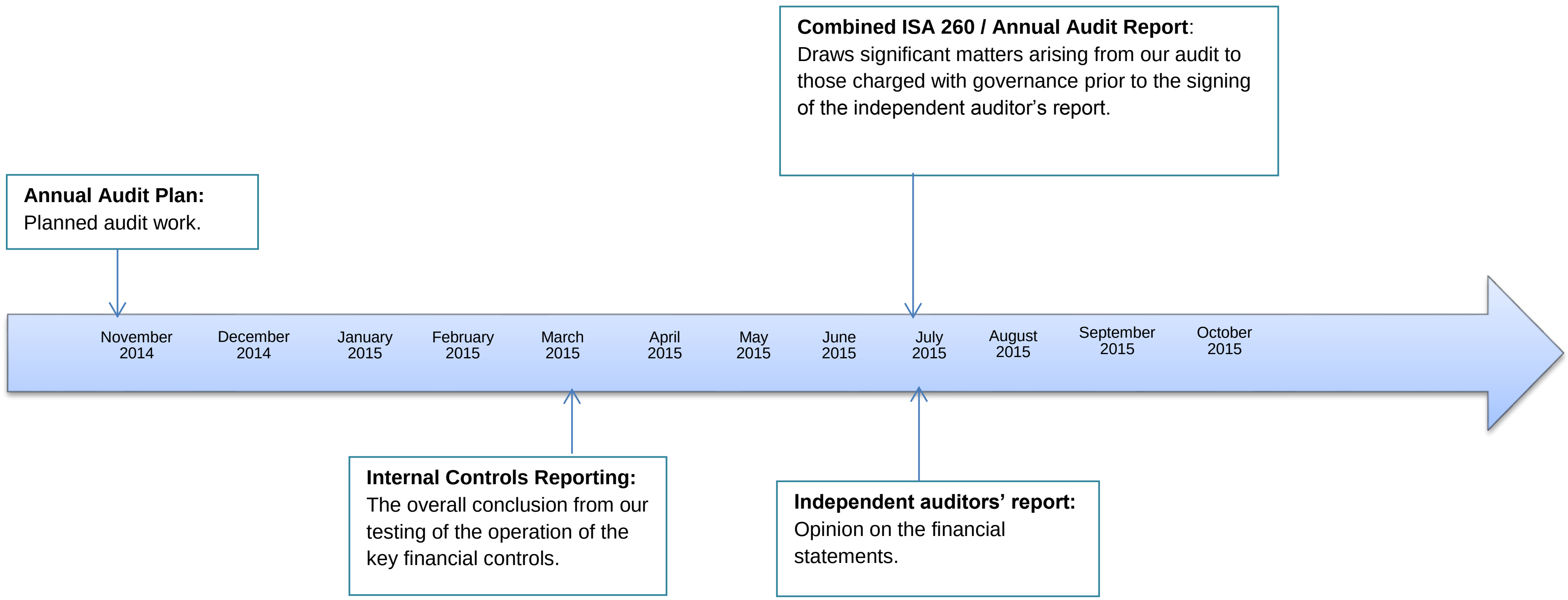
Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
Risk of misstatement in revenue recognition (Group statement of Comprehensive Net Expenditure, Statement of Accounting Policies (10) and Note 2) ISA240 presumes an inherent risk of fraud where income streams are significant. Scottish Enterprise receives a significant amount of income in addition to Scottish Government funding. *The extent of income at Scottish Enterprise means that there is an inherent risk that income could be materially misstated.*	Analytical review of income streams to confirm completeness and identify any unusual transactions or variations in income. Substantive testing of income transactions to confirm occurrence and accuracy of amounts in the financial statements.	Our analytical review and substantive testing of income did not identify any material misstatement of income.
Management override of controls (Group statement of Comprehensive Net Expenditure, Statement of Accounting Policies (20)) ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.	Detailed testing of journal entries. Review of accounting estimates for bias. Evaluating significant transactions that are outside the normal course of business. Focused testing of accruals and prepayments.	No issues have arisen as part of our audit work that would indicate management override of controls affecting the year end position.

Audit Risk	Assurance procedure	Results and conclusions
Group accounts (Group Statement of Comprehensive Net Expenditure, Group statement of Financial Position, Statement of Accounting Policies (2) and Notes) The Scottish Enterprise Group requires the consolidation of a range of subsidiaries, associates and joint ventures. *The size and complexity of the group structure presents an inherent risk to the accuracy of the financial statements, particularly in light of the tight timescales involved in preparing the consolidated financial statements.*	We met with the Group auditors to discuss the procedures for the audit of the group and have reviewed the group boundary assessments. We have undertaken specific work as part of our financial statements audit including receiving appropriate assurances through component auditor questionnaires.	Our review of the group accounts found that the boundary assessment was complete and that group bodies had been correctly consolidated.
Valuations (Group Statement of Financial Position, Statement of Accounting Policies (4, 6, 15), Notes 5, 7, 9, 10,) Significant elements of the financial statements are subject to annual valuation exercises that rely on the provision of valuations by management experts, including land and properties, investments and pensions. *There is a risk of error in valuation assumptions used by the actuary, investment manager and valuer.*	Our audit work considered the nature, scope and assumptions made in these valuations to enable us to place reliance on management's experts in accordance with ISA 5000. Detailed substantive testing of a sample of investment valuations during the financial statements audit.	The valuations of investment assets included in the financial statements were found to be based on sound professional judgements and we were able to place reliance on the work of management's experts in this area.

Audit Risk	Assurance procedure	Results and conclusions
Wider Audit Dimension Risks		
Financial position (Strategic Report – Summary of Resource Outturn, Note 2) The budget for 2014/15 has reduced by £17 million from the published business plan. Scottish Enterprise has been given a target to achieve Strategic Forum savings of £17.3 million and have incorporated this in their budget. A significant amount of planned income is expected from receipts from capital disposals. *There is a risk that the planned assets disposals are not met and the financial targets cannot be achieved.*	We reviewed the accuracy of budget forecasting based on actual results through the year. We assessed the year end financial position on the basis of year end outturn and future funding settlements We considered the appropriateness of governance arrangements to ensure that best value has been achieved in asset sales.	The year end outturn was a small underspend of £0.9 million. No issues were identified in relation to asset disposals.
Investment write offs (Group Statement of Financial Position, Statement of Accounting Policies (6), Notes 10, 11, 22) The level of write off has increased at a steady rate over the past 4 years with indications that 2014/15 may see a significant level of amounts to be written off. *There is a risk that amounts written off have not been subject to approval in accordance with procedures.*	Examination of significant write offs during the year to establish that the appropriate governance procedures have been followed. Ensuring the financial statements contain the proper disclosures and that the appropriate accounting entries have been correctly processed.	Our audit work found that the approval process for write offs had been followed by Scottish Enterprise. The accounting treatment and disclosures were satisfactory.

Audit Risk	Assurance procedure	Results and conclusions
Scottish Investment Bank control framework (Group Statement of Financial Position, Statement of Accounting Policies (6), Notes 10) The Internal Audit review identified a number of control weaknesses in the governance and compliance framework of SIB. *There is a risk that investment payments are not being approved in line with delegated authority limits.*	Detailed testing of new investments focusing on the approval process and compliance with levels of payment delegated authority, to ensure the regularity of transactions.	Testing showed that new processes were working satisfactorily and investment payments were taking place within delegated authority limits.

Appendix II – Summary of local audit reports 2014/15



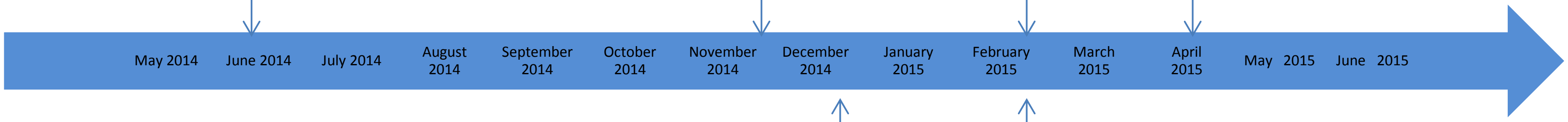
Appendix III – Summary of national reports 2014/15

Scotland's public finances - a follow-up audit: Progress in meeting the challenges -Provides a high-level update on the financial position and on how public bodies are meeting the challenges of reduced public spending.

Community planning: Turning ambition into action - Provides a national update on community planning in Scotland since March 2013. The report assesses progress locally and nationally and identifies opportunities for further improvement.

Superfast broadband for Scotland: a progress report: assesses whether the Scottish Government and HIE have clear plans and arrangements in place to build their superfast broadband network in Scotland.

Update on developing financial reporting - reviews the principles of public financial management and provides an update on the actions the Scottish Government is taking to further develop financial reporting.



Preparations for the implementation of the Scotland Act 2012: Reports progress in preparing for the Land and Buildings Transaction Tax (replacing the current stamp duty arrangements), Scottish Landfill Tax and other financial powers for the Scottish Government from 1 April 2015.

The Scottish Government's purchase of Glasgow Prestwick Airport: Assesses if the Scottish Government's approach to the purchase of Glasgow Prestwick Airport was reasonable, considers the future plans for the airport's development and the governance arrangements that have been put in place.