

# Scottish Enterprise

2023/24 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Scottish Enterprise and the Auditor General for Scotland

July 2024

---

# Contents

---

Key messages	3
Introduction	5
1. Audit of 2023/24 annual report and accounts	7
2. Financial management	15
3. Financial sustainability	19
4. Vision, leadership and governance	22
5. Use of resources to improve outcomes	25
Appendix 1. Action plan 2023/24	28

---

# Key messages

---

## 2023/24 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified.
- 2 Key risks arising from the audit of Scottish Enterprise's annual report and accounts in our Annual Audit Plan were presented to the Audit and Risk Committee in March 2024. There are no significant matters from that work to draw to the attention of the Audit and Risk Committee.
- 3 Officers made adjustments of £4.9 million to the annual report and accounts.

## Financial management

- 4 Appropriate and effective financial management arrangements are in place, with regular budget monitoring reports provided to the Board.
- 5 Scottish Enterprise operated within its revised budget for 2023/24, reporting an underspend of £10.1 million.
- 6 Scottish Enterprise has appropriate financial control arrangements in place.
- 7 Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate.

## Financial sustainability

- 8 The 2024/25 opening budget included over-allocations of £43.0 million, which Scottish Enterprise anticipate will be reduced due to slippage on projects over the course of the year resulting in a balanced budget at 31 March 2025.
- 9 Scottish Enterprise has developed a medium-term financial strategy for 2025/26 to 2027/28 reflecting a range of scenarios and financial assumptions which will support the effective delivery of services.

## Vision, leadership, and governance

- 10 Scottish Enterprise has developed a strategy to implement its vision, strategy and priorities. The strategy is aligned with the Scottish Government's National Strategy for Economic Transformation.

- 11 There are effective and appropriate governance arrangements in place that support scrutiny of decisions made by the Board.
- 12 Scottish Enterprise continues to develop and improve its cyber security arrangements.

### **Use of resources to improve outcomes**

- 13 A clear performance management framework is in place with key performance indicators to measure progress against corporate goals.
- 14 In 2023/24, Scottish Enterprise successfully delivered all targets performing above the target range in five out of six performance outcomes.
- 15 Scottish Enterprise has an appropriate and effective best value framework in place.
- 16 Scottish Enterprise is working effectively with partners to meet stated outcomes and improvement objectives.

---

# Introduction

---

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

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

**2.** This report is addressed to the Audit and Risk Committee of Scottish Enterprise and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

## Audit appointment

**3.** I, Pauline Gillen, have been appointed by the Auditor General for Scotland as auditor of Scottish Enterprise for the period from 2022/23 until 2026/27. The 2023/24 financial year was the second year of my five-year appointment.

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

## Responsibilities and reporting

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

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

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

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

## Auditor Independence

**9.** I can confirm that the audit team comply with the Financial Reporting Council's Ethical Standard. I can also confirm that I have not undertaken any non-audit related services. I am not aware of any relationships that could compromise our objectivity and independence.

**10.** The 2023/24 Annual Audit Plan set out an audit fee of £238,360 for the 2023/24 audit. However, a rebate of £643 was issued, relating to previous years audit fees, resulting in a final audit fee of £237,717.

**11.** The annual audit adds value to Scottish Enterprise by:

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

---

# 1. Audit of 2023/24 annual report and accounts

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

---

---

## Main judgements

Audit opinions on the annual report and accounts are unmodified.

Key risks arising from the audit of Scottish Enterprise's annual report and accounts our Annual Audit Plan were presented to the Audit Committee in March 2024. There are no significant matters from that work to draw to the attention of the Audit and Risk Committee.

Officers made adjustments of £4.9 million to the annual report and accounts.

---

## Audit opinions on the annual report and accounts are unmodified

**12.** The Board approved the annual report and accounts for Scottish Enterprise and its group for the year ended 31 March 2024 on 26 July 2024. As reported in the independent auditor's report, in my opinion as the appointed auditor:

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

## The unaudited annual report and accounts were received in line with the agreed audit timetable

**13.** In line with the timetable set out in our 2023/24 Annual Audit Plan, we received:

- the unaudited Scottish Enterprise single entity annual report and accounts on 13 May 2024
- the Performance Report and Accountability Report on 27 May 2024
- the group unaudited annual report and accounts on 27 May 2024.

**14.** We received good support from management and the wider finance team which enabled us to complete the audit in accordance with the agreed timetable.

## Overall materiality was assessed as £5.9 million

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

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

---

### Exhibit 1 Materiality values

Materiality level	Single Entity	Group
Overall materiality	£5.9 million	£6.1 million
Performance materiality	£4.1 million	£4.2 million
Reporting threshold	£295,000	£305,000

---

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

**18.** Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold,



set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 70% of overall materiality, reflecting the fact there were no significant issues identified in the prior year audit impacting our audit approach.

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

## Significant findings and key audit matters

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

**21.** The Code of Audit Practice also requires us to highlight key audit matters which are defined in ISA (UK) 701 as those matters judged to be of most significance.

**22.** The significant findings and key audit matters are summarised in [Exhibit 2](#).

---

## Exhibit 2

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

Issue	Resolution
<p><b>1. Grant accrual</b></p> <p>As at 31 March 2024, Scottish Enterprise included an accrual of £2.0 million on the Statement of Financial Position for research and development grant awards to be paid. However, the conditions outlined in the original grant letter had not been met prior to the year-end and the accrual should not have been recognised.</p> <p>The impact of this is to decrease expenditure by £2.0 million on the Statement of Comprehensive Net Expenditure and decrease trade and other payables on the Statement of Financial Position by £2.0 million.</p>	<p>This was adjusted by management in the 2023/24 annual report and accounts.</p>
<p><b>2. Valuation of land and buildings</b></p> <p>The valuation of Land and Buildings as at 31 March 2024 was based on the draft valuation report provided by the valuer.</p> <p>During the course of the audit, Scottish Enterprise obtained the final valuation figures for the land and</p>	<p>This was adjusted by management in the 2023/24 annual report and accounts.</p>

Issue	Resolution
<p>buildings portfolio. The final valuation report confirmed that the valuation of land had increased by £1.025 million and the valuation of buildings had decreased by £0.980 million. The impact of this is to increase non-current assets on the Statement of Financial Position by £0.045 million and decrease expenditure on the Statement of Comprehensive Net Expenditure by £0.045 million.</p>	
<p><b>3. Valuation of investments</b></p> <p>The valuation of a small number of investments in limited partnerships disclosed in the unaudited 2023/24 annual report and accounts was based upon the latest fund manager report as at 31 December 2023.</p> <p>During the course of the audit, Scottish Enterprise obtained the updated fund manager reports as at 31 March 2024 which outlined that the valuation of investments had increased by a further £1.0 million. The impact of this is to increase investments on the Statement of Financial Position by £1.0 million and decrease expenditure on the Statement of Comprehensive Net Expenditure by £1.0 million.</p>	<p>This was adjusted by management in the 2023/24 annual report and accounts.</p>
<p><b>4. Prepaid rent</b></p> <p>Scottish Enterprise recognised a prepayment for rent of £0.3 million and a corresponding trade payable on the Statement of Financial Position. However, the payment was not authorised or initiated until after the year-end and therefore, should not have been recognised.</p> <p>The impact of this is to decrease trade and other receivables and trade and other payables by £0.3 million on the Statement of Financial Position.</p>	<p>This was adjusted by management in the 2023/24 annual report and accounts.</p>
<p><b>5. Remuneration and Staff Report</b></p> <p>The following minor misstatements were identified in the unaudited Remuneration and Staff Report including:</p> <ul style="list-style-type: none"> <li>Salary details for an individual did not include the Cycle to Work contribution as part of the salary sacrifice scheme. The comparative prior year salary has also been subject to restatement for this issue. The impact of this is</li> </ul>	<p>These were adjusted by management in the 2023/24 annual report and accounts.</p>

Issue	Resolution
<p>to increase the current year salary by £1,000 and the prior year salary by £2,000.</p> <ul style="list-style-type: none"> <li>As a result of an error in the figures provided by the actuary, an individual's pension benefits were understated by £3,000. This issue was identified by management and brought to our attention prior to the commencement of the audit work on pension benefits.</li> </ul>	
<p><b>6. Related Parties</b></p> <p>International Accounting Standard 24 (IAS 24) details the requirements for disclosing transactions and balances with related parties. Taking an approach consistent with previous years, Scottish Enterprise did not disclose material transactions or balances with its subsidiaries on the basis that these items are eliminated on consolidation.</p> <p>As the 2023/24 annual report and accounts reflect the financial position from both a group and single-entity perspective, material transactions and balances with subsidiaries should be disclosed in line with IAS 24.</p>	<p>This was adjusted by management in the 2023/24 annual report and accounts.</p>
<p><b>7. Valuation of pension assets and liabilities</b></p> <p>The accounting results for the Scottish Enterprise Pension and Life Assurance Scheme are prepared by Scottish Enterprise's actuary. The actuary used the estimated asset valuations for part of the asset portfolio to calculate the retirement benefit scheme liability disclosed on the Statement of Financial Position in the unaudited 2023/24 annual report and accounts.</p> <p>During the course of the audit, Scottish Enterprise obtained the updated year-end valuations from the pension trustees report which confirm that the scheme's financial assets had increased by a further £1.4 million.</p> <p>The impact of this would be to decrease the pension liabilities on the Statement of Financial Position by £1.4 million.</p>	<p>The pension trustees report showed the lagged valuation was not materially different from the estimated asset valuation. Management therefore chose not to adjust the 2023/24 annual report and accounts for this amount.</p>

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

**23.** We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. [Exhibit 3](#) sets out the

significant risks of material misstatement to the financial statements identified in my 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

### Exhibit 3

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

Audit risk	Assurance procedure	Results and conclusion
<p><b>1.Risk of misstatement due to fraud caused by management override of controls</b></p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>• Assess the design and implementation of controls over journal entry processing.</li> <li>• Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</li> <li>• Test journals at the year-end and post-closing entries and focus on significant risk areas.</li> <li>• Consider the need to test journal entries and other adjustments throughout the year.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements.</li> <li>• We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> <li>• Substantive testing of income and expenditure</li> </ul>	<p><b>Results:</b> Work undertaken included detailed testing of journal entries, accruals, prepayments and invoices; as well as review of accounting estimates and transactions for appropriateness.</p> <p>Specific enquiries were made of individual staff as to whether they had knowledge or awareness of manipulation of financial recording or processing of fraudulent journals.</p> <p><b>Conclusion:</b> No incidents of management override of controls were identified.</p>

Audit risk	Assurance procedure	Results and conclusion
	<p>transactions around the year-end to confirm they are accounted for in the correct financial year.</p> <ul style="list-style-type: none"> <li>• Focussed testing of accounting accruals and prepayments.</li> </ul>	

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

- **Estimations in valuation of land and buildings:** we assessed the design and implementation of controls over the valuation of land and buildings. We carried out ‘reliance on a management expert’ work on the valuer and concluded that we could place reliance on their valuation report for the property portfolio. We reviewed the revaluation adjustments throughout the financial statements and confirmed that these had been accurately processed.
- **Estimations in valuation of pension assets and liabilities:** we assessed the design and implementation of controls over the valuation of pensions. We carried out ‘reliance on a management expert’ work on the actuary. Based on the findings of the audit procedures performed we concluded that we could place reliance on the actuary’s valuation of the pension liability. We reviewed the pension adjustments throughout the financial statements and confirmed that these had been accurately processed.
- **Estimations in valuation of financial assets:** we assessed the design and implementation of controls over the valuation of investments. We carried out ‘reliance on a management expert’ work on the Equity Portfolio Team and concluded that we could place reliance on their valuation of investments. We reviewed the valuation adjustments throughout the financial statements and confirmed that these had been accurately processed.

**25.** During the 2023/24 financial year, Scottish Enterprise entered into two lease agreements, however, copies of the signed lease agreements were not available at the time of audit. As a result, assurances were sought from the Accountable Officer in the ISA 580 Letter of Representation that Scottish Enterprise has the rights to recognise these assets on its Statement of Financial Position.

**26.** Based on the findings of the audit procedures performed, there are no other matters which we need to bring to your attention other than those already outlined above.

## **Officers made adjustments of £4.9 million to the annual report and accounts**

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

**28.** Adjustments to the annual report and accounts totalled £4.9 million. This includes the adjustments set out in [Exhibit 2](#). Adjustments made in the audited annual report and accounts decreased net expenditure in the Group Statement of Comprehensive Net Expenditure by £3.5 million and increased net assets in the Group Statement of Financial Position by £3.2 million.

**29.** We have reviewed the nature and cause of these adjustments and have concluded that they arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error. In addition, a number of the adjustments arose from timing issues relating to provision of information from third parties and are out with the control of Scottish Enterprise. While these have resulted in adjustments, we do not consider them to be errors.

## **Good progress was made on prior year recommendations**

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

---

## 2. Financial management

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

---

---

### Conclusion

Appropriate and effective financial management arrangements are in place, with regular budget monitoring reports provided to the Board.

Scottish Enterprise operated within its revised budget in 2023/24, reporting an underspend of £10.1 million.

Scottish Enterprise has appropriate financial control arrangements in place.

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

---

### **Appropriate and effective financial management arrangements are in place, with regular budget monitoring reports provided to the Board**

**31.** Senior management and members receive regular and accurate financial information on Scottish Enterprise's performance against budgets. These reports allow officers and members to scrutinise financial performance effectively throughout the year.

### **Scottish Enterprise operated within its revised budget in 2023/24, with an overall underspend of £10.1 million**

**32.** 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.

**33.** Scottish Enterprise has reported an outturn of £263.2 million against its overall budget for 2023/24 with an underspend of £10.1 million. The financial performance against fiscal resources is shown in [Exhibit 4](#).

**Exhibit 4****Performance against fiscal resource in 2023/24**

Performance	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Fiscal Resource	141.6	147.4	146.2	(1.2)
Fiscal Capital	76.2	87.0	84.0	(3.0)
Financial Transactions	28.4	38.9	33.0	(5.9)
<b>Total</b>	<b>246.2</b>	<b>273.3</b>	<b>263.2</b>	<b>(10.1)</b>

Source: Scottish Enterprise Annual Report and Accounts 2023/24

**34.** The underspends noted above were in the main due to:

- Fiscal Resource – relatively small reductions in expenditure forecasts offset by a net increase in expected credit loss compared to budget available,
- Fiscal Capital – budget transfers from Scottish Government for IFRS 16 adjustments not aligning with expectations, and
- Financial Transactions – a number of planned investment deals in March failing to conclude by the year-end.

**Budget processes were appropriate**

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

- additional £3.2 million in Fiscal Resource to support the SDI Nations Fund, an initiative that Scottish Enterprise delivers on behalf of Scottish Government, to support Scottish companies in key sectors to scale up and grow through international trade.
- a reduction in Fiscal Resource allocation of £2.3 million to capture the anticipated impact of re-classifications reflecting the adoption of accounting standard IFRS 16 (Leases).



- additional Fiscal Capital allocation of £10.6 million to reflect additional capital expenditure in year with the largest individual project transfer of £5.0m towards the Zero Emission Mobility Innovation Fund.
- an additional Financial Transactions allocation of £10.6 million to reflect anticipated additional demand during the year.

### **Group net assets decreased by £83.1 million**

**36.** Scottish Enterprise's group net assets at the year-end decreased by £83.1 million from £579.9 million in 2022/23 to £496.8 million in 2023/24. Whilst the overall movement is a decrease in net assets, there have been significant upward and downward movements in assets and liabilities on the Statement of Financial Position. The most significant movements are:

- £62.2 million decrease in the retirement benefit scheme asset, mainly due to lower-than-expected asset returns, updating the underlying data due to the 31 March 2023 triennial valuation, high levels of inflation and changes in actuarial assumptions.
- £19.8 million increase in trade and other payables, mainly due to an increase in financial transactions funding from the Scottish Government.
- £19.5 million increase in property, plant and equipment, mainly due to an increase in additions in year.
- £11.7 million decrease in investments, mainly due to changes in market value, impairment and disposals of investments in year and offset by additions to investments in year.

### **Scottish Enterprise has appropriate financial control arrangements in place**

**37.** From a review of the design and implementation of key controls within Scottish Enterprise's systems of internal control (including those relating to IT) relevant to our audit approach, we did not identify any internal control weaknesses which could affect Scottish Enterprise's ability to record, process, summarise and report financial and other relevant data and result in a material misstatement in the financial statements.

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

**38.** 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.

**39.** We concluded that Scottish Enterprise has appropriate arrangements for the prevention and detection of fraud, error and irregularities. We also reviewed arrangements to maintain standards of conduct, including the Board and staff

code of conduct and register of interests. We concluded that Scottish Enterprise has established procedures for preventing and detecting any breaches of these standards.

## **National Fraud Initiative**

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

**41.** We reviewed Scottish Enterprise's NFI arrangements and concluded that it is pro-active in investigating matches and reporting outcomes. Regular reports are presented to the Audit and Risk Committee to update members on progress with the NFI exercise.

# 3. Financial sustainability

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

## Conclusion

The 2024/25 opening budget included over-allocations of £43.0 million, which Scottish Enterprise anticipate will be reduced due to slippage on projects over the course of the year resulting in a balanced budget being achieved.

Scottish Enterprise has developed a medium-term financial strategy for 2025/26 to 2027/28 reflecting a range of scenarios and financial assumptions which will support the effective delivery of services.

## 2024/25 Budget Position

42. Scottish Enterprise's opening budget for 2024/25 included expenditure of £332.8 million against income of £289.8 million resulting in an over-allocation of £43.0 million. The opening budget for 2024/25 against fiscal resources is shown in [Exhibit 5](#).

### Exhibit 5

#### Opening budget for 2024/25 against fiscal resources

Performance	Expenditure £m	Income £m	Over/(under) allocation £m
Fiscal Resource	172.0	(157.4)	14.6
Fiscal Capital	133.1	(104.7)	28.4
Financial Transactions	27.7	(27.7)	-
<b>Total</b>	<b>332.8</b>	<b>(289.8)</b>	<b>43.0</b>

Source: Scottish Enterprise Board Meeting Papers 21 June 2024

**43.** For 2024/25, Scottish Enterprise have based allocations on forecast demand and anticipate the over-allocation will be reduced due to slippage on projects over the course of the year in order to deliver a balanced budget.

**44.** As at the end of May 2024, the overall expenditure forecast had reduced by net £13.9 million compared to the opening budget over-allocation of £43.0 million resulting in a revised forecast over-allocation of £29.1 million. The most significant reductions are:

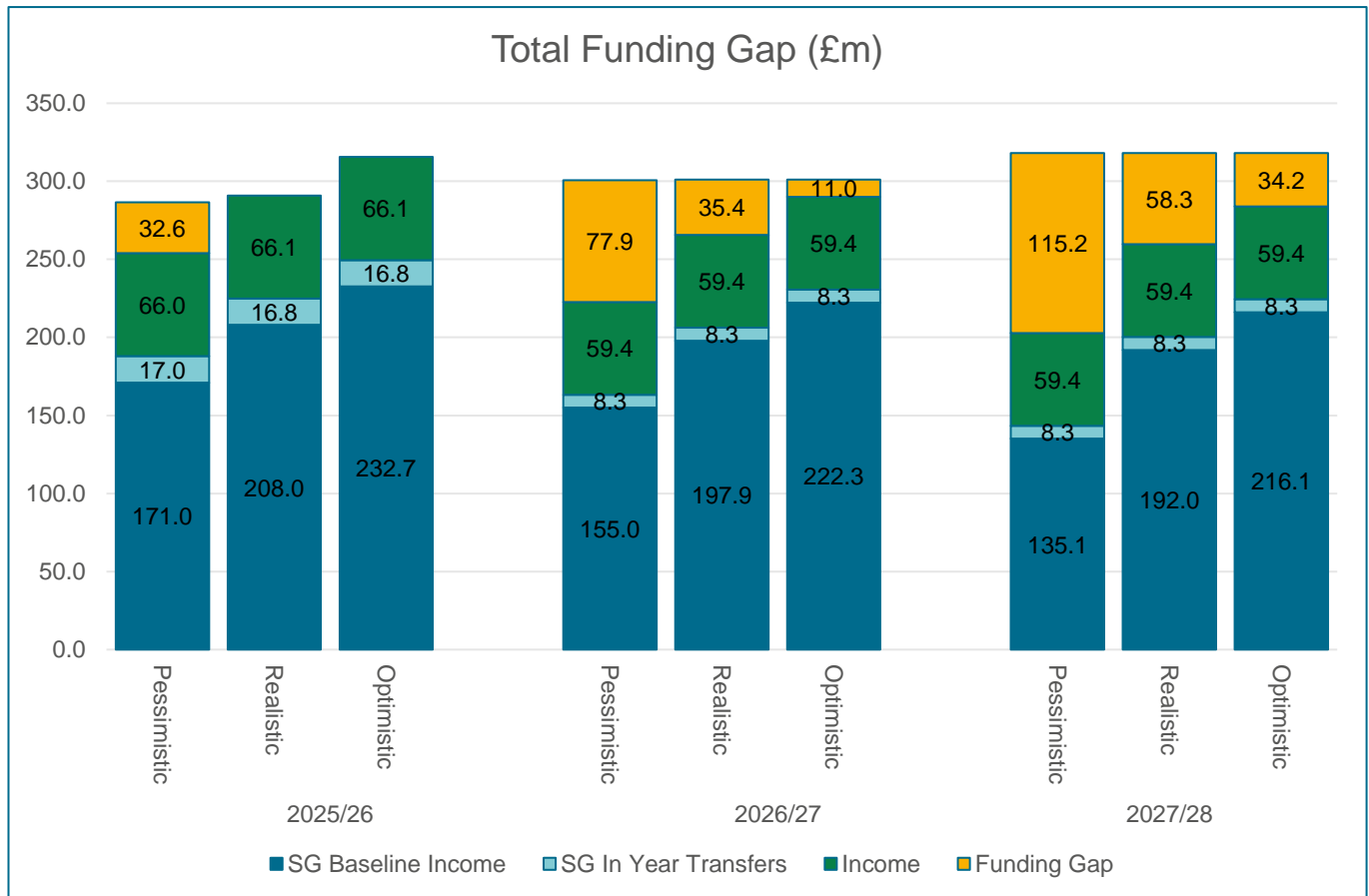
- A £5m planned contribution to an innovation related infrastructure project has been removed as the project is no longer proceeding in its original structure.
- £4.7 million for Large Grants reflecting revised profiles following the conclusion of year end.
- £2.2 million for EBQ NINE as there has been a significant re-shaping of the project.
- £2.0 million for Zero Emission Manufacturing Innovation Fund due to slippage now profiled for future years.

## Medium Term Financial Strategy

**45.** Our 2022/23 Annual Audit Report highlighted that Scottish Enterprise should develop medium-term financial planning. A medium-term financial strategy covering the period 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).

**46.** Scottish Enterprise receives the majority (approximately 80%) of its annual operating budget from the Scottish Government through core allocations covering Resource, Capital, and Financial Transactions funding. The remaining 20% is sourced from a diverse range of partners and additional income is generated by Scottish Enterprise through its own asset base.

**47.** The Medium-Term Financial Strategy outlines the potential impact of future reductions in budget allocations from Scottish Government using scenario planning to model three different scenarios: pessimistic, realistic and optimistic. Under the realistic scenario, the strategy presents a balanced budget for 2025/26 rising to a £58.3 million funding gap for 2027/28. This has been summarised in [Exhibit 6](#).

**Exhibit 6****Medium-term financial strategy scenario planning 2025/26 to 2027/28**

Source: Scottish Enterprise Medium-Term Financial Strategy 2025/26 to 2027/28

**48.** Scottish Enterprise is operating in a financially challenging public sector environment that will impact on the resources it has available over the medium and longer-term. There are a number of elements within the Scottish Enterprise budget which represent significant cost pressures and will require to be carefully managed and monitored.

**49.** As part of their strategic and operational decision making, senior management and Board members consider medium to longer-term horizons.

---

# 4. Vision, leadership and governance

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

---

## Conclusion

Scottish Enterprise has developed a strategy to implement its vision, strategy and priorities. The strategy is aligned with the Scottish Government's National Strategy for Economic Transformation.

There are effective and appropriate governance arrangements in place that support scrutiny of decisions made by the Board.

Scottish Enterprise continues to develop and improve its cyber security arrangements.

---

## Scottish Enterprise has a clear vision and strategy aligned with Scottish Government's National Strategy for Economic Transformation

**50.** In January 2024, Scottish Enterprise launched its long-term strategic ambition: *Our Focus on Economic Transformation*. This strategy reflects a new 'mission-based' approach for Scottish Enterprise to achieve and deliver the ambitions of the Scottish Government's National Strategy for Economic Transformation (NSET).

**51.** To support the delivery of its strategic priorities, Scottish Enterprise has published a new Corporate Plan covering the period 2023-2026. This outlines how Scottish Enterprise will deliver its strategic priorities through a mission-based approach which aims to focus its efforts on the areas where the greatest contribution can be made to improving Scotland's economic performance.

**52.** The Corporate Plan sets out a performance framework through which Scottish Enterprise will measure performance against strategic objectives and the long-term objectives of NSET and Scottish Government's National Performance Framework.

**53.** In 2023/24, Scottish Enterprise published the first Annual Operating Plan which further supports the delivery of its longer-term strategic objectives. The Medium-Term Financial Strategy which was approved by the Board in June 2024 facilitates the management of financial resources to enable achievement of the strategy.

**54.** We have concluded that Scottish Enterprise has a clear vision and strategy which is aligned with Scottish Government's NSET.

### **Scottish Enterprise's executive and non-executive directors demonstrate effective leadership, challenge and scrutiny of the organisation's activity and performance**

**55.** The Chief Executive and senior leadership team are responsible for the delivery of day-to-day services and for ensuring that Scottish Enterprise achieves its corporate priorities as outlined in the Corporate Plan.

**56.** There is significant uncertainty in the economic and political environment in which Scottish Enterprise operates, with a complex range of opportunities and challenges. There has been evidence of effective leadership and scrutiny during 2023/24 resulting in a significant strategic change with the adoption of the new missions-based approach. This revised approach recognises those challenges and opportunities and provides a clearer focus for all future activity.

### **Governance arrangements are appropriate and Scottish Enterprise operates in an open and transparent way**

**57.** Scottish Enterprise's governance arrangements have been set out in the Governance Statement in the annual report and accounts. We have reviewed these arrangements and concluded that they are appropriate and support robust scrutiny and challenge of decision-making processes.

**58.** There continues to be an increasing focus on demonstrating the best use of public money. Openness and transparency in how a body operates and makes decisions is key to supporting understanding and scrutiny. Transparency means that the public have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources.

**59.** Scottish Enterprise's website is clear and well structured. Board minutes are available to the public along with key publications including the most recent annual report and accounts.

**60.** We concluded that 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.

## Scottish Enterprise continues to develop and improve its cyber security arrangements

- 61.** Information technology services for Scottish Enterprise are managed by its internal IT service within the Digital, Data and Information Technology (DDIT) directorate and by the externally led Enterprise Information Services (EIS) partnership. The EIS partnership board provides the strategic oversight of the EIS partnership (also involving Skills Development Scotland, Highland and Islands Enterprise, and South of Scotland Enterprise).
- 62.** There is evidence that both Scottish Enterprise and the EIS partnership board are committed to cyber security and ongoing improvement in this area. Cyber-related risks are reported to the EIS partnership board and are shared by the EIS partnership at the cross-organisational security council. Scottish Enterprise and the EIS partnership board also provide updates on digital and cyber matters to the Board throughout the year.
- 63.** Overall, responsibility for cyber security lies with each partner body. Cyber Essentials Plus was accredited to Scottish Enterprise and all EIS partner bodies in September 2023. IT security tools and measures are in place to mitigate any cyber security risks, including anti-virus and virus scanning software, intrusion prevention and detection systems, firewalls, and security information and event management systems.
- 64.** During 2023/24, Scottish Enterprise launched a new Cyber Strategy which is aligned with wider strategic priorities and Scottish Government's frameworks for data security. The new strategy is supported by the findings of the EY Cyber Security Audit undertaken in Spring 2023 and the resultant Cyber Security Action Plan. Scottish Enterprise are progressing implementation of the recommended actions since the EY review.
- 65.** In 2023/24, Scottish Enterprise created an Information System & Asset Register (ISAR) as a record of all digital assets and systems. Business Continuity & Disaster Recovery plans were obtained for all critical assets on the ISAR to ensure robust Business Continuity arrangements are in place for all systems, including those hosted externally.
- 66.** We reviewed the arrangements in place to ensure Scottish Enterprise have sufficient assurance that externally hosted data is being managed and stored appropriately. Scottish Enterprise have monthly meetings with suppliers and obtain evidence of cyber certifications, however more formal assurance could be obtained from suppliers to minimise disruption in the event of supplier failure.



---

# 5. Use of resources to improve outcomes

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

---

---

## Conclusions

A clear performance management framework is in place with key performance indicators to measure progress against corporate goals.

In 2023/24, Scottish Enterprise successfully delivered all targets performing above the target range in five out of six performance outcomes.

Scottish Enterprise has an appropriate and effective best value framework in place.

Scottish Enterprise is working effectively with partners to meet stated outcomes and improvement objectives.

---

## Scottish Enterprise has a clear performance management framework in place with key performance indicators to measure progress against corporate goals

**67.** Scottish Enterprise's purpose '*is to enable businesses to innovate and scale to transform the economy*'. This purpose is supported by three strategic priorities: to drive up levels of innovation, investment, and internationalisation. Scottish Enterprise aim to achieve this through its recently launched mission-based approach.

**68.** Scottish Enterprise's activity and performance in achieving their corporate goals is measured through six primary performance outcomes. These performance indicators align with Scottish Government's NSET and National Performance Framework indicators.

**69.** In 2023/24, progress against the corporate goals was monitored and reported to the Board through quarterly Performance Reports. Performance for the year was reported in the Performance Analysis section of the Performance Report in the 2023/24 Annual Report and Financial Statements. Our audit

review of the Performance Report did not identify any material inconsistencies or omissions.

### **In 2023/24, Scottish Enterprise successfully delivered all targets performing above the target range in five out of six performance outcomes**

**70.** Quarterly performance reports to the Board include a summary of performance highlights, an overview of performance in key business areas, and movements in key risks in the quarter. Performance against the six published performance outcomes is reported to the Board, with the top five contributing projects for each outcome highlighted. As outlined in paragraph 52 of this report, these performance measures are aligned with Scottish Government's NSET and the National Performance Framework.

**71.** For each of the primary performance outcomes within the performance framework, Scottish Enterprise publish a target range against which performance is measured each quarter. The year-end Performance Report highlighted that Scottish Enterprise exceeded the target ranges for five of the six outcome measures. For one outcome ('Planned Innovation Investment'), the outturn in 2023/24 was at the top end of the target range and reflected a 44% increase in investment delivery from prior year.

**72.** In addition to the above published measures, a wider performance framework is used to track and monitor Scottish Enterprise's contribution to the objectives of NSET and the National Performance Framework.

### **Scottish Enterprise has developed an appropriate Best Value framework**

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

**74.** In our 2022/23 Annual Audit Report, we recommended that Scottish Enterprise should formally document the arrangements it has in place to support achievement of Best Value. 2023/24 marked the first formal assessment of Best Value for Scottish Enterprise and involved reflecting on current arrangements for each of the Best Value characteristics.

**75.** Scottish Enterprise was able to demonstrate that arrangements were in place for each of the characteristics. This initial assessment will form the basis of annual self-assessments going forward and a rolling programme of in-depth reviews. The results of this exercise have yet to be reported at Committee level. We have therefore carried forward our recommendation from prior year to ensure the Board are aware of Best Value arrangements (see [Appendix 1](#)).

## **Scottish Enterprise is working effectively with partners to meet stated outcomes and improvement objectives**

**76.** There is an increasing recognition of the need for an increase in the pace and scale of reform needed across the Scottish public sector to help tackle the complex financial and environmental challenges facing public bodies. An important part of that reform is partnership working and collaboration with partners.

**77.** Scottish Enterprise's new strategic ambition and corporate plan includes an explicit commitment to work effectively with Scottish Government and other partners to help deliver NSET objectives. Scottish Enterprise partners include businesses, universities and other partner bodies such as: Highlands and Islands Enterprise, South of Scotland Enterprise, and Skills Development Scotland.

# Appendix 1. Action plan 2023/24

## Follow-up of prior year recommendations

Issue/risk	Recommendation and Agreed Action	Progress
<p><b>b/f 1. Non-compliance with the Government Financial Reporting Manual (FReM)</b></p> <p>Three minor instances of non-compliance with the FReM were identified with the Performance Report.</p> <p><b>Risk</b> – the Performance Report does not fully comply with the FReM.</p>	<p><b>Recommendation</b> - Management should complete the disclosure checklists prepared by the NAO and review Audit Scotland's good practice note on improving the quality of central government annual report and accounts when preparing their 2023/24 annual report and accounts.</p> <p><b>Agreed action</b> - The disclosure checklists will be completed for the 2023/24 Annual Report and Accounts.</p> <p>March 2024</p>	<p><b>Implemented</b></p>
<p><b>b/f 2. Internal controls</b></p> <p>We noted to minor areas where there is scope for improvement to the operation of certain internal controls.</p> <p><b>Risk</b> – there is a risk that internal controls do not operate effectively.</p>	<p><b>Recommendation</b> - Management should review the controls around their key financial systems.</p> <p><b>Agreed action</b> - Scottish Enterprise will consider internal reporting arrangements for write-offs below £0.250 million.</p> <p>Payroll reconciliation processes will be reviewed.</p> <p>September 2023</p>	<p><b>Implemented</b></p>

Issue/risk	Recommendation and Agreed Action	Progress
<p><b>b/f 3. Best value framework</b></p> <p>Scottish Enterprise does not have a formally agreed document that details the arrangements in place to support the Best Value characteristics.</p> <p><b>Risk</b> – Scottish Enterprise is unable to demonstrate compliance with the duty of Best Value per the characteristics set out in the SPFM.</p>	<p><b>Recommendation</b> – Scottish Enterprise should produce an annual formally agreed document which details how it meets the Best Value characteristics as set out in the SPFM.</p> <p><b>Agreed action</b> - Scottish Enterprise will review the reporting arrangements in relation to compliance with Best Value characteristics.</p> <p>September 2023</p>	<p><b>In progress</b></p> <p>Management have undertaken a high-level assessment of Best Value arrangements in March 2024. This exercise has been approved by the Chief Financial Officer.</p> <p>Scottish Enterprise should report this high-level assessment and future annual assessments to the Board to facilitate effective scrutiny of Best Value arrangements.</p> <p>Douglas Colquhoun March 2025</p>
<p><b>b/f 4. 2021/22 AAR – Financial Planning</b></p> <p>We reported last year that Scottish Enterprise has a one-year financial plan but does not have a medium or longer-term financial plan.</p> <p>Scottish Enterprise is developing finance and income strategies. Officers are also undertaking modelling to identify the range of possible outcomes for future funding allocations. This will support development of Scottish Enterprise’s medium-term financial plan.</p> <p><b>Risk</b> – There is a risk that Scottish Enterprise does not have enough information to form a longer-term view of its financial position.</p>	<p><b>Recommendation</b> – Scottish Enterprise should work to complete its finance strategy, medium-term financial plan and income strategy.</p> <p><b>Agreed action</b> - Scottish Enterprise will publish a Financial Strategy including a medium-term financial outlook in conjunction with the revised Corporate Plan.</p> <p>October 2023</p>	<p><b>Implemented</b></p>

Issue/risk	Recommendation and Agreed Action	Progress
<p><b>b/f 5. 2021/22 AAR – Governance of cyber security</b></p> <p>Scottish Enterprise is part of the shared Enterprise Information Service (EIS). Information technology services for Scottish Enterprise are mostly managed by EIS.</p> <p>Internal audit carried out a follow up review of EIS’s cyber security arrangements in 2021/22. It concluded that cyber security remains a material risk for the partnership.</p> <p>Scottish Enterprise is taking a range of actions to improve its own cyber security arrangements.</p> <p><b>Risk –</b> There is a risk that a cyber-attack could disrupt Scottish Enterprise’s key financial systems.</p>	<p><b>Recommendation –</b> Scottish Enterprise should support work to address weaknesses in EIS’s cyber security arrangements and review and improve its own governance of cyber security.</p> <p><b>Agreed action -</b> A single, comprehensive action plan has been developed incorporating all the necessary actions to strengthen Scottish Enterprise’s cyber resilience.</p> <p>Progress will be reported to the Scottish Enterprise Executive Leadership Team on a quarterly basis.</p> <p>Ongoing</p>	<p><b>In progress</b></p> <p>Progress has been made against the Cyber Security Action Plan.</p> <p>Progress continues to be reported to the Executive Leadership Team on a quarterly basis.</p> <p>Scottish Enterprise regularly undertakes Cyber Maturity Assessments and the Action Plan is continually evolving to ensure it remains up to date.</p> <p>Scottish Enterprise will continue to monitor progress against the plan in 2024/25.</p> <p>Gill McNeill</p> <p>March 2025</p>

---

# Scottish Enterprise

## 2023/24 Annual Audit Report

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)