

The Skills Development Scotland Co. Limited

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Skills Development Scotland and the Auditor General for Scotland

September 2023

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Key messages

2022/23 annual report and financial statements

- 1 Audit opinions on the annual report and financial statements are unmodified.
- 2 The unaudited annual report and financial statements were received in line with our agreed audit timetable. The financial statements were prepared to a high standard and supported by a comprehensive set of working papers.

Financial management

- 3 SDS operated within the overall resource and capital budget allocated by Scottish Government, reporting an underspend of £1.6 million.
- 4 SDS has effective arrangements to secure sound financial management with regular financial monitoring reports provided to the board.
- 5 SDS received settlement of £32.2 million of accrued ESF grant funding, enabling it to repay £19.4 million of advance funding from the Scottish Government.
- 6 Financial controls and arrangements for the prevention and detection of fraud are appropriate.

Financial sustainability

- 7 SDS set a budget with a working deficit of £2.5 million for 2023/24 with actions to address this still being implemented.
- 8 A transformation programme, Transform 27, has been developed to align the aspirations of the strategic plan with the financial pressures in 2023/24 and beyond. This should be aligned with medium to long term financial plans that reflect the uncertain operating environment.

Vision, leadership and governance

- 9 SDS has a clear plan in place to implement its vision, strategy and priorities.
- 10 Governance arrangements are appropriate and support scrutiny of decisions made by the board.
- 11 Improvements were made to the strategic report in SDS' annual report and financial statements to make it more accessible.
- 12 SDS continues to make improvements to its cyber security arrangements.

Use of resources to improve outcomes

- 13** SDS has an appropriate performance management framework in place to monitor progress against the Strategic Plan 2022-27.
- 14** The Independent Review of the Skills Delivery Landscape was published in June 2023 and makes a number of structural recommendations. The Scottish Government has not yet issued a formal response, but SDS is committed to working constructively with the Scottish Government and partners to provide a learning and skills system that will deliver the best results for the people and businesses of Scotland.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of Skills Development Scotland (SDS). The scope of the audit was set out in our annual audit plan presented to the 19 April 2023 meeting of the audit and risk committee (ARC). This Annual Audit Report comprises:

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

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

Audit appointment from 2022/23

3. I, Pauline Gillen, have been appointed by the Auditor General as auditor of SDS for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of this five-year appointment. My appointment coincides with the new [Code of Audit Practice](#) which was introduced for financial years commencing on or after 1 April 2022.

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. We look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

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

6. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice](#)

[2021](#), and supplementary guidance and International Standards on Auditing in the UK.

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

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

Auditor Independence

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services. SDS received a rebate of £5,282 against the 2022/23 audit fee and so the proposed audit fee of £116,620 as set out in our 2022/23 Annual Audit Plan was reduced to £111,338. We are not aware of any relationships that could compromise our objectivity and independence.

10. We add value to SDS 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 2022/23 annual report and financial statements

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

Main judgements

Audit opinions on the annual report and financial statements are unmodified.

The financial statements have been prepared to a high standard and are supported by a comprehensive set of working papers.

Audit opinions on the annual report and financial statements are unmodified

11. The board approved the annual report and financial statements for SDS for the year ended 31 March 2023 on 13 September 2023. 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 issued by Scottish Ministers
- the audited part of the remuneration report was properly prepared in accordance with the financial reporting framework
- the strategic report, directors' report and governance statement were consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Overall materiality was assessed as £4.9 million

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

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

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£4.9 million
Performance materiality	£3.0 million
Reporting threshold	£200,000

14. 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.

15. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 60% of overall materiality, reflecting our risk assessment that confirmed no significant changes in the business activities, accounting system and systems of internal control at SDS. We also considered the extent of prior year errors and concluded that these were isolated and did not indicate further systemic error.

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

Significant findings and key audit matters

17. Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to the board, including our view about the qualitative aspects of the body's accounting practices.

18. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

Exhibit 2

Significant findings and key audit matters from the audit of the annual report and financial statements

Issue	Resolution
<p>1. European grant income accrual</p> <p>SDS is a delivery partner for two European Social Fund (ESF) strategic initiatives. The Scottish Government (SG) is the Managing Authority for ESF programmes in Scotland. Until recently, the programmes were in suspension by the European Commission (EC) which resulted in a pause in payments to delivery partners. As a result of this delay in funding, SDS' accounts presented for audit showed a £32.6 million income accrual based on underlying expenditure. This is an accounting estimate which includes a provision for credit losses of £1.6 million to allow for estimation uncertainty.</p> <p>As the programmes come to an end, a deadline of June 2024 has been set by the EC for the SG to complete the verification of all ESF claims. Delivery partners have until January 2024 to submit all claims or there is a risk that the funds will not be recovered.</p>	<p>The risk and mitigation plan is continually reviewed by SDS, SG Sponsor Team and SG Managing Authority.</p> <p>The SG Managing Authority and SDS have agreed interim activities to collate information for verification sampling. This will support the timely completion of verification checks.</p> <p>The SG Managing Authority attended the April 2023 ARC meeting and provided assurance that if SDS submits in line with the agreed timetable then the June 2024 deadline would be met.</p> <p>The risk associated with ESF monies has reduced in year, however, a risk will continue to exist until all money has been successfully reclaimed.</p> <p>Recommendation 1 (Refer Appendix 1, action plan)</p>
<p>2. IFRS 16 Leases - subsequent measurement</p> <p>In line with IFRS 16 Leases, SDS has retrospectively recognised right-of-use assets with a net book value of £9 million at 1 April 2022 (see Note 5 to the financial statements).</p> <p>SDS has adopted the cost model to subsequently measure these assets at 31 March 2023 on the basis that the higher value leases identified are subject to five yearly rent reviews. In addition, management have been advised by Graham & Sibbald that recent rent reviews have not resulted in an uplift. Management consider that these factors confirm that cost is an appropriate proxy for fair value.</p>	<p>We reviewed management's justification for adopting cost as a proxy in the valuation of right-of-use assets and are satisfied that the values are not materially misstated.</p> <p>Management should assess the reasonableness of this approach year on year and consult an expert where appropriate to ensure that right-of-use assets are held at the correct value.</p> <p>Recommendation 2 (Refer Appendix 1, action plan)</p>
<p>3. Accounting for retirement benefits</p> <p>SDS accounts for its retirement benefit obligations on a defined benefit basis under IAS 19 Employee Benefits, with a pension liability disclosed in the Statement of Financial Position. The present value of these obligations depends on factors that are</p>	<p>Management chose not to adjust the financial statements and related note for the revised net asset position on the basis that the asset ceiling applied in accordance with IAS 19/IFRIC 14 meant that the net pension asset would still be nil. As the amount is below materiality it</p>

Issue	Resolution
<p>determined on an actuarial basis using assumptions applied to information SDS provides to the actuary. Part of this involves measuring the rate of return on assets held by the pension fund.</p> <p>As in prior years, due to early timing the actuary's report used by SDS to prepare the unaudited financial statements included an estimated rate of return on assets. The actuary confirmed in June 2023 that the actual rate of return on assets was lower than estimated and this reduced the net asset position by £1.4 million.</p>	<p>was also not considered necessary to amend the disclosure note.</p>

Our audit work responded to the risks of material misstatement we identified in the annual report and financial statements

19. We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and financial statements. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Significant risks of material misstatement in the annual report and financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>International Standard on Auditing (UK) 240 requires that audits are planned to consider that management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively. This is presumed to be a significant risk in all audits.</p>	<ul style="list-style-type: none"> Review the design and implementation of controls over journal processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity. Test journals at the year-end and post-closing entries, with a focus on significant risk areas. Evaluate significant transactions outside the normal course of business. Assess any changes to the methods and underlying assumptions used to prepare accounting 	<p>We undertook the assurance procedures as planned and found:</p> <ul style="list-style-type: none"> The authorisation control over journal entries continues to operate effectively. Management is not aware of inappropriate or unusual activity. Detailed testing of journal entries and unusual transactions did not identify any errors. There were no significant transactions outside the normal course of business.

Audit risk	Assurance procedure	Results and conclusions
	<p>estimates compared to the prior year.</p>	<ul style="list-style-type: none"> The methodology used in preparing significant accounting estimates is reasonable and consistent with the previous year. <p>We did not identify any instances of management override of control.</p>
<p>2. Estimation and judgements – European Funding</p> <p>SDS receives funding from the European Social Fund (ESF) which is administered by the European Commission (EC) and managed by the Scottish Government (SG).</p> <p>Following delays in recent years to the receipt of ESF monies, SDS has recognised a significant income accrual (2021/22: £60.2 million). SDS allows for uncertainty in this accounting estimate through a ‘expected credit loss provision’ based on historic claim data (2021/22: £3.0 million).</p> <p>There is a significant amount of estimation and judgement applied to this balance.</p>	<ul style="list-style-type: none"> Review management’s controls over the ESF income accrual reported in the accounts. Detailed testing of the ESF income accrual including an assessment of estimation uncertainty and related disclosures. Review of correspondence in relation to ESF funds. Review of the ESF risk and mitigation plan and related updates. Review of budget monitoring papers and ongoing engagement with management. Review of SDS’ ESF claims and internal verification checks. 	<p>We undertook the assurance procedures as planned and found:</p> <ul style="list-style-type: none"> Controls over expenditure relating to ESF claims were found to be operating effectively. Detailed testing of the ESF income accrual did not identify any errors. The level of estimation uncertainty was reviewed and confirmed to be low when comparing management estimates to ESF claim outcomes. The related disclosures were considered appropriate. Review of ESF papers to the board and relevant committees, including the risk and mitigation plan confirmed that the assurances provided by Scottish Government in 2021/22 remain valid. <p>We concluded that the ESF income accrual is reported on a reasonable basis.</p>

20. In addition, we identified areas of audit focus in our 2022/23 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. These areas of specific audit focus were:

- **Estimations and judgements over pensions valuations**

SDS is a member of the local government pension scheme (LGPS), which is accounted for as a defined benefit scheme in line with IAS 19. The present value of the retirement benefits obligation depends on several factors that are determined on an actuarial basis using a number of assumptions. We carried out audit procedures to obtain assurance over the IAS 19/IFRIC 14 accounting and disclosures. One issue was noted as detailed in [Exhibit 2](#) Item 3.

- **Implementation of a new payroll system**

SDS has implemented a new payroll system from 1 April 2022. There is an inherent risk associated with the implementation of any main financial system. Based on our assessment of the implementation process, further audit procedures were carried out to obtain assurance over the completeness and accuracy of payroll data. Targeted substantive testing on a sample of employees did not identify any errors.

21. Other than the uncorrected misstatement detailed at [Exhibit 2](#) Item 3, our audit identified no misstatements above our reporting threshold.

The unaudited annual audit report and financial statements were received in line with the agreed audit timetable

22. The unaudited annual report and financial statements were received in line with our agreed audit timetable on 8 May 2023. The working papers which accompanied the annual report and financial statements were of a good standard. Regular communication and support from finance staff helped the audit process run smoothly.

Some progress was made on prior year recommendations

23. SDS has made some progress in implementing the audit recommendations identified in the prior year audit. 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

SDS operated within the overall resource and capital budget allocated by Scottish Government, reporting an underspend of £1.6 million.

SDS has effective and appropriate arrangements to secure sound financial management with regular financial monitoring reports provided to the board.

SDS received settlement of £32.2 million of accrued ESF grant funding, enabling it to repay £19.4 million of advance funding from the Scottish Government.

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

SDS operated within its revised budget in 2022/23

24. The main financial objective for SDS is to ensure that the financial outturn for the year is in accordance with the budget allocated by Scottish Ministers.

25. SDS has reported an outturn of £207.7 million in 2022/23, an underspend of £1.6 million against the overall resource and capital budget allocated by Scottish Government. The financial performance against fiscal resources is shown in [Exhibit 4](#).

Exhibit 4

Performance against fiscal resource in 2022/23

Performance	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Resource	222.2	208.2	207.7	(0.5)
Capital	2.0	2.0	0.9	(1.1)
Total	224.2	210.2	208.6	(1.6)

Source: SDS Annual Report and Financial Statements

Budget processes and reporting were appropriate

26. SDS' budget processes continued to be appropriate. The 2022/23 budget was reduced at the start of the year by £12.7 million in comparison to the previous year, followed by an in-year reduction in grant-in-aid (GIA) resource funding of £11.2 million. The major areas of reduced income and increased expenditure at SDS included:

- the reduction in the final GIA funding allocation by £18.3 million
- an increase in costs relating to the growth of apprentice starts in 2022/23 national training programmes (NTP)
- the implementation of the SG Pay Awards linked to cost inflation.

27. The SDS board and the finance and operational performance committee (FOP) continued to receive regular and accurate financial information on the body's financial position. Actual expenditure and income compared to budgeted figures are part of a rolling forecast within SDS' management accounts. An effective summary of SDS' financial performance is reported throughout the year.

Capital expenditure reduced in 2022/23

28. SDS capitalises spend on items such as computer equipment purchases and refurbishment costs of lease held estate, in line with its accounting policy. This decreased in 2022/23 to £0.7 million from £2.8 million in the previous year. This expenditure included refurbishment works at SDS' main office at Monteith House in Glasgow. SDS also capitalised spend relating to property leases recognised as right-of-use assets, following the implementation of IFRS 16 Leases from 1 April 2022.

SDS received settlement of £32.2 million of accrued ESF grant funding, enabling it to repay £19.4 million of advance funding from the Scottish Government

29. Following the delay in recent years to the receipt of European Social Funding (ESF) grant funding, SDS received grant payments totalling £32.2 million during 2022/23 from the SG. This significantly reduced the year-end ESF income accrual presented in SDS' accounts at 31 March 2023 to £32.6 million from £60.2 million in the previous year.

30. SDS was able to use these monies in 2022/23 to repay £19.4 million of advance funding from the SG received in previous years. SDS' accounts at 31 March 2023 recognises an amount payable to the SG of £27.6 million in respect of historic advance funding.

SDS has appropriate financial control arrangements in place, while focussed testing provided assurance on NTP payments

31. From our review of the design and implementation of systems of internal control during 2022/23, we did not identify any financial control weaknesses which could affect SDS' ability to record, process, summarise and report

financial and other relevant data to result in a material misstatement in the financial statements.

32. SDS operates a demand-led service in the form of its national training programmes (NTP), which utilises the funding information processing system (FIPS). We assessed the design and implementation of controls in place over NTP payments to training providers. In some instances, there is no comprehensive, real-time internal check prior to paying training providers for the achievement of stated milestones. SDS has long established mitigating controls over FIPS to allow it to effectively manage this risk, including:

- compliance team reviews of training provider arrangements
- ESF team verification checks of payment claims
- automated system validation checks, and
- reconciliations between FIPS and the Agresso ledger system.

33. We carried out focussed testing on specific mitigating controls to assess their operational effectiveness to provide assurance. We also performed focussed substantive testing of NTP payments throughout the year to provide further assurance. No issues were identified from this audit testing.

Internal audit confirmed a good level of assurance on SDS' framework of internal controls

34. SDS' internal audit function is carried out by a shared service hosted by Scottish Enterprise. The Public Sector Internal Audit Standards (PSIAS) require the chief internal auditor to provide an annual internal audit opinion and report that can be used to inform the annual governance statement. Internal audit completed their 2022/23 audit work and presented their Annual Audit Report to the August 2023 meeting of the audit and risk committee (ARC). The internal audit opinion provided in 2022/23 is that there is an overall good level of assurance on SDS' framework of governance, risk management and management control.

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

35. In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

36. SDS has appropriate arrangements in place to prevent and detect fraud, errors and irregularities. This was based upon review of SDS' fraud and financial irregularity policy and related response plan, as well as its whistleblowing policy and procedure.

37. We also reviewed the arrangements in place to maintain standards of conduct including the codes of conduct for staff and board members. This

confirmed that there are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

National Fraud Initiative

38. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud.

39. NFI data matches were issued to SDS in January 2023 as part of the NFI exercise for 2022/23. Of the 1,068 data matches identified for SDS, 181 (17 per cent) were considered to be very high risk. Work is currently underway to investigate these matches by the deadline of 30 September 2023. No issues have been identified from investigations to date.

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

SDS set a budget with a working deficit of £2.5 million for 2023/24 and actions to address this are still to be implemented.

A transformation programme, Transform 27, has been developed to align the aspirations of the strategic plan with the financial pressures in 2023/24 and beyond. This should be supported by medium to long-term financial plans that reflect the uncertain operating environment.

The 2023/24 budget includes a working deficit of £2.5 million that needs to be managed in year

40. The 2023/24 budget for SDS was approved by the board in May 2023. The 2023/24 budget includes a working deficit of £2.5 million. Scottish Government approved this position with the expectation that the SDS board will ensure that sufficient action is taken to reach a balanced budget position by the year end.

41. Specific action that is ongoing to delivery efficiencies includes:

- Workforce: the launch of a voluntary severance and early retirement scheme. To date, 88 applications have been approved in 2023/24, with anticipated recurring savings of £4.1 million from 2024/25.
- Estates: SDS is reviewing Public Access Centres and offices in the context of changing customer preferences to ensure space is being utilised effectively. SDS plans to move to Local Employability Partnership Hubs, bringing different public service providers together in one place to improve the customer experience.

Medium to long-term financial planning continues to be developed

42. SDS has identified a grant-in-aid reduction of £19.8 million (or 9 per cent) between 2020/21 and 2023/24. This is coupled with a projected increase in the Modern Apprenticeships commitments of £9 million in 2023/24. This financial pressure and uncertainty increases the importance of robust financial planning for the future.

43. In our 2021/22 annual audit report we concluded that longer-term planning had yet to resume but that a new team (financial planning and analysis) had

been put in place. One of the remits of this team is to carry out longer-term financial planning. Progress in this area is continuing.

SDS has developed a transformation programme, Transform 27, but it is too early to conclude on the impact

44. The transformation programme, Transform 27, was established to enable the delivery of the Strategic Plan 2022-27 by moving the organisation to a more sustainable operating model in the context of constrained funding. The programme has initially focussed on two core commissions:

- Transforming SDS' career services
- Transforming apprenticeships.

45. The implementation of the delivery models identified will be supported by three other commission areas:

- Transforming digital services
- Transforming supporting and professional services
- Transforming working practices.

46. A clear governance structure has been established to support the delivery of the transformation programme, centred around a Transform 27 Hub Leadership Group. This group is led by the Director of Service Design and Innovation. Outputs from this group are taken to the Strategic Plan Implementation Group and progress updates and items for approval will be taken to the Service Development Committee. The board will also be kept informed through a standing item on its agenda. During 2022/23 the programme was in the early stages of development and implementation, so it is too early to comment on the impact. We will follow up on progress during our 2023/24 audit work.

47. As noted at [paragraph 50.](#) the Strategic Plan 2022-27 may need to be adjusted to consider any changes that arise following the Independent Review of the Skills Delivery Landscape, or other direction from Scottish Government as it designs wider plans for the Education and Skills landscape. SDS will need to ensure that the Transform 27 programme evolves at the same pace.

Recommendation 3

Ensure that medium to long term financial planning includes a range of scenarios to reflect the uncertainties that exist. This should be closely aligned with the Transform 27 programme.

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

SDS has a clear plan in place to implement its vision, strategy and priorities.

Governance arrangements are appropriate and support scrutiny of decisions made by the board.

Improvements were made to the strategic report in SDS' annual report and financial statements to make it more accessible.

SDS continues to make improvements to its cyber security arrangements.

SDS published its new Strategic Plan 2022-27

48. In 2022, SDS published its Strategic Plan 2022-27, Skills for a Changing World. This sets out a clear vision supported by five corporate goals aligned to the Scottish Government's National Strategy for Economic Transformation and National Performance Framework. Each corporate goal has its own key performance indicators (KPIs) to measure progress.

49. Progress against the corporate goals was monitored and reported regularly to the audit and risk committee (ARC) and finance and operational performance committee (FOP) in 2022/23. This progress was also reported in the performance overview section of the strategic report (within its 2022/23 annual report and financial statements). Our audit review of the strategic report did not identify any inconsistencies or omissions.

50. The Strategic Plan 2022-27 recognises the Independent Review of the Skills Delivery Landscape that was ongoing at the time of publication and acknowledges that the contents may need to be adjusted in light of recommendations accepted by Ministers. The Independent Adviser, James Withers, published his recommendations in June 2023. Since then, the Scottish Government has announced key reforms and actions across the education and skills sector (see [paragraph 71.](#)).

Governance arrangements are appropriate and support scrutiny of decisions made by the board

51. SDS' governance arrangements have been set out in the directors' report and governance statement in its annual report and financial statements. We have reviewed these arrangements and concluded that they are appropriate. They support robust scrutiny and challenge of performance and decisions made by the board.

52. The board is supported by committees, including the ARC and FOP. The board met five times during 2022/23. The ARC and FOP met separately through the year but also held two joint meetings in 2022/23. SDS' executive and non-executive directors have demonstrated effective leadership and robust scrutiny of the board's activity and performance in 2022/23. Going forward, the directors will have some challenging decisions to make on how services are best delivered in the current financial climate.

SDS could be more open and transparent in the way it conducts its business

53. 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 such as money, people and assets.

54. SDS' website is clear and well-structured. SDS board meetings and board/committee papers are not open or available to the public, in contrast to other public bodies. However, board minutes are published on the SDS website along with key publications including the organisation's strategic plan, policies, equalities mainstreaming report and the annual report and financial statements.

55. There is scope to strengthen SDS' approach to openness and transparency by making the budget and performance monitoring reports, as well as committee minutes, available on SDS' website where it is reasonable to do so. While we recognise that it is for each organisation to determine what papers are made available to the public, this would assist stakeholders' understanding of the challenges facing SDS in its current environment.

Recommendation 4

Board and committee papers should be made available to the public where appropriate.

Improvements were made to the strategic report to make it more accessible

56. We recommended last year that SDS should consider making some further improvements to its strategic report (within its annual report and financial statements) to ensure that it met the [Public Sector Bodies Accessibility Regulations 2018](#).

57. SDS has enhanced the presentation of its strategic report. SDS' internal design team has been involved in the design of the final version of the annual report and financial statements for the first time.

SDS continues to make improvements to its cyber security arrangements

58. Information technology services for SDS are managed by its internal IT service and by the internally-led Enterprise Information Services (EIS). The EIS partnership board provides the strategic oversight of the EIS partnership (also involving Scottish Enterprise, Highland and Islands Enterprise and South of Scotland Enterprise).

59. There is evidence that both SDS 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. SDS and the EIS partnership board also provide updates on cyber security arrangements to the ARC throughout the year.

60. Overall responsibility for cyber security lies with each partner body. Cyber Essentials Plus was accredited to SDS and all EIS partner bodies in September 2022. 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.

61. During 2022/23, SDS developed a cyber strategy and supporting cyber action plan, which was co-ordinated by SDS' digital assurance group (DAG). This strategic approach aimed to improve cyber security, maturity and resilience and to define a prioritised programme of work to further enhance existing cyber controls.

62. Internal audit also reported on SDS' cyber security arrangements in 2022/23, giving a grade of '3' which is the midpoint on an increasing scale of grade 1 (low priority for attention) to grade 5 (high priority for attention). An action plan was agreed in response to recommendations in the report.

Climate change arrangements

63. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

64. SDS has a Climate Change Strategy 2020-30 which was published in December 2020. The strategy sets an interim target of achieving a 67% reduction in its carbon footprint by 2030 and is targeting net-zero greenhouse gas emissions by 2045 (in line with the national climate change target). In 2022/23, SDS decreased its emissions by 37% against a 2019/20 baseline, which was ahead of its 20% target for the year.

65. The Climate Change Strategy highlights four key workstreams, including supporting a green economy, digital capability, business processes and organisational culture. SDS' progress in meeting its emissions targets is reported through an action plan internally to both the director's group and the finance and operational performance committee (FOP) on a regular basis. This progress is also reported externally by SDS through strategy progress reports on its website and through annual reviews and sustainability reports.

66. Internal audit carried out a review during 2022/23 on SDS' strategic and operational efforts to contribute to the Scottish Government's target of net zero greenhouse gas emissions by 2045. The audit confirmed that arrangements to support compliance with relevant legislation and the mainstreaming of net zero and climate change are well-established and are operating effectively across SDS. The report also notes that SDS co-produced the Climate Emergency Skills Action Plan with the Scottish Government, which is currently under review by the Scottish Government to refresh short, medium and long-term priorities.

67. The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

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

SDS has an appropriate performance management framework in place to monitor progress against the Strategic Plan 2022-27.

The Independent Review of the Skills Delivery Landscape was published in June 2023 and makes a number of structural recommendations. The Scottish Government has not yet issued a formal response, but SDS is committed to working constructively with the Scottish Government and partners to provide a learning and skills system that will deliver the best results for the people and businesses of Scotland.

A Corporate Performance Framework is used to monitor progress against the goals set out in the Strategic Plan 2022-27

68. [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.

69. We consider whether Accountable Officers have put in place appropriate arrangements to satisfy their corresponding duty of best value. We may also undertake local work in this area where our risk assessment requires it. We did not undertake any specific work in 2022/23, however, we do plan to review the Fairness and Equality characteristic within the five-year audit appointment.

70. A Corporate Performance Framework is in place to monitor progress against the goals set out in the Strategic Plan 2022-27. Progress against the five corporate goals set out in the Strategic Plan 2022-27 is reported quarterly to the board and the finance and operational performance committee. This includes a summary of performance highlights, risk and opportunities relating to each corporate goal as well as specific key delivery metrics over three years. A target or minimum expectation is included against most of the key delivery metric.

The Independent Review of the Skills Delivery Landscape was published in June 2023

71. In September 2022, the Scottish Government asked James Withers to lead an independent review of the skills delivery landscape. In June, the review's [report](#) recommended how the public body landscape should be adapted to achieve the ambitions for a skilled workforce set out in the [National Strategy for Economic Transformation](#).

72. The report makes five structural recommendations, including:

- To move responsibility for national skills planning from SDS and the Scottish Funding Council (SFC) to the Scottish Government.
- To establish a new single funding body, which brings together responsibility for all post-school learning and training funding functions from SDS, the SFC and, potentially, the Student Awards Agency for Scotland.
- To give the new qualifications body (as recommended by the [Hayward review](#)) a clear remit for overseeing the development and accreditation of all publicly funded post-school qualifications, skills frameworks and occupational standards.
- To change SDS to focus on the development of a national careers service, with a mission to embed careers advice and education within communities, educational settings and workplaces across Scotland.
- To give the enterprise agencies a clear remit for supporting businesses with workforce planning as an embedded and integrated part of business development and planning.

73. In June 2023, the Scottish Government's [Purpose and Principles for post-school education, research and skills](#) set out a decision making framework. The programme of reform, signalled through the Purpose and Principles and the Scottish Government's [Initial priorities](#) for implementation outlines the key actions that it will be taking forward to deliver on the vision and outcomes it has set for the system.

74. This was accompanied by an announcement that a new national model of public funding for all colleges and universities, as well as apprenticeships and training, will be developed as part of widespread reforms across the education and skills sector. The Scottish Government has said it will take over responsibility for skills planning, with the new national qualifications body overseeing all publicly funded post-school qualifications, except degrees.

75. SDS has [committed](#) to working constructively with the Scottish Government and partners to provide a learning and skills system that will deliver the best results for the people and businesses of Scotland.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. ESF risk and mitigation plan</p> <p>A deadline of June 2024 has been set by the EC for the SG to complete the verification of all ESF claims. Delivery partners have until January 2024 to submit all claims or there is a risk that the funds will not be recovered.</p> <p>Risk – The risk over recovery of ESF funds will exist until all money has been successfully reclaimed.</p>	<p>SDS should ensure that the risk and mitigation plan for ESF claims continues to be reviewed on an ongoing basis.</p> <p>Exhibit 2</p>	<p>We will continue to engage regularly with the Managing Authority, utilising the Risk and Mitigation Plan to achieve timely settlement of the ESF claims. The 3-way Risk Mitigation Plan is reviewed every month, in addition to day-to-day engagement between SDS and the Managing Authority.</p> <p>Director of Finance, Information Governance, Resilience and Risk</p> <p>June 2024</p>
<p>2. IFRS 16 Leases</p> <p>SDS has adopted the cost model to measure right-of-use assets on the basis that higher value leases are subject to five yearly rent reviews. Management have also been advised by Graham & Sibbald that recent rent reviews have not resulted in an uplift. Management consider that these factors confirm that cost is an appropriate proxy for fair value.</p> <p>Risk – there is a risk that the value of right-of-use assets is incorrectly reported in the intervening period between rent reviews.</p>	<p>Management should re-evaluate the value of right-of-use assets year on year and consult an expert where appropriate to ensure that right-of-use assets are not materially misstated.</p> <p>Exhibit 2</p>	<p>We will consider annually the most appropriate measurement model in line with the accounting standard as part of our year end processes.</p> <p>Director of Finance, Information Governance, Resilience and Risk</p> <p>March 2024</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>3. Medium to long term financial planning</p> <p>SDS has identified a grant-in-aid reduction of £19.8 million (or 9 per cent) between 2020/21 and 2023/24. This is coupled with a projected increase in the Modern Apprenticeships commitments of £9 million in 2023/24.</p> <p>Risk – SDS is unable to respond effectively to financial pressures, compromising services and the delivery of corporate goals.</p>	<p>Ensure that medium to long term financial planning includes a range of scenarios to reflect the uncertainties that exist. This should be closely aligned with the Transform 27 programme.</p> <p>Paragraph 42.</p>	<p>Multi-year modelling exists for key elements of the business but has yet to be collated into an overall multi-year model.</p> <p>SDS has recently created a Financial Planning and Analysis Team which will have a pivotal role in the medium and long term planning in support of the successful delivery of Transform 27 and external policy direction.</p> <p>Director of Finance, Information Governance, Resilience and Risk</p> <p>December 2023</p>
<p>4. Openness and transparency</p> <p>SDS board meetings and board/committee papers are not open or available to the public, in contrast to other public bodies.</p> <p>Risk – stakeholders are unable to fully understand how the board is taking decisions and how it is using resources such as money, people and assets.</p>	<p>Board and committee papers should be made available to the public where appropriate.</p> <p>Paragraph 55.</p>	<p>We will periodically assess scope for making further information, such as board and committee papers, available.</p> <p>Director of Finance, Information Governance, Resilience and Risk</p> <p>March 2024</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>b/f 1. ESF risk and mitigation plan</p> <p>Alongside the Scottish Government, SDS has developed a risk and mitigation plan to ensure that all ESF claims are raised by the closing date of January 2024.</p>	<p>SDS should ensure that the risk and mitigation plan for ESF claims is updated on an ongoing basis over the coming period.</p>	<p>Superseded by Action plan – point 1.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Risk – As a result of ongoing delays in the Scottish Government’s verification process, SDS is unable to submit all ESF claims. Consequently SDS does not receive the full level of funding available to it.</p>		
<p>b/f 2. Capital funding allocation</p> <p>SDS does not receive a formal capital funding allocation from the Scottish Government.</p> <p>Risk – SDS spend is not consistent in nature with its funding allocation.</p>	<p>SDS should request a capital funding allocation within future settlements from the Scottish Government based on its capital plan.</p>	<p>No further audit action proposed.</p> <p>Although there was a capital allocation in 22/23, a separate capital budget is not included in the 23/24 allocation. As SDS capital spend is below materiality we do not intend to follow this matter up any further.</p>
<p>b/f 3. Submission of annual report and financial statements for audit (2020/21 AAR)</p> <p>SDS notified us of changes to its annual report due to the senior management review during the audit. This resulted in additional audit work and delayed completion.</p> <p>Risk – SDS provides unreviewed annual report and financial statements to audit resulting in additional work and delayed completion.</p>	<p>SDS management should complete their review of the annual report and financial statements before these are provided to us for audit.</p>	<p>In progress</p> <p>Management review was not complete prior to submission of the annual report and financial statements for audit, however, no significant changes were identified.</p> <p>SDS should still develop a timetable for the production of its accounts that allows for a full suite of management review prior to the start of the audit.</p> <p>Director of Finance, Information Governance, Resilience and Risk</p> <p>December 2023</p>
<p>b/f 4. Longer-term financial planning (2020/21 AAR)</p> <p>During 2020/21 SDS paused the work on its rolling five-year financial plan and has yet to evaluate the impact of Covid-19 on its business and finances over the medium to long term.</p>	<p>SDS should continue its longer-term financial planning and scenario planning. This should include an assessment of the continued impact of Covid-19 on its business and finances.</p>	<p>Superseded by Action plan – point 3.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Risk – SDS is not well placed to be flexible and responsive to its financial position and the changing demands on its services.</p>		
<p>b/f 5. Scope for improvements to the strategic report (2019/20 AAR)</p> <p>SDS' strategic report within the annual report and financial statements complies with the Companies Act requirements but there is scope for further improvement.</p> <p>Risk – The reader may not get a comprehensive picture of the organisation's in-year performance and risks to performance in the future.</p>	<p>SDS should consider making some further improvements to its strategic report, such as increased contextual data around achievements, clearer links between risks and performance and the use of its agreed key performance indicators.</p>	<p>Complete</p>

The Skills Development Scotland Co. Limited

2022/23 Annual Audit Report

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