

# The Skills Development Scotland Co. Ltd

Annual Audit Plan 2019/20



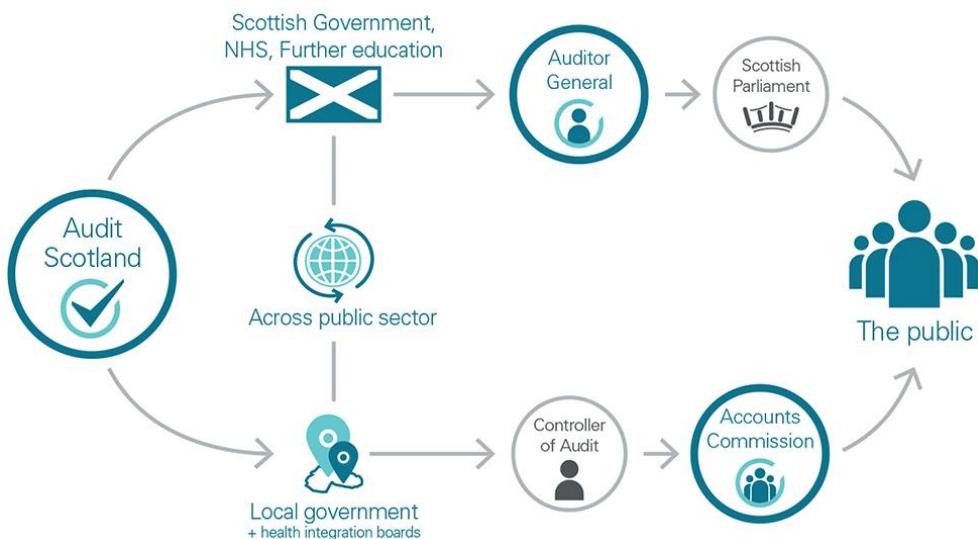
 AUDIT SCOTLAND

Prepared for The Skills Development Scotland Co. Ltd  
December 2019 (reissued May 2020 to reflect impact of Covid-19)

# Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Risks and planned work

**1.** This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and Audit Scotland's [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit.

**2.** The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

## Adding value

**3.** We aim to add value to Skills Development Scotland (SDS) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help SDS promote improved standards of governance, better management and decision-making and more effective use of resources.

## Audit risks

**4.** Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant audit risks for our 2019/20 audit of SDS. We have categorised these audit risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

**5.** We undertook our planning work and issued our 2019/20 annual audit plan in December 2019, prior to the Covid-19 pandemic. In line with auditing standards and professional advice, including the [Financial Reporting Council's Covid-19 bulleting published in March 2020](#), we have reviewed our assessment of audit risks and the planned audit work detailed in Exhibit 1 and confirm that they remain relevant. There are currently a range of uncertainties related to Covid-19 with the full extent of its impact on SDS, Audit Scotland and our approach to audit not yet known. As a result, there may be further changes to audit risks and consequently to our audit approach and the timing of our audit. We will continue to engage with management to discuss this and how we can work together to respond to this unprecedented situation and the associated uncertainties.

## Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>		
<b>1 Risk of material misstatement caused by management override of controls</b> Auditing standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a	Owing to the nature of this risk, assurances from management are not applicable in this instance.	<ul style="list-style-type: none"> <li>• Testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Testing of accruals and prepayments.</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	<p>significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>		<ul style="list-style-type: none"> <li>Cut-off testing, to confirm expenditure and income is accounted for in the correct financial year.</li> <li>Evaluation of significant transactions that are outside the normal course of business.</li> </ul>
<b>2</b>	<b>Risk of material misstatement caused by fraud in income recognition.</b>	<p>As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements.</p> <p>In 2019/20, SDS expects to receive approximately £38 million of income from sources other than the Scottish Government with £21 million expected from the European Social Fund (ESF). The extent and nature of this income means that, in accordance with ISA 240, there is an inherent risk of fraud.</p>	<ul style="list-style-type: none"> <li>Review of SDS' anti-fraud arrangements.</li> <li>Walk-through of controls over receivables.</li> <li>Analytical procedures on income streams.</li> <li>Detailed testing of revenue transactions focusing on the areas of greatest audit risk such as European income.</li> </ul>
<b>3</b>	<b>Risk of material misstatement in expenditure</b>	<p>Most public-sector bodies are net spending bodies and therefore the risk of fraud is more likely to occur in expenditure.</p> <p>Most of SDS' operating expenditure is on multi-year national training programmes. The mid-year finance report forecasts spending of £138 million in this area, representing 53 per cent of the total 2019/20 expenditure budget. Due to the extent and nature of expenditure there is an inherent risk of fraud.</p>	<ul style="list-style-type: none"> <li>Review of SDS' anti-fraud arrangements.</li> <li>Walk-through of controls over national training programmes, including the funding information and processing system (FIPS).</li> <li>Walk-through of controls over payables.</li> <li>Analytical procedures on expenditure streams.</li> <li>Detailed testing of expenditure transactions focusing on the areas of greatest audit risk such as apprenticeship expenditure.</li> <li>Consideration of internal audit's review of graduate and foundation apprenticeships.</li> </ul>
<b>4</b>	<b>Estimation and judgements</b>	<p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of pensions and provisions. This subjectivity represents an</p>	<ul style="list-style-type: none"> <li>Completion of 'review of the work of an expert' in respect of the actuary including a review of actuarial assumptions.</li> <li>Testing of pension disclosures, including data</li> </ul>

 Audit Risk	Source of assurance	Planned audit work
<p>increased risk of misstatement in the financial statements.</p>	<p>assessing accounting provisions.</p>	<p>that SDS provides to actuaries.</p> <ul style="list-style-type: none"> <li>Testing of provisions and related disclosures.</li> </ul>
<p><b>5 Non-current assets</b></p> <p>SDS expects to capitalise property development costs and IT upgrades in 2019/20 which will result in the inclusion of tangible non-current <b>assets being</b> disclosed in the financial statements for the first time.</p> <p>As this is a new account area for SDS, there is an inherent risk over completeness and accuracy of these amounts.</p>	<p>Implementation of non-current asset register module within the financial ledger.</p>	<ul style="list-style-type: none"> <li>Review of the new non-current asset register module of SDS' ledger system.</li> <li>Substantive testing of non-current assets.</li> </ul>
<p><b>6 European funding</b></p> <p>SDS receives significant amounts of funding from the European Social Fund (ESF). ESF is administered centrally by the European Commission (EC) and managed locally by the Scottish Government, who make payments to lead partners such as SDS. SDS' 2018/19 financial statements included an income accrual of £20.4 million in respect of ESF monies due and SDS forecasts further ESF income of £20.6 million in 2019/20.</p> <p>Due to deficiencies in the arrangements for ESF in Scotland, identified by auditors, the programme was in 'pre-suspension' and is now suspended until negotiations between the Scottish Government and the EC are concluded. Payments have been suspended since February 2019. This affects all organisations which participate in the ESF programme, including SDS.</p> <p>There is a risk that SDS misstates the ESF income and related accruals in its 2019/20 accounts.</p>	<p>Continued discussions on affordability and programme delivery at board level and with the Scottish Government.</p>	<ul style="list-style-type: none"> <li>Ongoing review of budget monitoring presented to Board and committees.</li> <li>Review of correspondence in relation to ESF funds.</li> <li>Ongoing discussions with SDS finance about developments regarding ESF.</li> <li>Review of SDS' ESF claims and its internal verification checks.</li> <li>Consider Scottish Government's review of SDS' ESF arrangements, if appropriate.</li> <li>Liaise with the auditors of the Scottish Government to understand developments in this area from a national perspective.</li> </ul>
<h3>Wider dimension risks</h3>		
<p><b>7 Financial management and sustainability</b></p> <p>There are a range of factors which affect SDS' financial management, including in-year changes to the budget which the Scottish Government allocates to SDS. Elements of SDS' core funding are confirmed through the Autumn and Spring budget revisions. There are</p>	<p>Continued discussions on affordability and programme delivery at board level and with the Scottish Government.</p>	<ul style="list-style-type: none"> <li>Monitor financial reports provided to the board/committee over the year and compare these with the year-end results in the financial statements.</li> <li>Ongoing discussions with SDS about its financial</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	also ongoing uncertainties about the amount and timing of ESF funding (see above).		position, including its working capital levels.
	There is a risk that financial management and reporting does not keep pace with SDS' changing financial context. There is also a risk that uncertainties about ESF funding affect SDS' cash-flows and operations.		
<b>8</b>	<b>Governance and transparency – cyber security</b>	Agreed management actions resulting from internal audit's report.	<ul style="list-style-type: none"> <li>• Review progress in addressing the recommendations raised by internal audit.</li> <li>• Consider the level of risk in this area at the end of the year when reviewing the governance statement within the annual report and accounts.</li> </ul>
	Organisations are increasingly threatened by cyber-attacks. SDS has a shared Enterprise Information Service (EIS) IT arrangement with Scottish Enterprise and (SE) and Highlands and Islands Enterprise (HIE).	Internal audit reported on cyber security in September 2019 and identified areas for improvement.	
	There is a risk that a cyber-attack could disrupt SDS' systems, including key financial systems.		
<b>9</b>	<b>Value for money</b>	Regular chief executive's reports to the board. On-going engagement with the strategic board and the Scottish Government.	<ul style="list-style-type: none"> <li>• Review SDS' strategic plan's alignment with the Enterprise and Skills Strategic Board's missions.</li> <li>• Consider impact of the Strategic Board's strategic plan on SDS' performance management arrangements, in particular whether appropriate measures are in place to report on achievement of its objectives.</li> </ul>
	SDS has developed a new Strategic Plan 2019-2022 to reflect significant changes in its internal and external operating environments.		
	There is a risk that the new performance management arrangements are not aligned with the Enterprise and Skills Strategic Board's missions and that, as a result, SDS is unable to demonstrate progress and its contribution to the Scottish Government's National Performance Framework.		

Source: Audit Scotland

## Reporting arrangements

**6.** Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**7.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

**8.** We will provide an independent auditor's report to The Skills Development Scotland Co. Ltd, Scottish Parliament and the Auditor General for Scotland setting

out our opinions on the annual accounts. We will provide SDS and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

## **Exhibit 2**

### **2019/20 Audit outputs**

Audit Output	Target date	Committee Date
Annual Audit Plan	4 <sup>th</sup> December 2019	12 <sup>th</sup> December 2019
Management Report	11 <sup>th</sup> March 2020	19 <sup>th</sup> March 2019
Independent Auditor's Report	TBC (June 2020)	TBC (June 2020)
Annual Audit Report	TBC (June 2020)	TBC (June 2020)

Source: Audit Scotland

## **Audit fee**

**9.** The proposed audit fee for the 2019/20 audit of SDS is £TBC [2018/19: £85,696]. In determining the audit fee, we have taken account of the risk exposure of SDS and the planned management assurances in place. Our audit approach assumes receipt of the unaudited annual report and financial statements, with a complete working papers package on 5<sup>th</sup> May 2020.

**10.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and financial statements, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

## **Responsibilities**

### **Audit Committee and Accountable Officer**

**11.** Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

**12.** The audit of the annual report and financial statements does not relieve management or the Audit and Risk Committee, as those charged with governance, of their responsibilities.

### **Appointed auditor**

**13.** Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

**14.** Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Annual report and financial statements

**15.** The annual report and financial statements will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of SDS and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how SDS will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**16.** We will give an opinion on whether the financial statements:

- give a true and fair view in accordance with the directions made under the Public Finance and Accountability (Scotland) Act 2000 of the state of affairs of the company and its group as at 31 March 2020 and of the group's total comprehensive expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 FReM; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and directions made under the Public Finance and Accountability (Scotland) Act 2000 by the Scottish Ministers.

**17.** We will also give an opinion on the regularity of income and expenditure.

## Statutory other information in the annual accounts

**18.** We also review and report on statutory other information published within the annual report and financial statements including the strategic report, directors' report, remuneration report and governance statement. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

**19.** We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

## Materiality

**20.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any



uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

**21.** We calculate materiality at different levels as described below. The calculated materiality values for SDS are set out in [Exhibit 3](#).

## Exhibit 3

### Materiality values

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2020 based on the forecast for 2019/20.	£2.6 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 60% of planning materiality.	£1.6 million
<b>Reporting threshold (i.e., clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 2% of planning materiality.	£50,000

Source: Audit Scotland

## Timetable

**22.** To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

**23.** There are currently a range of uncertainties related to Covid-19 pandemic with the full extent of its impact on SDS, Audit Scotland and our approach to audit not yet known. The timetable is therefore subject to potential changes due to the ongoing developments and government restrictions and any impact these restrictions may have on the completion of the annual audit.

## Exhibit 4

### Annual accounts timetable

Key stage	Date
Latest submission date of unaudited annual report and accounts with complete working papers package	5 <sup>th</sup> May 2020
Latest date for receipt of assurances from group's component auditors for WBL Scotland (clarification is required if this will be needed)	18 <sup>th</sup> May 2020
Latest date for final clearance meeting with Finance and Corporate Governance Director	3 <sup>rd</sup> June 2020
Issue of Letter of Representation and proposed independent auditor's report	TBC (early June)
Agreement of audited unsigned annual report and financial statements	TBC (early June)

	Key stage		Date
	Issue of Annual Audit Report to those charged with governance		TBC (early June)
	Independent auditor's report signed		TBC (late June)

## Internal audit

**24.** Internal audit is provided by a new shared service arrangement with Scottish Enterprise. As part of our planning we carry out an assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). In doing so, we will liaise with Scottish Enterprise's external auditors. We will also consider the internal audit arrangements for Enterprise Information Systems (EIS), which delivers ICT services to SDS, Highlands and Islands Enterprise and Scottish Enterprise. Should we decide to place formal reliance on internal audit, auditing standards require us to assess internal audit's approach and work.

**25.** Internal and external auditors work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. From our review of the internal audit plan we will consider placing reliance on internal audit work carried out on general IT controls (previously known as ISAE 3402 audit).

**26.** We also we plan to consider internal audit work in the following areas:

- Review of controls in key financial systems
- Strategic Board alignment
- Skills Alignment
- Strategic Planning
- Graduate Apprenticeships
- Foundation Apprenticeships
- Digital
- EIS partnership – Cyber follow-up
- EIS partnership – Service Transition.

## Audit dimensions

**27.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

## Exhibit 5

### Audit dimensions



Source: Code of Audit Practice

#### Financial management

**28.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether arrangements are in place to ensure systems of internal control are operating effectively
- the effectiveness of budgetary control system in communicating accurate and timely financial performance can be demonstrated
- how SDS has assured itself that its financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

#### Financial sustainability

**29.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer-term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude, including on the effect on SDS' finances if the ESF funding issue has not been satisfactorily resolved by the end of the financial year.

#### Governance and transparency

**30.** Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether SDS can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, or in partnership with others such as EIS and internal audit shared service).
- whether internal audit recommendations regarding cyber security have been satisfactorily progressed

- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting
- arrangements in place to counter fraud and corruption in respect of procurement activities.

**31.** We will also comment in our 2019/20 annual audit report on how SDS adjusted to the Covid-19 pandemic.

### **Value for money**

**32.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether SDS can demonstrate how it is monitoring and reporting progress towards meeting the Enterprise and Skills Strategic Plan's objectives.

### **Best Value**

**33.** The Accountable Officer of SDS has a duty to ensure arrangements are in place to secure best value. Last year we were informed that SDS would develop a process, in line with the new strategic plan, to provide an annual summary of mapping to the generic and cross-cutting themes of Best Value. We will review and report on these arrangements.

### **Independence and objectivity**

**34.** Auditors appointed by the Accounts Commission or the Auditor General for Scotland must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's 'Ethics Partner'.

**35.** The engagement lead (i.e. appointed auditor) for SDS is Gordon Smail, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of SDS.

### **Quality control**

**36.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

**37.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

**38.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

# Skills Development Scotland

## Annual Audit Plan 2019/20

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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