

Skills Development Scotland Co. Limited

Management report 2020/21

The logo for Audit Scotland, featuring a blue checkmark icon to the left of the text "AUDIT SCOTLAND" in a blue, sans-serif font.

 AUDIT SCOTLAND

Prepared for Skills Development Scotland

March 2021

Audit findings

Introduction

1. This report summarises the key issues identified during our interim audit at Skills Development Scotland (SDS). We will use the results of this work to inform our approach to the 2020/21 financial statements audit.
2. Our responsibilities under the Code of Audit Practice require us to assess the system of internal control put in place by management. We seek to gain assurance that the audited body:
 - has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
 - has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
 - complies with established policies, procedures, laws and regulations.

Conclusion

3. We concluded that key controls in the core financial systems were operating as expected. Our substantive testing of income and expenditure transactions processed through these systems did not identify any issues.
4. The walkthrough of the national training programmes (NTP) system confirmed that effective controls are in place but, as we have reported previously, there is an inherent control risk in the system for making payments to training providers. As in previous years, SDS management acknowledges this and believes that other controls mitigate this risk. Substantive testing in this area was satisfactory.
5. We concluded that controls over COVID-19 relief grants to training providers were appropriate and operating as expected. Substantive testing of a sample of these grant payments found no issues.

Work summary

6. Our 2020/21 interim work included walkthrough testing of key controls in the core financial systems - general ledger, payroll, payables, receivables and cash and banking – to confirm that they were operating as expected. This included the review of bank reconciliations, payroll validation and exception reporting, authorisation of journals, change of supplier bank details and IT access controls. Our review also covered budget monitoring and control, feeder system reconciliations and controls for preventing and detecting fraud.
7. We also carried out walkthrough testing of the main processes and controls used in the administration of the NTP. We reviewed procurement controls, checks performed by the Skills Investment Advisors (SIA) and the Compliance / Fraud Error Prevention (FEP) teams, and controls built into the funding information processing system (FIPS).
8. As part of our walkthrough testing, we also reviewed key controls over COVID-19 relief grants to training providers. In doing so, we took internal audit's real-time review of these grant payments into consideration. The controls included confirming that:

- Organisations who have applied for COVID-19 grants are valid SDS training providers
- SDS has assured itself that these training providers have appropriate controls in place
- Training providers are not receiving COVID-19 relief funds from elsewhere
- Training providers had conducted meaningful engagement with at least 60% of eligible apprentices and employers.

9. In addition, we carried out pre year-end testing on a sample of income and expenditure transactions, including NTP and COVID-19 relief grant payments to training providers.

10. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

11. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

Audit findings

Review of key controls in the core financial systems and NTP

12. Our walkthrough testing confirmed that:

- the key controls in the core financial systems were operating as expected
- the key controls over COVID-19 relief grants were appropriate and operating as expected – this agrees with internal audit's conclusion
- effective controls were in place in the NTP system but there is an inherent control risk in the system for making non-COVID-19 payments to training providers (excluding graduate apprenticeships) - this is because there is no comprehensive, real-time internal check prior to paying training providers for the achievement of stated milestones.

13. As in previous years, SDS management believes that other controls (such as SIA's and the Compliance/ FEP team's work, automated checks within FIPS and training providers' annual declaration of compliance with programme rules and the accuracy of data input to FIPS) mitigate the inherent risk. While we accept these mitigate the risk to some degree, we are required to highlight this matter. In line with previous years, we extended our substantive testing of NTP payments to training providers in light of this finding.

Substantive testing

14. Our substantive testing of income, expenditure and payroll transactions did not identify any issues.

15. We also tested an extended sample of NTP and COVID-19 relief grants payments to training providers in 2020/21 and did not identify any issues. However, we were unable to obtain supporting documentation from three training providers as the organisations could not access their premises due to the ongoing lockdown restrictions. We will complete this testing later in the year.

16. We will also carry out further substantive testing during our year-end financial statements work, focusing on transactions in the latter part of the financial year. This is part of our normal audit process and will build upon the work reported here.

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