

The Skills Development Scotland Co. Limited

Annual Audit Plan 2016/17



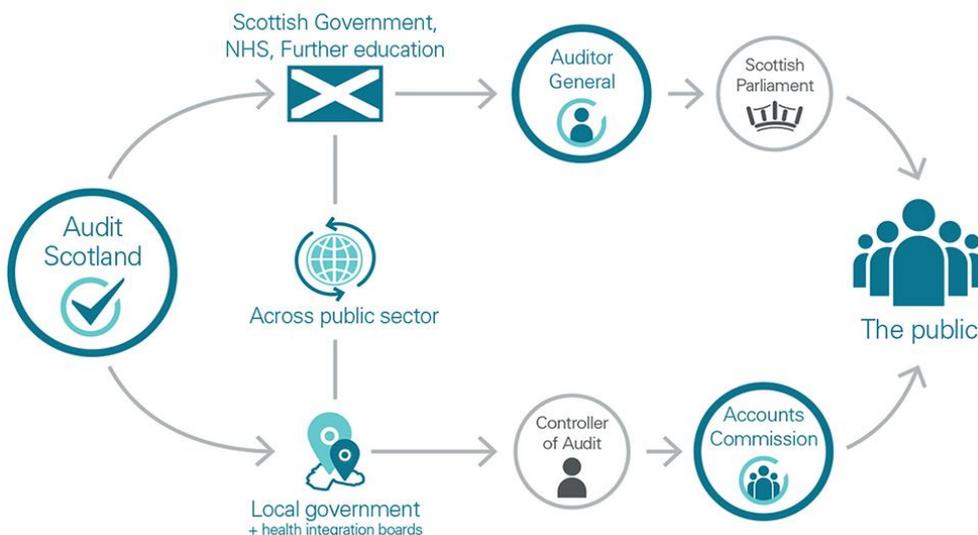
 AUDIT SCOTLAND

Prepared for Skills Development Scotland
November 2016

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 and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Audit risks

2. Based on our discussions with staff and a review of supporting information we have identified the following main risk areas for Skills Development Scotland (SDS). We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

Audit Risk	Management assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work includes consideration of the risk of fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Internal audit assignments act as checks.</p> <p>No history of fraud in this area.</p>	<p>Detailed testing of journal entries.</p> <p>Review of significant management estimates and evaluation of the impact of any variability in key assumptions.</p> <p>Focused testing of accruals and prepayments.</p> <p>Substantive testing of transactions after the year end to confirm expenditure and income has been accounted for in the correct financial year.</p> <p>Evaluation of any significant transactions that are outside the normal course of business.</p>

Audit Risk	Management assurance	Planned audit work
<p>2 Pensions accounting</p> <p>SDS accounts for its participation in the Strathclyde Pension Fund and Highland Council Pension Fund in accordance with IAS 19 Retirement benefits, using a valuation report prepared by SDS actuaries. There is an inherent risk with the determination of pension charges due to the extent of assumptions actuaries use in calculations and the impact they can have on the financial statements.</p>	<p>Controls are in place over provision of accurate data to actuaries.</p>	<p>Completion of 'review of the work of an expert' for the actuary.</p> <p>Focused substantive testing of key areas including data SDS provides to its actuaries.</p>
<p>3 Risk of fraud over income and expenditure</p> <p>ISA240 requires auditors to presume a risk of fraud where income streams in addition to Scottish Government funding are significant. SDS receives approximately 6% of income from sources other than Scottish Government funding. The extent and nature of income means that, in accordance with ISA240, there is an inherent risk of fraud that requires an audit response.</p> <p>The Code of Audit Practice expands the ISA240 assumption on fraud over income to aspects of expenditure. Most of SDS operating expenditure (£114 million, 65 per cent) is on multi-year national training programmes. While these are contracted annually, SDS has a commitment to support them over several years.</p>	<p>Compliance team's annual checks of national training programmes contracts.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of income transactions focusing on the areas of greatest risk.</p> <p>Detailed cut-off testing of income streams.</p> <p>Detailed analysis of EU income</p> <p>Walk-through of controls over national training programmes.</p> <p>Detailed substantive testing of expenditure transactions with a focus on cut-off testing.</p> <p>Review of compliance team's checks of national training programmes contracts.</p>
<p>4 System upgrade</p> <p>Agresso Business World is SDS's main financial system. A major upgrade is planned to a 'cloud based' system. There is a risk that the upgrade impacts the financial information produced by the system. As this information feeds into the financial statements, there is a financial statement risk as a result.</p>	<p>Governance of the upgrade by the Project Board.</p> <p>Parallel running of the existing arrangements until January 2017.</p>	<p>Review of the implementation of the upgrade, including business continuity arrangements.</p> <p>Consideration of internal audit's IT application review.</p> <p>Focused substantive testing of material areas.</p>

Audit Risk	Management assurance	Planned audit work
Wider dimension risks		
<p>5 Financial sustainability</p> <p>SDS national training programmes are based on multi-year commitments and its targets on modern apprenticeships have increased but there is uncertainty over SDS funding beyond one year. This creates a risk over the financial sustainability of SDS. SDS has recognised this risk as part of its risk management process.</p>	<p>Five-year financial plan in place.</p> <p>Scenario planning undertaken to identify the impact of potential spending review requirements.</p> <p>Risk recognised in the strategic risk register. Discussed at each Board meeting and action taken as required.</p>	<p>Review and assessment of the adequacy and robustness of medium to long-term financial plans.</p> <p>Focused review of any forecasting or scenario planning feeding into financial plans.</p>
<p>6 Financial management - year end outturn</p> <p>The approved budget for 2016/17 shows income and expenditure of £215 million. Income includes £176 million of core Grant-in-aid from the Scottish Government and £23 million expected to be confirmed through the Autumn and Spring Budget Revisions. As at November 2016, SDS is yet to receive £13 million (6 per cent) from the Scottish Government through the Spring Budget Revision. There is a risk that SDS will not receive sufficient funding to deliver its core services and break-even in 2016/17.</p>	<p>Continued discussions on affordability and programme delivery at Board level.</p>	<p>Monitoring of the financial position throughout the year by reviewing budget monitoring reports.</p> <p>Review SDS's achievement of outturn at year end.</p>
<p>7 Financial management - budget monitoring</p> <p>Finance reports, provided to SDS Board, are presented on a cash rather than accruals basis. There is a risk that the Board is not aware of all income and expenditure that could have an impact on the outturn and SDS financial position.</p>	<p>Finance reports also include a list of commitments that may become accruals if spending is not realised.</p> <p>Three Board members have financial qualifications and therefore a good understanding of accounting principles.</p>	<p>Consideration of internal audit's budget monitoring work.</p> <p>Regular review of budget monitoring reports.</p> <p>Attendance at some Board meetings to observe the scrutiny of finance report.</p>
<p>8 Governance and transparency - scrutiny and challenge by SDS Board</p> <p>Due to the on-going skills and enterprise review, the long-term future of the SDS Board is uncertain. Terms for a number of Board members are also coming to an end within the next nine months. SDS co-opted four Board members but there is a risk that the Board may have gaps in skills and expertise, and there may be a lack of scrutiny and challenge as a result.</p>	<p>SDS have co-opted members with a range of skills sets, including IT and financial to complement the existing Board members.</p>	<p>Follow-up work on the 'Role of Board' performance audit, published in September 2010.</p> <p>Consideration of internal audit's work on governance and organisational culture.</p>

Reporting arrangements

3. 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 once they have been finalised and considered by the Audit and Risk Committee.
4. 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.
5. We will provide an independent auditor's report to SDS and the Auditor General for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2

2016/17 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Interim Report	March 2017	March 2017
Annual Audit Report including ISA 260 requirements	June 2017	TBC
Signed Independent Auditor's Report	July 2017	N/A

Audit fee

6. The agreed audit fee for the 2016/17 audit of SDS is £81,490. In determining the audit fee we have taken account of the audit risks for SDS, the planned management assurances in place and reliance on the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements and a complete working papers package on 15 May 2017.

7. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

Audit Committee and Accountable Officer (or equivalent)

8. 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.

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

Appointed auditor

10. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

11. Auditors in the public sector give an independent opinion on the 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

Financial statements

12. The statutory financial statements audit will be the foundation and source for the majority 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.

13. We will give an opinion on the financial statements as to:

- whether they give a true and fair view of the financial position of the audited bodies and their net expenditure
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- whether the information included in the directors' and strategic reports is consistent with the financial statements
- the regularity of the expenditure and income.

Materiality

14. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. 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 level	Amount
Planning materiality - This is the calculated figure we use in assessing 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 17 based on the latest audited accounts for 2015/16.	£2.1 million
Performance materiality - 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.	£1.2 million
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of planning materiality.	£20 thousand

15. We review and report on other information published with the financial statements including the strategic report, directors' report, remuneration report and annual governance statement. Any issues identified will be reported to the Audit and Risk Committee.

Timetable

16. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit and Risk Committee dates.

Exhibit 4

Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	8 May 2017
Latest submission date of unaudited financial statements with complete working papers package	15 May 2017
Latest date for final clearance meeting with Director of Finance	5 - 9 June 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	TBC
Independent auditor's report signed	TBC

Internal audit

17. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by Scott Moncrieff.

Adequacy of Internal Audit

18. Our review of internal audit concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. Based on our review of internal audit plans, we intend to place specific reliance on internal audit's work as outlined in paragraphs 20 and 21 below.

Areas of reliance

19. To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit reviews:

- Financial controls self-assessment
- IT application review.

20. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Budget monitoring
- Governance
- Organisational culture.

Audit dimensions

21. 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



22. As part of our responsibility to report on the four audit dimensions, we have identified specific areas of proposed audit work for 2016/17 and these are outlined in paragraphs 23 - 26 below. We will do further work over the five-year audit appointment.

Financial sustainability

23. 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 the financial sustainability in the medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on the following:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

Financial management

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

Governance and transparency

25. 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.
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.

Value for money

26. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- SDS can provide evidence that it is demonstrating value for money in its achievement of performance targets.

Independence and objectivity

27. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. 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 in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

28. The engagement lead for SDS is Angela Cullen, Assistant 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

29. 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.

30. 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 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, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

31. 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.

The The Skills Development Scotland Co. Limited

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