

The Skills Development Scotland Co. Ltd

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

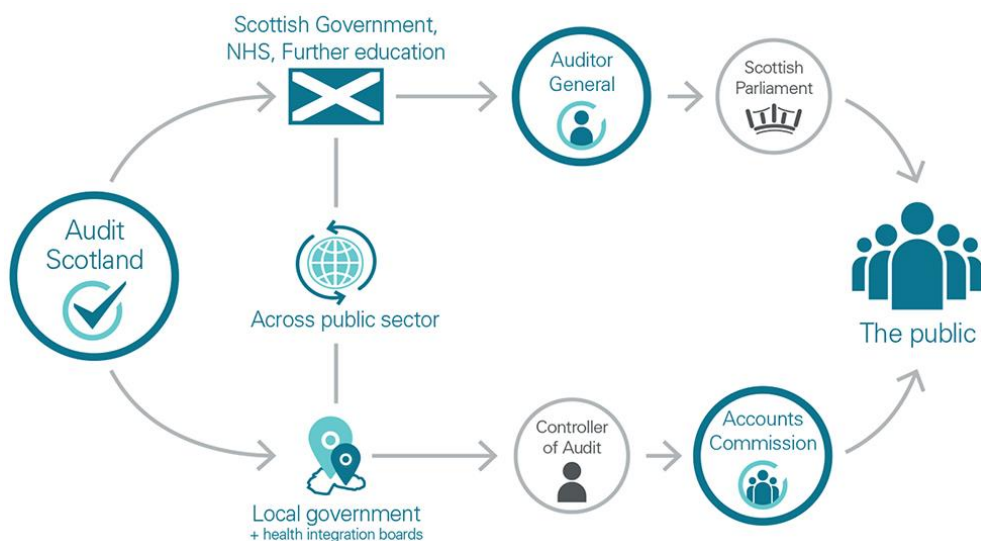
Prepared for The Skills Development
Scotland Co. Ltd

March 2021

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 [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.
3. The public health crisis caused by the coronavirus disease (COVID-19) has had a profound effect on every aspect of society. Public services have been affected significantly, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.
4. Public audit has an important contribution to make to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from COVID-19 across the full range of audit work including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, changes to this annual audit plan may be necessary. We will continue to engage with management to discuss this and how we can work together to respond as required.

Adding value


5. 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. Examples in recent years include providing additional insight into the timing and application of a new accounting standard and the application of the going concern basis of accounting in a public sector context.


Audit risks


6. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risks for our 2020/21 audit of The Skills Development Scotland Co. Ltd. We have categorised these risks into financial statements audit risks and wider dimension audit risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).


Exhibit 1

2020/21 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement due to fraud caused by the management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • Testing of journal entries. • Review of accounting estimates. • Testing of accruals and prepayments. • Cut-off testing, to confirm expenditure and income is accounted for in the correct financial year. • Evaluation of significant transactions that are outside the normal course of business.
<p>2 Risk of material misstatement caused by fraud in income recognition.</p> <p>As set out in ISA (UK) 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 2020/21, SDS expects to receive approximately £27 million of income from sources other than the Scottish Government, with £16.8 million expected from the European Social Fund (ESF) which has been in full suspension since November 2019 (see risk 5 below). Due to lower than forecast uptake of the national training programmes and COVID -19 relief initiatives, SDS is projecting a significant surplus of £22.1 million at end of February but this is subject to change. It will depend on the amount of Grant-in-Aid drawn down and other transactions in the final month of the financial year.</p> <p>The extent and nature of this income alongside the possible surplus means that there is a risk of fraud over income recognition.</p>	<p>Effective budgetary control arrangements are in place including monitoring of income and anti-fraud arrangements.</p> <p>Procedures and management checks in place to ensure that eligible expenditure is identified for the purpose of claiming ESF grant income.</p> <p>Internal audit's review of NTPs and financial management.</p>	<ul style="list-style-type: none"> • Review of SDS' anti-fraud arrangements. • Walk-through of controls over receivables. • Analytical procedures on income streams. • Detailed testing of revenue transactions focusing on the areas of greatest audit risk, such as ESF income and COVID-19 related funding. • Consideration of internal audit's work on national training programmes (NTPs) and financial management.
<p>3 Risk of material misstatement caused by fraud in expenditure</p> <p>As most public-sector bodies are net spending bodies, the risk of fraud is more likely to occur in expenditure.</p>	<p>Effective budgetary control arrangements are in place including monitoring of expenditure and anti-fraud arrangements.</p>	<ul style="list-style-type: none"> • Review of SDS' anti-fraud arrangements. • Walk-through of controls over NTPs, including the funding information and processing system (FIPS).

 Audit Risk	Source of assurance	Planned audit work
<p>Most of SDS' operating expenditure is on multi-year national training programmes (NTPs). SDS expects to spend around £117 million in 2020/21 in this area, representing 45 per cent of total forecast expenditure for 2020/21. As we have reported previously, there is an inherent control risk in the NTP system for payments to training providers.</p> <p>In addition, like many other public bodies, SDS made payments to third-party organisations in 2020/21 to offset the impact of COVID-19. It forecasts to spend around £21 million on COVID-19 response initiatives which is a new area of expenditure for SDS. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p>	<p>Compliance team's annual checks of contracts for national training programmes.</p> <p>Compliance team's retrospective payments assurance.</p> <p>Internal audit's reviews of COVID-19 grants, NTPs and financial management.</p>	<ul style="list-style-type: none"> • Walk-through of controls over payables. • Analytical procedures on expenditure streams. • Detailed testing of expenditure transactions focusing on the areas of greatest audit risk, such as apprenticeship and COVID-19 related expenditure. • Review of accounting entries/disclosures in relation to areas such as COVID-19 response initiatives. • Consideration of internal audit's work on COVID-19 response initiatives, NTPs and financial management.
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of accruals, pensions and provisions.</p> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Controls are in place to ensure accurate provision of data to actuaries.</p> <p>Sound arrangements are in place for identifying and assessing accounting provisions.</p>	<ul style="list-style-type: none"> • Detailed testing of accruals including the ESF income accrual. • Completion of 'review of the work of an expert' in respect of the actuary including a review of actuarial assumptions. • Testing of pension disclosures, including data that SDS provides to actuaries. • Testing of provisions and related disclosures.
<p>5 European funding</p> <p>As noted at risk 2, SDS receives significant funding from the ESF. ESF is administered by the European Commission and managed by the Scottish Government (SG), which makes payments to lead partners such as SDS. Due to deficiencies for ESF in Scotland reported by auditors, the programme has been in 'full suspension' since November 2019 with payments suspended since February 2019. This affects all organisations which participate in the ESF programme. As a result, SDS' 2019/20 financial statements included an income accrual of £41 million in respect of ESF monies due.</p> <p>SDS forecasts further ESF income of £16.8 million in 2020/21 which could increase the income accrual to over £55 million if SDS does not receive</p>	<p>Continued discussions on programme delivery at board level and with the Scottish Government.</p>	<ul style="list-style-type: none"> • Detailed testing of the ESF income accrual including an assessment of estimation uncertainty and related disclosures. • Review of correspondence in relation to ESF funds. • Ongoing review of budget monitoring presented to Board and committees and discussions with SDS finance about ESF developments. • Review of SDS' ESF claims and its internal verification checks. • Liaison with the auditors of the SG on ESF developments from a national perspective.

	Audit Risk	Source of assurance	Planned audit work
	<p>any ESF monies before the end of March 2021.</p> <p>There is a risk that SDS misstates the ESF income and related accruals in its 2020/21 accounts.</p>		
Wider dimension risks			
6	<p>COVID-19 related support funding</p> <p>Since March 2020, SDS has had a key role in Scotland's response to COVID-19, supporting jobs and businesses and through its skills and training programmes. This includes distributing COVID-19 response initiatives to businesses. Decision-making in a fast-moving environment presents a challenge for SDS and other public bodies. These include maintaining good governance and controls while making decisions quickly, adapting performance measures and ensuring that anti-fraud arrangements remain robust at a time when the risk of fraud is increased.</p>	<p>Effective governance and anti-fraud arrangements, and controls over Covid-19 funding.</p> <p>Continuous discussions on affordability and delivery at board level and with the Scottish Government.</p> <p>Internal audit's reviews of COVID-19 response and COVID-19 grants.</p>	<p>We will consider:</p> <ul style="list-style-type: none"> the extent and nature of COVID-19 response initiatives provided to SDS and distributed by SDS to businesses governance and accountability arrangements for distributing COVID-19 funding, including scrutiny by the board and steps taken to minimise fraud and error key financial controls over COVID-19-related income and expenditure performance targets for the efficiency and effectiveness of COVID-19 funding. internal audit's work on COVID-19 response and COVID-19 grants.
7	<p>Financial management - 2020/21 outturn</p> <p>There are a range of factors which affect SDS' financial management. This includes in-year changes to the budget which have been particularly volatile in 2020/21. There are also ongoing uncertainties about the amount and timing of ESF funding (see above), the uptake of the current COVID-19 relief initiatives and NTPs as some training providers experience financial difficulties. All of this makes forecasting the year-end position difficult.</p> <p>SDS is currently projecting a surplus of £22.1 million against its approved budget, but this is still subject to change and there is a risk that financial management and reporting does not keep pace with SDS' changing financial context. There is also a risk that ongoing uncertainties</p>	<p>Continued discussions on affordability and programme delivery at board level and with the Scottish Government.</p>	<ul style="list-style-type: none"> Review financial reports provided to the board/committee over the year and compare these with the year-end results in the financial statements. Ongoing enquiry and discussions with SDS about its financial position.

	Audit Risk	Source of assurance	Planned audit work
	affect SDS' cash-flows and operations.		
8	<p>Cyber security – governance and risk management</p> <p>Organisations are increasingly threatened by cyber-attacks as evidenced by recent incidents affecting public bodies. This risk is heightened due to the impact of COVID-19 such as home-working.</p> <p>SDS has a shared Enterprise Information Service (EIS) IT arrangement with Scottish Enterprise, Highlands and Islands Enterprise and South of Scotland Enterprise. SDS is currently working to strengthen its cyber security arrangements including implementing improvement actions identified during the recent cyber security maturity assessment.</p> <p>There is a risk that a cyber-attack could disrupt SDS' systems, including key financial systems.</p>	SDS continues to progress towards Cyber Essentials Plus accreditation.	<ul style="list-style-type: none"> Assess progress towards improving cyber security including achieving Cyber Essentials+ accreditation. Consider disclosure of cyber security risk in the governance statement within the annual report and accounts.

Source: Audit Scotland

Reporting arrangements

7. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs are detailed in [Exhibit 2](#), with indicative target dates for completion (see references to timetable at paragraph 22). These and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

8. 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.

9. We will provide an independent auditor's report to The Skills Development Scotland Co. Ltd, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and financial statements. We will provide SDS and 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 2020/21 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	28 February 2021	18 March 2021
Management Report	11 March 2021	18 March 2021

Audit Output	Target date	Committee Date
Independent Auditor's Report	1 July 2021	8 July 2021
Annual Audit Report	1 July 2021	8 July 2021

Source: Audit Scotland

Audit fee

10. The proposed audit fee for the 2020/21 audit of SDS is £TBC (base fee 2019/20: £85,696). In determining the audit fee we have taken account of the risk exposure of The Skills Development Scotland Co. Ltd, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual report and financial statements, with a complete working papers package by 10 May 2021.

11. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts, 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

12. 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.

13. 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

14. 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.

15. 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

16. 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.

17. 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 as at 31 March 2021 and of the company'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 2020/21 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.



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, the elements of the remuneration report subject to audit and the 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 The Skills Development Scotland Co. Ltd are set out in [Exhibit 3](#).

Exhibit 3 Materiality values



Materiality	Amount
Planning materiality – 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 2021, based on the forecast for 2020/21.	£2.4 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.	£1.5 million
Reporting threshold (i.e., clearly trivial) – 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](#). As per [paragraph 4](#), we will adopt a pragmatic and flexible approach. While our intention is to work to the target dates set out below, these are subject to potential change due to ongoing developments associated with COVID-19.

Exhibit 4 Annual accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual report and accounts with complete working papers package	By 10 May 2021
Latest date for final clearance meeting with Director of Finance	9 June 2021
Issue of Letter of Representation and proposed independent auditor's report	1 July 2021
Issue of Annual Audit Report to those charged with governance	1 July 2021
Agreement of audited unsigned annual report and financial statements	9 July 2021
Independent auditor's report signed	9 July 2021

Internal audit

23. Internal audit is provided by a shared service arrangement with Scottish Enterprise, South of Scotland Enterprise and Scottish Funding Council. As part of our planning we carried out an assessment of the internal audit function,

concluding that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). In doing so, we liaised with Scottish Enterprise's external auditors. We also considered the internal audit arrangements for Enterprise Information Systems (EIS), which delivers ICT services to SDS, Highlands and Islands Enterprise, Scottish Enterprise and South of Scotland Enterprise.

24. 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 plan to consider internal audit work in the following areas:

- National Training Programmes
- Performance Measurement
- Service Design and Innovation
- Policies
- Procurement
- Climate Change and Sustainability
- COVID-19 Response
- COVID-19 Grants
- EIS Partnership Audits
 - EIS Service Transition
 - IT Assurance Mapping
 - EIS Security Operations Centre

Audit dimensions

25. 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 sustainability

26. 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 on SDS' financial sustainability including on the effect of the ongoing ESF funding issue on SDS' finances.

Financial management

27. 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 systems 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.

Governance and transparency

28. 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 in partnership with others such as EIS and the shared internal audit service).
- 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.

Value for money

29. 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 continues to monitor and report progress towards meeting the Enterprise and Skills Strategic Plan's objectives.

Best Value

30. The Accountable Officer of SDS has a duty to ensure arrangements are in place to secure best value. We will review and report on these arrangements.

Independence and objectivity

31. Auditors appointed by the Accounts Commission or Auditor General 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.

32. 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

33. 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.

34. 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) has been commissioned to carry out external quality reviews.

35. 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

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