

The Skills Development Scotland Co. Limited

2024/25 Annual Audit Report



Prepared for Skills Development Scotland and the Auditor General for Scotland
September 2025

Contents

Key messages	3
Introduction	5
Audit of the annual report and financial statements	8
Wider scope and Best Value audit	14
Appendix 1 – Action plan 2024/25	29
Appendix 2 - Misstatements	31
Appendix 3 – National Reports	32

Accessibility

You can find out more and read this report using assistive technology on our website www.audit.scot/accessibility.

Key messages

Audit of the annual report and financial statements

- 1 All audit opinions on the annual report and financial statements were unmodified.
- 2 The unaudited annual report and financial statements and working papers were received in line with the agreed audit timetable and were of a good standard.

Financial Management

- 3 Appropriate arrangements are in operation to secure sound financial management. In 2024/25, Skills Development Scotland operated within its fiscal resource, reporting an underspend of £1.4 million.
- 4 There are appropriate systems of internal control in place, including policies for the prevention and detection of fraud.

Financial Sustainability

- 5 Skills Development Scotland continues to develop financial plans over the medium-term to enable effective preparation for the delivery of services into the future.
- 6 Skills Development Scotland's transformation programme, Transform 27, informs financial plans in line with the ambitions of the Strategic Plan 2022-27, but challenges exist in aligning forward planning with the ongoing Scottish Government reform agenda.

Vision, Leadership and Governance

- 7 Skills Development Scotland has a clear plan in place to implement its vision, strategy and priorities, aligned with the Scottish Government National Strategy for Economic Transformation. This is supported by appropriate and effective governance arrangements.

Use of Resources to Improve Outcomes

- 8** A Corporate Performance Framework is used with key performance indicators to measure Skills Development Scotland's progress against its corporate goals. In 2024/25, an overall 'green' rating was reported against four of the five corporate goals, which demonstrates good performance.
- 9** Ongoing reform of the education and skills sector continues to present significant uncertainty for Skills Development Scotland.

Introduction

Purpose of the Annual Audit Report

1. This Annual Audit Report sets out the findings from the 2024/25 audit of Skills Development Scotland's annual report and financial statements and the wider scope areas specified in the [Code of Audit Practice \(2021\)](#).
2. The report is addressed to Skills Development Scotland and the Auditor General for Scotland, and will be published on [Audit Scotland's website](#) once the audited annual report and financial statements have been laid at the Scottish Parliament.

Scope of the audit

3. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (ISA) (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:
 - an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement, including the regularity of income and expenditure
 - an opinion on statutory other information published with the financial statements in the annual report and financial statements, the strategic report, directors' report and the governance statement, and an opinion on the audited part of the remuneration report
 - conclusions on the arrangements in relation to the wider scope areas: Financial Management; Financial Sustainability; Vision, Leadership and Governance; and Use of Resources to Improve Outcomes
 - reporting on the arrangements for securing Best Value.

Appointed auditor and independence

4. Lisa Duthie, Audit Director of Audit Scotland, has been appointed by the Auditor General for Scotland as external auditor of Skills Development Scotland. As reported in the Annual Audit Plan, Lisa and the audit team are independent of Skills Development Scotland in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. There have been no developments since the issue of the Annual Audit Plan that impact on the continued independence of the

engagement lead or the rest of the audit team, including the provision of non-audit services.

Responsibilities and reporting

5. The Code of Audit Practice sets out the respective responsibilities of the auditor and Skills Development Scotland. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

6. The responsibilities of auditors in the public sector are established in the Public Finance and Accountability (Scotland) Act 2000. These include providing an independent opinion on the financial statements and other information reported within the annual report and financial statements, and concluding on Skills Development Scotland's arrangements in place for the wider scope areas and Best Value.

7. This report includes an agreed action plan at [Appendix 1, \(page 29\)](#). This sets out specific recommendations to address matters identified and includes details of the responsible officer and dates for implementation.

8. Weakness or risks identified in this report are only those that have been identified by the audit team during normal audit work and may not be all that exist. Communicating these does not absolve management or the Audit and Risk Committee, as those charged with governance, of the responsibilities outlined below.

Skills Development Scotland's responsibilities

9. Skills Development Scotland has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety, and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- establishing arrangements to ensure the proper conduct of its affairs
- preparation of an annual report and financial statements, comprising financial statements and other specified information that gives a true and fair view
- establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption
- implementing arrangements to ensure its financial position is soundly based
- making arrangements to secure Best Value
- establishing an internal audit function.

National and performance audit reporting

10. The Auditor General for Scotland and the Accounts Commission regularly publish national and performance audit reports. These cover a range of matters, many of which may be of interest to Skills Development Scotland. Details of recently published national and performance audit reports can be seen in [Appendix 3, \(page 32\)](#).

Acknowledgements

11. We would like to thank all management and staff, particularly those involved in preparation of the annual report and financial statements, for their cooperation and assistance during the audit. We look forward to working together constructively over the remainder of the five-year audit appointment.

Audit of the annual report and financial statements

Main judgements

All audit opinions on the annual report and financial statements were unmodified.

The unaudited annual report and financial statements and working papers were received in accordance with the agreed audit timetable and were of a good standard.

Audit opinions on the annual report and financial statements are unmodified

12. The Board approved the annual report and financial statements for Skills Development Scotland for the year ended 31 March 2025 on 20 August 2025. The annual report and financial statements were signed on 22 September 2025 following provision of the outstanding pension fund assurances from the external auditors of the Strathclyde Pension Fund. As reported in the independent auditor's report:

- 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
- 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.

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

13. The unaudited annual report and financial statements and all working papers were received by 6 May 2025 in accordance with the agreed audit timetable. 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.

Overall materiality was assessed as £4.3 million

14. Materiality is applied by auditors in planning and performing an audit. The concept of materiality is to determine whether misstatements identified during the audit could reasonably be expected to influence the decisions of users of the annual report and financial statements. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor’s professional judgement.

15. Materiality levels for the audit of Skills Development Scotland were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan, which also reported the judgements made in determining materiality levels. These were reassessed on receipt of the unaudited annual report and financial statements. Materiality levels were updated to reflect expenditure reported in year and these can be seen in [Exhibit 1](#).

Exhibit 1
2024/25 Materiality levels for Skills Development Scotland

Materiality	Value
Materiality – set at two per cent of gross expenditure. The overall materiality threshold was set with reference to gross expenditure, as it is considered to be the figure most relevant to the users of the financial statements.	£4.3 million
Performance materiality – set at 60 per cent of materiality. This acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate further audit procedures are required.	£2.6 million
Reporting threshold – we are required to report to those charged with governance on all unadjusted misstatements greater than the ‘reporting threshold’, set at five per cent of materiality.	£215,000

Source: Audit Scotland

Significant findings and key audit matters

16. ISA (UK) 260 requires auditors to communicate significant findings from the audit to those charged as governance, which for Skills Development Scotland is the Audit and Risk Committee.

17. The Code of Audit Practice also requires public sector auditors to communicate key audit matters. These are the matters that, in the auditor's professional judgement, are of most significance to the audit of the financial statements and include:

- areas of higher or significant risk of material misstatement
- areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty
- significant events or transactions that occurred during the year.

18. The significant findings and key audit matters to report are outlined in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters

Significant findings and key audit matters	Outcome
Accounting for retirement benefits Skills Development Scotland accounts for its retirement benefit assets and obligations on a defined benefit basis under IAS 19 Employee Benefits, with a pension asset or liability disclosed in the Statement of Financial Position. The present value of the assets and obligations depends on factors that are determined on an actuarial basis using assumptions and estimations made by the fund's actuary. Part of this involves measuring the rate of return on assets held by the pension fund. As in prior years, due to early timing the actuary's report used by Skills Development Scotland to prepare the unaudited financial statements included an estimated rate of return on assets. The actuary confirmed in June 2025 that the actual rate of return on assets was higher than estimated and this increased the net asset position by £2.4 million. This is a key audit matter due to estimations in the valuation of pension assets and obligations being an identified 'area of audit focus' for the 2024/25 annual audit of Skills Development Scotland, where there is	In response, management obtained a revised IAS 19 schedule of results from Hymans Robertson in June 2025. Note 9, retirement benefits assets and obligations, has been amended to reflect the actual rate of return on assets shown in the revised results. The primary financial statements have not changed because the application of the asset ceiling in accordance with IAS 19 and IFRIC 14 means that the net funded pension asset is still nil.

Significant findings and key audit matters	Outcome
considered to be a higher risk of material misstatement to the financial statements due to the degree of estimation uncertainty involved.	
Remuneration report – accrued pension benefits The real increase in the Cash Equivalent Transfer Value (CETV) for Executives was provided by Strathclyde Pension Fund to Skills Development Scotland for disclosure within the Remuneration Report. However, this did not exclude inflation and employee pension contributions in line with the requirements of the Financial Reporting Manual (FReM). This is judged to be a key audit matter as the qualitative aspects of materiality require specific disclosures within the annual report and financial statements to be accurate.	This was amended by management in the audited annual report and financial statements.

Source: Audit Scotland

Qualitative aspects of accounting practices

19. ISA (UK) 260 also requires auditors to communicate their view about qualitative aspects of Skills Development Scotland's accounting practices, including accounting policies, accounting estimates, and disclosures in the financial statements.

Accounting policies

20. The appropriateness of accounting policies adopted by Skills Development Scotland was assessed as part of the audit. These were considered to be appropriate to the circumstances of Skills Development Scotland, and there were no significant departures from the accounting policies set out in the FReM.

Accounting estimates

21. Accounting estimates are used in Skills Development Scotland's financial statements, including the valuation of the pension assets and liabilities. Audit work considered the process Skills Development Scotland has in place around accounting estimates, including the assumptions and data used in arriving at the estimates, and the use of any management experts. Our audit work concluded:

- there were no issues with the selection or application of methods, assumptions, and data used to make the accounting estimates, and these were considered to be reasonable

- there was no evidence of management bias in making the accounting estimates.

Disclosures in the financial statements

22. The adequacy of disclosures in the financial statements was assessed as part of the audit. The quality of disclosures was adequate, with additional levels of detail provided for disclosures around areas of greater sensitivity, such as the valuation of pension assets and liabilities.

Total adjustments of £2.4 million were made to the financial statements and supporting notes

23. Adjustments to the financial statements and supporting notes totalled £2.4 million. The adjustments greater than the reporting threshold have been described in [Exhibit 2](#). We have reviewed the nature and cause of these adjustments and have concluded that they arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error.

Audit work responded to the significant risks of material misstatement identified

24. Audit work has been performed in response to the significant risks of material misstatement identified in the Annual Audit Plan. The outcome of audit work performed is summarised in [Exhibit 3](#).

Exhibit 3

Significant risks of material misstatement to the financial statements

Risk of material misstatement	Planned audit response	Outcome of audit work
Fraud caused by management override of controls Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	The audit team will: • assess the design and implementation of controls over journal entry processing • make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments • test journals entries at the year-end and post-closing	Audit work performed found: • the design and implementation of controls over journal processing were appropriate • no inappropriate or unusual activity relating to the processing of journal entries was identified • no significant issues were identified from testing of journal entries • no significant issues were identified from income and expenditure transactions outside the normal course

Risk of material misstatement	Planned audit response	Outcome of audit work
	entries and focus on areas of significant risk • consider the need to test journal entries and other adjustments during the period • evaluate significant transactions outside the normal course of business • assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements • assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year • perform substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year • perform focused testing of accounting accruals and prepayments.	of business or around the year-end • the controls in place for identifying and disclosing related party relationships and transactions were adequate • no significant issues were identified with changes to methods and underlying assumptions used to prepare accounting estimates and there was no evidence of management bias • no significant issues were identified from our testing of accounting accruals and prepayments Conclusion: no evidence of fraud caused by management override of controls.

Source: Audit Scotland

Good progress was made on prior year recommendations

25. Skills Development Scotland has made good progress in implementing the agreed prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with the management and are outlined in [Appendix 1, \(page 30\)](#).

Wider scope and Best Value audit

Audit approach to wider scope and Best Value

Wider scope

26. As reported in the Annual Audit Plan, the wider scope audit areas are:

- Financial Management
- Financial Sustainability
- Vision, Leadership and Governance
- Use of Resources to Improve Outcomes.

27. Audit work is performed on these four areas and a conclusion on the effectiveness and appropriateness of arrangements Skills Development Scotland has in place for each of these is reported in this chapter.

28. Where a significant risk was identified for a wider scope audit area, and detailed in our Annual Audit Plan, our audit work and conclusions are detailed within the relevant section below.

Duty of Best Value

29. The [Scottish Public Finance Manual](#) (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. [Best Value in public services: guidance for Accountable Officers](#) is issued by Scottish Ministers and sets out their duty to ensure that arrangements are in place to secure Best Value in public services.

30. Consideration of the arrangements Skills Development Scotland has in place to secure Best Value has been carried out alongside the wider scope audit.

Financial Management

Conclusion

Skills Development Scotland has appropriate arrangements to secure sound financial management.

In 2024/25, Skills Development Scotland operated within its fiscal resource, reporting an underspend of £1.4 million.

There are appropriate systems of internal control in place, including policies for the prevention and detection of fraud.

Skills Development Scotland operated within its 2024/25 budget and has effective budget monitoring and reporting processes

31. The main financial objective for Skills Development is to ensure that a balanced budget position is achieved and to utilise funds and other income in accordance with the annual Letter of Guidance. This includes working within the budget allocated by Scottish Ministers to achieve a break-even financial outturn each year.

32. Skills Development Scotland has reported a total outturn of £198.6 million in 2024/25, with an underspend of £1.4 million (or 0.7 per cent) against its fiscal resource. There were no in-year revisions to the resource and capital allocations. The financial performance against fiscal resource is shown in [Exhibit 4](#).

Exhibit 4

Performance against fiscal resource in 2024/25

Performance	Budget £m	Outturn £m	Over/(under) spend £m
Resource	198.7	197.1	(1.6)
Capital	1.3	1.5	0.2
Total	200.0	198.6	(1.4)

Source: Skills Development Scotland Annual Report and Financial Statements 2024/25

33. The budget setting, monitoring and reporting processes at Skills Development Scotland continue to operate effectively. The 2024/25 budget was reduced by £6.6 million in comparison to the previous year. The major areas of reduced income and increased expenditure at Skills Development Scotland included:

- a £5.0 million reduction in grant-in-aid (GIA) funding
- an increase in costs relating to national training programmes (NTP), including increased Modern Apprenticeship cost commitments arising from COVID-related profile payments
- an increase in staff costs linked to inflation.

34. Skills Development Scotland set a working budget deficit for 2024/25 of £2.7 million in response to reduced funding and increased cost pressures. Scottish Ministers approved the working deficit on the basis that action would be taken in-year to achieve financial balance at the year-end. The budget deficit was reduced by Skills Development during 2024/25, resulting in an underspend of £1.4 million against the budget allocation. This was achieved by Skills Development Scotland through:

- staff vacancy management, as well as its voluntary severance and voluntary early retirement scheme
- reprofiling and reprioritising of development and maintenance projects to ensure that only business-critical projects were enabled
- revised approaches and reductions to IT project costs
- management and release of expected credit loss provisions in relation to final claims and audit schedules for the European Social Fund (ESF).

35. The Board and the Finance and Operational Performance Committee of Skills Development Scotland received quarterly financial monitoring reports during 2024/25. The financial position is reported with sufficient accuracy, detail and timeliness to support scrutiny of performance by members on a regular basis. Actual expenditure and income compared to budgeted figures are part of a rolling forecast within the management accounts. A summary of financial performance is reported throughout the year.

There are appropriate systems of internal control in place, including the policies for the prevention and detection of fraud

36. 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.

37. From our review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach. We did not identify any significant internal control weaknesses which could affect Skills Development Scotland's ability to record, process

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

38. Skills Development Scotland has adequate arrangements in place for the prevention and detection of fraud, errors or other irregularities. This was based upon a review of its fraud and irregularity policy and response plan, as well as its whistleblowing policy and procedure.

39. We have also reviewed the arrangements in place to maintain standards of conduct including the codes of conduct for staff and Board members. There are established procedures for preventing and detecting any breaches of these standards.

Internal audit provided a moderate level of assurance on Skills Development Scotland's overall framework of internal controls

40. The internal audit function for Skills Development Scotland 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.

41. Internal audit completed their 2024/25 audit work and presented their annual report to the June 2025 meeting of the Audit and Risk Committee. The internal audit opinion provided for 2024/25 concluded that there is an overall moderate level of assurance on Skills Development Scotland's framework of governance, risk management and control.

Internal audit provided a substantial level of assurance on key financial controls and budgetary management

42. Internal audit submitted a report on its review of key financial controls to the December 2024 meeting of the Audit and Risk Committee, concluding that there was a substantial level of assurance in this area. The report concluded that the overall design and operation of the control environment was satisfactory, with high levels of compliance with processes and internal controls, which enabled management to effectively manage and mitigate the risk of fraud and error in financial transactions, including payroll.

43. A report on budgetary management was also submitted by internal audit in March 2025, which confirmed a substantial level of assurance over the design and operation of controls and processes in this area.

The risk of recovery of European Social Funds will exist until the programme is formally closed

44. Skills Development Scotland was a delivery partner for two ESF strategic initiatives. The Scottish Government is the Managing Authority for ESF programmes in Scotland. Skills Development received a final payment of ESF funding of £21 million in June 2024 from the Scottish Government, following completion of the verification of the final ESF claim

submitted by Skills Development Scotland. This allowed Skills Development Scotland to repay the remaining historic advance balances from the Scottish Government in relation to the previously accrued ESF funding.

45. The European Commission (EC) can continue to audit any delivery partners until the ESF programme is formally closed. This is estimated to be the end of 2025 at earliest, although the EC can continue audits for a further three years and keep the ESF programme open if new information becomes available. The possibility of future 'Article 127' audits of historic claims and certified expenditure, presents an ongoing risk of ESF funds being recovered by the EC.

46. An ESF risk and mitigation plan continues to be reviewed and maintained by Skills Development Scotland, the Scottish Government Sponsor Team and the Scottish Government Managing Authority through monthly meetings held throughout 2024/25 and early 2025/26. The frequency of these meetings has now been reduced to bi-monthly.

Recommendation 1

ESF Risk and Mitigation Plan

Skills Development Scotland should ensure that the risk and mitigation plan for ESF claims continues to be reviewed on an ongoing basis until the risk of money being recovered through audit is removed.

Skills Development Scotland initiated a data sharing exercise with HMRC which identified ineligible NTP payments that are being recovered

47. Skills Development Scotland shared details of over 54,500 Modern Apprenticeships with HM Revenue and Customs (HMRC) as part of an approved data sharing pilot exercise in November 2023. HMRC matched these details with employment records and returned employment status information in January 2024. A key requirement for all NTP payments to training providers is that the apprentice is employed as part of the Modern Apprenticeship.

48. Following extensive analysis by Skills Development Scotland on the results of this exercise, there were 52 instances identified where no evidence of employment could be provided by the apprentices, where apprentices were self-employed or where employment circumstances had changed. Therefore, these apprentices should not have been in receipt of these payments. Skills Development Scotland estimates that around £85,000 of historic NTP payments will be recovered from training providers as a result of this exercise.

49. Skills Development Scotland has revised its NTP processes and controls to minimise the risk of similar instances of payment ineligibility in future. For example, Skills Investment Advisors are performing additional checks in relation to the employment status of apprentices. The data sharing exercise between Skills Development Scotland and HMRC is planned to continue going forward. As a result of the issue identified, we performed additional substantive testing of NTP expenditure transactions, focusing on payments made in 2024/25 to a sample of training providers featured within the data sharing exercise findings. No significant issues were identified as a result of this additional testing.

Financial Sustainability

Conclusion

Skills Development Scotland continues to develop financial plans over the medium-term to enable effective preparation for the delivery of services into the future.

Skills Development Scotland's transformation programme, Transform 27, informs financial plans in line with the ambitions of the Strategic Plan 2022-27, but challenges exist in aligning forward planning with the ongoing Scottish Government reform agenda.

50. As part of our risk assessment process, we identified a significant wider scope risk over financial sustainability. Skills Development Scotland faces financial pressures in the medium- to longer-term. This is primarily due to GIA funding reductions, annual staff cost increases and projected increases in Modern Apprenticeships and Foundation Apprenticeships cost commitments. This makes it increasingly difficult to develop effective financial plans to manage budget deficits and support service delivery.

Skills Development Scotland continues to plan effectively so it can continue to deliver services going forward

51. In our 2023/24 Annual Audit Report we concluded that Skills Development Scotland had developed financial planning over the medium-term which reflected a range of scenarios and financial assumptions. Skills Development Scotland continued to develop its medium-term financial planning model in 2024/25.

52. Effective financial modelling was performed in the development of its proposed 2025/26 budget submission to the Scottish Government, which was supported by a six-year forecast of projected income and expenditure up until the end of the 2030/31 financial year. This medium-to-longer term financial forecast identifies projected deficits from 2027/28 due to assumed increases in staff costs, driven by annual salary progression and

the application of staff pay awards, alongside changes to employer pension contributions.

53. The budget deficit projections are reviewed on an ongoing basis by management and are predicated on Skills Development Scotland receiving a steady GIA budget in future years. Financial scenario planning over the medium-term by Skills Development Scotland supports the identification of its priorities to ensure that it can remain effective in the delivery of services going forward.

Skills Development Scotland carried out a detailed budget review and reduced the initial 2025/26 deficit by £2.4 million

54. The 2025/26 budget for Skills Development Scotland was approved by the Board in May 2025, incorporating a small working deficit of £0.1 million. There was a £0.2 million (0.1 per cent) reduction in GIA funding from the Scottish Government in comparison to the previous year. An initial summary budget deficit of £2.5 million was set by Skills Development Scotland, which was subsequently reduced to £0.7 million in February 2025 and then £0.1 million in May 2025.

55. Skills Development Scotland facilitated the small working budget deficit position by setting a revised 'top-down budget' across the business, with input from the Finance team, directors and Executive Governance Board. This was followed by a 'bottom-up' budget which involved cost pressures being identified on a line-by-line basis and mitigated where possible. This activity included costs savings identified for IT projects, estates and apprenticeships, as well as the deferral of planned operational activity by management.

56. Skills Development Scotland continues to manage the forecast working deficit and identify actions to eliminate it in the 2025/26 financial year.

Transform 27 continues to inform budget modelling and financial planning for Skills Development Scotland in line with the ambitions of the Strategic Plan 2022-27, but challenges exist in aligning forward planning with the ongoing Scottish Government reform agenda

57. The Transform 27 transformation programme was established by Skills Development Scotland to enable the delivery of the strategic aims of the Strategic Plan 2022-27. The aim of the programme is to move the organisation to a more sustainable operating model in the context of funding constraints, changing customer needs and government policy. Skills Development Scotland continues to implement a number of initiatives through Transform 27 to inform its budget modelling, helping to offset identified cost pressures through recurring savings.

58. Skills Development Scotland progressed Transform 27 in 2024/25 with a new integrated planning approach enabling a review of all budget lines

across the business. This helped to identify opportunities for service improvements and areas for cost reductions, without compromising strategic service priorities.

59. Integrated service plans were developed to include 'Bridgeheads' covering careers, apprenticeships, 'enabling system' and 'enabling corporate'. These 'Bridgeheads' are key priority activities identified as being fundamental to achieving the transformation of core services, with a primary focus on transforming what will be delivered to customers in the future.

60. The Annual Operating Plan for 2025/26 is separate to the integrated service plans. It identifies significant efficiencies achieved through the programme to date, such as:

- savings to property costs of £4.0 million per year as a result of a move to Local Employability Partnership Hubs for Skills Development Scotland's career information, advice, and guidance (CIAG) service delivery to customers
- reductions in the full-time-equivalent staff headcount by approximately 18 per cent since March 2022, primarily through Skills Development Scotland's voluntary severance and voluntary early retirement scheme, resulting in savings of over £23.0 million per year against the 2021 baseline. In 2024/25, 69 staff applications were approved by Skills Development Scotland under this scheme, which underwent two different phases in the year, with a total annual resource cost of £3.2 million
- reducing expenditure on non-core services by £6.0 million per year, and on 'back-office' and delivery support services by £3.5 million per year respectively.

61. The ongoing reform of the education and skills sector by the Scottish Government presents challenges to Transform 27 in achieving its forward planning on service delivery in line with strategic ambitions. The Apprenticeship Bridgehead activity has been cancelled by Skills Development Scotland due to the ministerial announcement in January 2025 of the intended transfer of services for this function out of the organisation.

62. Work continues to be progressed for the remaining Bridgehead activities. However, detailed plans are required from the Scottish Government to enable Skills Development Scotland to align its forward planning with the ambitions of the sector reform agenda, as well as the aims of the Strategic Plan 2022-27.

Vision, Leadership and Governance

Conclusion

Skills Development Scotland has a clear plan in place to implement its vision, strategy and priorities, aligned with the Scottish Government National Strategy for Economic Transformation. This is supported by appropriate and effective governance arrangements.

Skills Development Scotland has a clear plan in place to implement its vision, strategy and priorities, aligned with the Scottish Government's National Strategy for Economic Transformation

63. Skills Development Scotland published its Strategic Plan 2022-27, Skills for a Changing World, in 2022. 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. These are covered in [paragraph 72](#) of our Annual Audit Report. Through the Annual Operating Plan and Transform 27 transformation programme, Skills Development Scotland continued to work towards the delivery of its strategic goals during 2024/25.

64. Progress against the corporate goals was monitored and reported regularly to the Audit and Risk Committee and Finance and Operational Performance Committee throughout 2024/25. Performance for the year was also reported in the performance overview section of the strategic report within the 2024/25 annual report and financial statements. Our audit review of the strategic report did not identify any material inconsistencies or omissions.

Governance arrangements are appropriate and support effective scrutiny of activity and performance

65. Skills Development Scotland has well established governance arrangements in place, which are 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.

66. The Chief Executive and Executive Governance Board are responsible for the delivery of services performed by Skills Development Scotland as well as leading the changes to how services are accessed and delivered by the organisation.

67. The Audit and Risk Committee's role is to provide advice and constructive challenge to the Chief Executive and executive directors, and to provide support in relation to his responsibilities regarding risk management, control, governance and associated assurance to support

year-end accountability. The Audit and Risk Committee comprised three non-executive directors and one co-opted board member in 2024/25.

68. As part of our role as external audit we have attended the meetings that took place throughout 2024/25 and have reviewed papers and minutes of other meetings. We are content that the Audit and Risk Committee operated effectively during the year. Committee members and Board members continue to provide an appropriate level of challenge to senior management and work together effectively.

69. 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.

70. Skills Development Scotland's website is clear and well structured. Board meeting minutes are available to the public along with key publications relating to apprenticeship programmes, frameworks, CIAG, policies and procedures, and registers of interest.

71. We concluded that, while Board meeting minutes are publicly available, there is still scope to strengthen Skills Development Scotland's approach to openness and transparency by making the budget and performance monitoring reports, as well as committee minutes, available on its website. 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 Skills Development Scotland in its current environment.

Use of Resources to Improve Outcomes

Conclusion

A Corporate Performance Framework is used with key performance indicators to measure Skills Development Scotland's progress against its corporate goals.

In 2024/25, an overall 'green' rating was reported against four of the five corporate goals, which demonstrates good performance.

Ongoing reform of the education and skills sector continues to present significant uncertainty for Skills Development Scotland.

A Corporate Performance Framework is used with key performance indicators to measure Skills Development Scotland's progress against its corporate goals

72. A Corporate Performance Framework is in place to monitor progress against the goals set out in the Strategic Plan 2022-27. Skills Development Scotland continued to monitor KPIs throughout the year, with performance reported to the Board and Finance and Operational Performance Committee on a regular basis through the provision of quarterly performance reports. This includes a summary of performance highlights 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 metrics.

73. The end-of-year Performance Report 2024/25 prepared for the Board was reviewed and we noted that performance levels in most service delivery areas were in line or above the previous year's figures. The performance overview section of the strategic report in the 2024/25 annual report and financial statements shows clear linkages between the five corporate goals of the Strategic Plan 2022-27 and the ten KPIs underpinning these themes.

74. A more detailed performance report is prepared and used to track performance at an operational level, including reporting against targets. There is scope for Skills Development Scotland to enhance the performance information that is available publicly. This would enable stakeholders to make a better assessment of overall performance in year.

In 2024/25, an overall 'green' rating was reported against four of the five corporate goals, which demonstrates good performance in delivering its strategic priorities

75. The end-of-year Performance Report 2024/25 highlighted that four of the five corporate goals had an overall 'green' rating, meaning that they performed with no concerns.

Skills Development Scotland delivered the minimum expectation of up to 25,500 starts in the 2024/25 academic year. The percentage of Modern Apprenticeships being achieved in 2024/25 also increased by 0.6 per cent compared to 2023/24, while the percentage of starts also increased across the majority of equality groups.

76. The number of Foundation Apprenticeship starts as of the end of March 2025 was 2,635, which included 135 places not funded by Skills Development Scotland. This was 4.7 per cent lower than the end of the previous March. The minimum expectation of 2,500 starts that were funded by Skills Development Scotland was met by the end of the 2024/25 academic year.

77. A greater number of employers were supported through Skills Development Scotland's PACE (Partnership Action for Continuing Employment) services in 2024/25 compared to the previous year (a 9.2 per cent increase). In line with this increased demand, more individuals were also supported through PACE services in 2024/25 (an 8.0 per cent increase) in comparison to 2023/24.

78. However, it was noted that the number of apprenticeship job opportunities advertised online had decreased by 28.2 per cent in 2024/25 compared to the same period in the previous year. This was mainly attributed to employer or training provider activity, which Skills Development Scotland isn't able to control. Additionally, Skills Development Scotland did not have a budget to market and promote the use of the apprenticeships website.

79. The number of 'Skills for Growth' review engagements delivered by Skills Development Scotland for employers with less than 250 employees increased by 31 per cent in 2024/25. Skills Development Scotland also progressed its Climate Emergency Skills Action Plan 2020-2025 as part of its progression towards its 'Intelligence-led System' corporate goal. This work included the completion of a project report on decarbonisation of domestic and commercial heating which was shared with the Scottish Government for publication.

80. One corporate goal, 'Inclusive Talent Pool', had an overall 'amber rating', meaning there were 'minor concerns' with performance. The Broad General Education (BGE) service offer for S2 and S3 pupils making option choices that have had a one-to-one engagement in the 2024/25 academic year had a minimum expectation of 85 per cent, but this had not been achieved as at 31 March 2025. However, this measure follows the academic year which extended beyond the 2024/25 financial year, with activity to deliver the service expectation continuing until the end of May.

81. Similarly, the minimum expectations of 85 per cent for BGE service offers for S3 pupils (targeted for enhanced support that have received coaching), and the BGE pupils (that have received a group engagement), in the academic year had not been achieved as of 31 March 2025 (70.3

per cent and 73.4 per cent achieved respectively). However, these measures also followed the academic year which extends until the end of May.

82. As covered in [paragraph 58](#) of our Annual Audit Report, the implementation of a new integrated planning approach as part of Transform 27 in 2024/25 helped Skills Development Scotland to respond to budget challenges. These new integrated service plans were implemented from December 2024 and include 'Bridgeheads' to help transform services across the organisation.

83. These actions helped Skills Development Scotland contribute to the 'Impactful Organisation' corporate goal in 2024/25, where Skills Development Scotland 'maximises return on investment, collaborating to deliver better outcomes and experiences for our customers, colleagues, and the economy'.

Ongoing reform of the education and skills sector continues to present significant uncertainty for Skills Development Scotland

84. As part of our risk assessment process for Skills Development Scotland, we identified a wider scope risk relating to ongoing reform of the education and skills sector. As acknowledged in the Annual Audit Plan, Skills Development Scotland continues to face significant uncertainty around the Scottish Government's programme of reform for the education and skills landscape, both in relation to the delivery of its strategic objectives and the impact on employees.

85. A [public consultation](#) by the Scottish Government on proposals to simplify the post-school funding body landscape closed in September 2024. Skills Development Scotland submitted into the public consultation, highlighting an alternative approach to sector reform focusing on the economic opportunities and the challenges in Scotland's labour market and skills system.

86. In parallel to this, an 'Outline Business Case' on reform options was developed to help inform the ministerial decision, alongside technical working groups involving Skills Development Scotland, the Scottish Funding Council (SFC) and the Student Awards Agency Scotland (SAAS). The aim of this was to support the mapping of existing processes relating to apprenticeship funding and delivery. Skills Development Scotland provided baseline information as part of this work, this included capital and revenue requirements for delivery for the next 10 years, the systems supporting functions, investment plans and contractual arrangements, and staff numbers and associated costs.

87. In January 2025, a [ministerial decision](#) was announced for the consolidation of all post-school provision funding and all student support funding out of the organisation to SFC and SAAS. An independent [analysis of responses](#) to the public consultation and an [Outline Business](#)

[Case](#) on the planned sector reform was also issued by the Scottish Government.

88. This was followed by the introduction of draft legislation by the Scottish Government in February 2025, the [Tertiary Education and Training \(Funding and Governance\) \(Scotland\) Bill](#), which seeks "to change the legislation which currently defines the remit and functions of SFC. It seeks to give SFC responsibility in law for securing the provision of National Training Programmes, apprenticeships and work-based learning. It also seeks to define an apprenticeship and makes provision for SFC to fund independent learning providers in a way it currently cannot do." The planned implementation date for the transfer of services has been revised to April 2027.

89. The legislative process to decide if the Bill should become an Act is currently at Stage 1, and is scheduled to be completed by 26 September 2025. Senior management at Skills Development Scotland provided regular updates to the Board and Audit and Risk Committee on reform programme developments throughout 2024/25. The most recent update (June 2025) outlined the identified risks and implications relating to the Scottish Government reform project 'Simplification of the post-School funding landscape and the transfer of Apprenticeships from Skills Development Scotland to SFC', including:

- the risk over a lack of clarity on the transfer conditions to inform an implementation plan on apprenticeship delivery leading to uncertainty over apprenticeship contracting in future years, a lack of understanding of requirements to manage day-to-day delivery, and low staff morale and motivation
- the risk over Skills Development Scotland being subject to unbudgeted costs associated with unclear future functions
- the risk over a lack of clarity on the intended future functions and remit of Skills Development Scotland making it difficult to develop its future organisational operating model as part of Transform 27 in alignment with its strategic aims.

90. We concluded that Skills Development Scotland should continue to engage effectively with the Scottish Government and develop a robust risk management framework for mitigating the identified risks and implications associated with the reform agenda. We noted that Skills Development Scotland has actively engaged with the Scottish Government throughout 2024/25 and in early 2025/26 to help inform, develop and agree the principles, conditions and plans for the transfer of services as part of the reform programme.

91. Until these future changes are clarified and an implementation plan is finalised, there continues to be significant uncertainty for Skills Development Scotland in how it meets its strategic objectives and

manages affected staff. We also noted that Skills Development Scotland has recently identified a number of risk mitigations at a Board and management level and is finalising a detailed register to include these identified risks, internal controls and mitigating actions.

Conclusions on duty of Best Value

92. The Chief Executive of Skills Development Scotland is the designated Accountable Officer. A range of processes are in place to help the Accountable Officer demonstrate best value. We consider whether Accountable Officers have put in place appropriate arrangements to satisfy their corresponding duty of best value. We did not undertake any specific local work in this area in 2024/25 but concluded that appropriate arrangements were in place for securing best value based on the outcome of our other audit work.

93. This judgement is evidenced by the arrangements Skills Development Scotland has in place around the four wider scope audit areas, which are effective and appropriate, which contribute to it being able to secure Best Value.

Good practice

Task Force on Climate-related Financial Disclosures

We reviewed Skills Development Scotland's disclosures relating to climate change within its annual report and financial statements and identified areas of good practice. This included:

- disclosing how climate-related risks, responsibilities and opportunities are managed within Skills Development Scotland's governance structure
- outlining the process for identifying, assessing and managing climate-related risks and how this integrates into wider risk management arrangements
- disclosing metrics and targets used to assess climate-related risks and opportunities in line with Skills Development Scotland's risk management process.

Appendix 1 – Action plan 2024/25

2024/25 recommendations

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
1. ESF risk and mitigation plan The EC can continue to audit any ESF delivery partners until the programme is formally closed. This is estimated to be the end of 2025 at earliest, although the EC can continue audits for a further three years and keep the programme open if new information becomes available. The ESF risk and mitigation plan continues to be reviewed and maintained by Skills development Scotland, the Scottish Government Sponsor Team and the Scottish Government Managing Authority through regular meetings held throughout 2024/25 and early 2025/26. There is still the possibility of Article 127 audits of historic sample ESF claims and certified expenditure identifying funds to be recovered by the EC. Risk - The risk over recovery of ESF funds will exist until all Article 127 audits are concluded and the ESF programme is formally closed.	Skills Development Scotland should ensure that the risk and mitigation plan for ESF claims continues to be reviewed on an ongoing basis until the risk of money being recovered through audit is removed. Paragraphs 45 - 46	Accepted The plan will continue to be regularly reviewed until the Article 127 audits have concluded and the ESF programme closed. The process is, however, owned by the Scottish Government Sponsor Team and is not within Skills Development Scotland's control. Director of Finance, Information Governance, Resilience and Risk March 2026

Follow-up of prior year recommendations

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 1. ESF risk and mitigation plan A deadline of June 2024 has been set by the EC for the Scottish Government 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. Risk - The risk over recovery of ESF funds will exist until all money has been successfully reclaimed.	Recommendation – SDS should ensure that the risk and mitigation plan for ESF claims continues to be reviewed on an ongoing basis until all monies have been received and the risk of money being recovered through audit is removed. Management response - All parties have agreed to continue to regularly review the risk and mitigation plan while there is scope for further audits. Responsible officer - Director of Finance, Information Governance, Resilience and Risk Agreed date - March 2025	Superseded See Appendix 1, (page 29) – Action Plan Point 1
b/f 2. Openness and transparency Board meetings and Board/committee papers are not open or readily available to the public, in contrast with some other public bodies. 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.	Recommendation - Board and committee papers should be made available to the public where appropriate. Management response - We continue to consider opportunities for expanding the scope of our publication scheme where it will add value. Details about requesting information from SDS is available on the corporate website. Responsible officer - Director of Finance, Information Governance, Resilience and Risk Agreed date - March 2025	Closed Our publication scheme, which is periodically reviewed, fairly balances transparency with sensitivity and confidentiality. We remain open to sharing additional information, which can be requested via Freedom of Information Requests. Director of Finance, Information Governance, Resilience and Risk

Appendix 2 - Misstatements

Details	Financial statements lines impacted	Statement of Comprehensive Income (SoCI)		Statement of Financial Position (SoFP)	
		Dr	Cr	Dr	Cr
Adjusted misstatements		£000	£000	£000	£000

Accounting for retirement benefits
(adjusting for the actual rate of return on pension asset)

[Exhibit 2](#)

Retirement Benefit Obligations		2,390	2,390
Audit adjustments in disclosures			

Remuneration report – accrued pension benefits

Management adjusted the CETV figures for Executives in the Remuneration Report to exclude increases due to inflation and employee pension contributions. This adjustment led to reductions in the real increase figures disclosed in the Remuneration Report.

Appendix 3 – National Reports

Report name	Date published
Local government budgets 2024/25	15 May 2024
Scotland's colleges 2024	19 September 2024
Integration Joint Boards: Finance and performance 2024	25 July 2024
The National Fraud Initiative in Scotland 2024	15 August 2024
Transformation in councils	1 October 2024
Alcohol and drug services	31 October 2024
Fiscal sustainability and reform in Scotland	21 November 2024
Public service reform in Scotland: how do we turn rhetoric into reality?	26 November 2024
NHS in Scotland 2024: Finance and performance	3 December 2024
Auditing climate change	7 January 2025
Local government in Scotland: Financial bulletin 2023/24	28 January 2025
Transparency, transformation and the sustainability of council services	28 January 2025
Sustainable transport	30 January 2025
A review of Housing Benefit overpayments 2018/19 to 2021/22: A thematic study	20 February 2025
Additional support for learning	27 February 2025
Integration Joint Boards: Finance bulletin 2023/24	6 March 2025
Integration Joint Boards finances continue to be precarious	6 March 2025
General practise: Progress since the 2018 General Medical Services contract	27 March 2025
Council Tax rises in Scotland	28 March 2025

The Skills Development Scotland Co. Limited

2024/25 Annual Audit Report



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