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The Skills Development Scotland Co. Limited

Annual audit report to the Board of Directors of Skills Development Scotland Co. Limited and the Auditor General for Scotland

For the year ended 31 March 2016

5 October 2016

Contents

About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the *Code*").

This report is for the benefit of The Skills Development Scotland Co. Limited ("SDS") and is made available to Audit Scotland and the Auditor General (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the introduction and responsibilities section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Andy Shaw, who is the engagement leader for our services to SDS, telephone 0131 527 6673 email: andrew.shaw@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Alex Sanderson, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6720 or email to alex.sanderson@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

Executive summary

Executive summary

Audit conclusions	
We issued an unqualified audit opinion on the financial statements of Skills Development Scotland Co. Limited ('SDS').	
Financial position	
The result for 2015-16 was total comprehensive income of £33.6 million, including the recognition of actuarial gains in the year. Removing these gains, a deficit on ordinary activities after tax of £4.9 million (2014-15: £5.7 million) was recognised. Further adjusting for IAS 19 pension charges of £5.5 million in excess of cash contributions, the underlying operating surplus for the year was £0.7 million (2014-15: deficit £0.5 million). This compares to a break-even budget.	Pages 6 – 7
The 2016-17 budget shows a break-even position. Grant-in-aid of £176.1 million was approved, which excludes amounts to be included in the Autumn and Summer Budget Reviews ('ABR' and 'SBR'). Whilst the funding letter includes indicative further funds of £23 million, until this is confirmed there is technically a going concern risk given forecast £215 million costs. We concur with management's conclusion that SDS is a going concern; given the expectation of further funds from ABR and SBR, and given management's ability to stop activity if critical. Following presentation of this report, £8.4 million was confirmed through ABR.	Pages 7 – 9
Financial statements and related reports	
We have concluded satisfactorily in respect of each significant risk and audit focus area identified in the audit strategy and plan document. We concur with management's accounting treatment and judgments. We have no matters to highlight in respect of: adjusted and unadjusted audit differences; independence; and changes to management representations.	Pages 11 – 19
Wider scope matters	
We considered the wider scope audit dimensions and concluded positively in respect of financial management and governance and transparency.	Pages 23 – 24
We noted risks in relation to financial sustainability and value for money. The short term nature of confirmation of full funding for the year results in the Board committing to multi-year delivery with a technical risk of insufficient future funding, having taken due consideration of risk. We consider that value for money is compromised within CTSL, as there is no budget cover to utilise the £5.6 million cash and reserves.	Page 25

Executive summary
Scope and responsibilities

Purpose of this report

The Auditor General for Scotland ("the Auditor General") has appointed KPMG LLP as auditor of SDS under the Public Finance and Accountability (Scotland) Act 2000 ("the Act"). The period of appointment is 2011-12 to 2015-16.

Our annual audit report is designed to summarise our opinion and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at SDS and the Auditor General. The scope and nature of our audit were set out in the audit strategy document which was presented to the audit and risk committee at the outset of the audit.

The Code sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial management and sustainability, governance and transparency and value for money.

Accountable officer responsibilities

The Code sets out SDS's responsibilities in respect of:

- preparation of financial statements that show a true and fair view;
- systems of internal control;
- prevention and detection of fraud and irregularities;
- standards of conduct and arrangements for the prevention and detection of bribery and corruption;
- financial position; and
- Best Value.

Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Code. Appendix four sets out how we have met each of the responsibilities set out in the Code.

Scope

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems.

Weaknesses or risks identified are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist.

Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

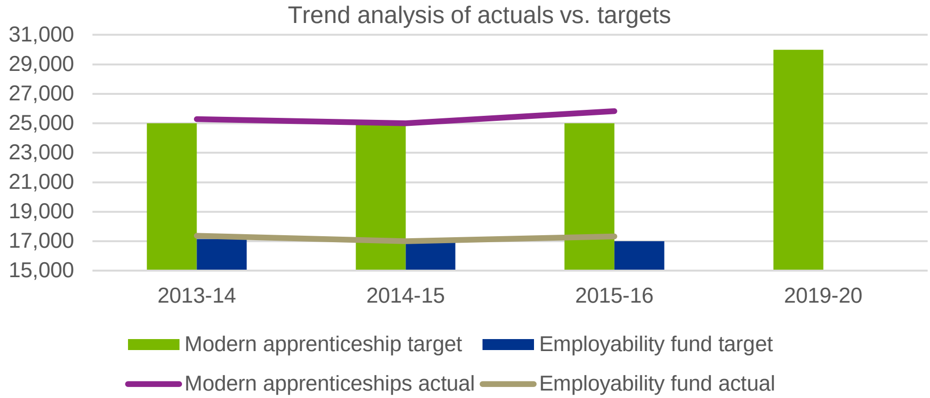
Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity. This annual audit report to directors and our presentation to the audit and risk committee, together with previous reports to the audit and risk committee throughout the year, discharges the requirements of ISA 260.

Financial position

Financial position

Overview

SDS's primary focus in 2015-16 remained providing funding for national training programmes to trainees in Scotland. Scottish Government targets on the number of new starts in specific schemes was exceeded in 2015-16. Since incorporation, SDS has consistently exceeded the target set by ministers, and is on track to meet the 30,000 annual Modern Apprenticeships ('MAs') starts by 2020. The chart below illustrates the recent targets and the numbers actually achieved to date.



National training programmes are generally multi year programmes, and therefore increased numbers require greater future funding which management assumes is forthcoming. The increased numbers also give rise to a greater contingent liability at the start of the programmes.

Financial position: statement of comprehensive income

The 2015-16 deficit of £4.9 million compares to a £5.7 million deficit in the year to 31 March 2015. As noted in the table opposite, the underlying surplus after adjusting for IAS 19 charges was £0.7 million (2014-15: £0.5 million deficit). The movement from deficit to surplus is the result of:

- Increased grant-in-aid (£11.7 million higher) reflecting a number of new initiatives to reflect additional delivery. The first tranche of European Social Funds (£0.8 million) was recognised in 2015-16.
- National training programme expenditure had a small increase (£0.3 million), with limited variations in programmes. We note that the prior year employer recruitment initiative schemes were replaced by schemes funded by the Scottish Employer Recruitment Initiative ('SERI'). Expenditure in relation to the Developing Scotland's Young Workforce scheme increased by £3.5 million in 2015-16 due to the scheme running for the full year.
- Staff numbers and related costs increased in 2015-16 (£7 million higher). A significant proportion was in the administration category (60 FTE increase). This was primarily due to IT helpdesk staff being brought in-house, and expansions in the communications and marketing teams and other support roles to help deliver increased funding objectives. Other increases were in relation to pension adjustments under IAS19.
- Savings from the IT transformation project are expected to be realised from 2016-17. SDS is the lead partner in the completed IT transition project from ATOS to multi service providers. Project challenges increased costs (£1.8 million extra in 2015-16) as well as reducing the anticipated savings from the project in 2015-16. Delays related to the availability of the SWAN network and limited contingency built in to the project plan.
- Business enhancement projects spend decreased in comparison to 2014-15 (£1.2 million) due to some projects being one-offs in 2014-15 and a reduction in energy sector support.

Statement of comprehensive income

	2015-16 £000	2014-15 £000	Change £000
Total income	221,643	208,768	12,875
Total expenditure (excluding IAS 19 adjustments)	(220,910)	(209,239)	(11,671)
Surplus/(deficit)	**733**	**(471)**	**1,204**

Source: KPMG analysis of SDS's annual accounts 2015-16.

Financial position (continued)

Financial position: balance sheet

The group net liabilities position decreased to £41.5 million (2014-15: £75.1 million); this includes £5.6 million net assets relating to CTSL. The reduction primarily relates to the pension scheme liability, the fall in which is in line with local government pension scheme movements across most of the Scottish schemes.

SDS's closing cash balance (excluding CTSL) for 2015-16 was £9.8 million, a significant increase from the prior year of £5.9 million. This balance remains within the Scottish Government's target of a cash balance of no more than £10 million. To support a reduction in cash balance, SDS paid two tranches of pension deficit contributions (£1.5 million per payment) in 2015-16.

Financial plans 2016-17 and beyond

The approved budget for 2016-17 shows income and expenditure of £215 million. The Scottish Government awarded £176.1 million grant-in-aid to date and provided indicative funding (£23.1 million) expected to be awarded in the ABR and SBR, which incorporates £2.4 million strategic forum savings. £8.4 million was confirmed through ABR in August.

Other income from shared services to EIS partners for IT services is expected to be significantly lower (2016-17: £7.5 million; 2015-16: £12.5 million) due to the restructure of IT services to create efficiencies, although related expenditure will also be proportionally lower. In addition ESF income is expected to increase as this will run for the full year.

The graph on the next page highlights the changes to budgeted income and expenditure, and resulting funding need from the SBR and ABR.

At the time of the audit, forecasting for 2017-18 and beyond had not been updated to reflect changes of understanding or assumptions that would have been developed in 2015-16. Management intends to perform a roll forward exercise of long term financial forecasts.

Further delivery objectives for SDS are being considered, including a role in the transition of Department for Work and Pension activities to Scotland. SDS will administer the oil and gas transition fund, with £12 million of available funding over three years.

Going concern

The group had net liabilities of £41.5 million as at 31 March 2016 (*2014-15: £75.1 million*) and the parent company had net liabilities of £47.1 million (*2013-14: £80.6 million*). The decrease in net liabilities is due to the significant decrease in the defined benefit obligation.

Management considers it appropriate to adopt a going concern basis for the preparation of the financial statements. It considers that the core grant in aid, ABR and SBR budget transfers and the available cash balance are sufficient to ensure that SDS is able to meet debts as they fall due. Whilst there is technically some risk in the unconfirmed grant in aid, required to deliver the 2016-17 expenditure budget, discussions with Scottish Government indicate that this will be forthcoming. These circumstances have been disclosed within the financial statements.

In respect of the defined benefit obligation: based on the 2014 triennial valuation of the Strathclyde Pension Fund, deficit repayments are being made (£3 million paid in 2015-16 and £1.5 million due in 2017-18) to improve the funding position of liabilities which is currently at 95%, down from 99% as at the last triennial valuation. The full obligation of £61.2 million does not fall due within one year and therefore does not impact on the going concern assumption.

Conclusion

SDS has maintained a strong financial position in 2015-16, whilst meeting the Scottish Government targets for new MA starts and keeping the cash balance to less than £10 million. Whilst SDS has a net liabilities position, due to the pension liability, we do not consider this impacts the ability of SDS to continue as a going concern given that pension funding is long term in nature.

Although there is a technical funding gap in 2016-17, ABR and indicative SBR allocations coupled with increased ESF income and efficiency savings from the IT transformation project should allow SDS to achieve its break-even budget.

We are content that the going concern assumption is appropriate for SDS, in light of the matters set out above.

Financial position (continued)

The graph below shows the movement in the actual surplus in 2015-16 and provides a bridge to the 2016-17 budgeted surplus. In the graph the 2015-16 grant-in-aid represents the final received amount.

Key movements from 2015-16 actual to budgeted 2016-17

Financial statements and related reports

Audit conclusions

Audit opinion
Following approval of the financial statements by the Board we have issued an unqualified opinion on the truth and fairness of the state of SDS's affairs as at 31 March 2016, and of the surplus for the year then ended. There are no matters on which we are required to report by exception.
Financial reporting framework, legislation and other reporting requirements
SDS is required to prepare its financial statements in accordance with International Financial Reporting Standards, as interpreted and adapted by the FReM, although as a company it is exempt from the requirements of Chapter 5 with regards the form and content of the annual report, but must meet the requirements of the Companies Act 2006. Our audit confirmed that the financial statements have been prepared in accordance with the FReM and relevant legislation.
Regularity
Our audit work, as outlined on the following pages, has concluded that in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.
Statutory reports
We have not identified any circumstances to notify the Auditor General that indicate a statutory report may be required.
Other communications
We did not encounter any significant difficulties during the audit. There were no other significant matters arising from the audit that were discussed, or subject to correspondence with management that have not been included within this report. There are no other matters arising from the audit, that, in our professional judgement, are significant to the oversight of the financial reporting process.
Audit misstatements
There were no audit adjustments required to the draft annual accounts and there are no unadjusted audit differences.
Written representations
There are no changes to the standard representations required for our audit from last year.

Materiality

We summarised our approach to materiality in the audit strategy document. On receipt of the financial statements, as well as at the end of the audit, we reviewed our materiality levels. Whilst total expenditure per the financial statements was lower than that used to calculate planning materiality (£226 million per financial statements; £235 million budgeted), we concluded that our planning materiality of £4.3 million (1.9% of expenditure; 1.8% of budgeted expenditure) remains appropriate. We report all misstatements greater than £215,000.

Forming our opinions and conclusions

In gathering the evidence for the above opinions and conclusions we have:

- performed controls testing and substantive procedures to ensure that key risks to the annual accounts have been covered and that the regularity of income and expenditure was in accordance with regulations;
- communicated with internal audit and reviewed its reports as issued to the audit and risk committee to ensure all key risk areas which may be viewed to have an impact on the annual accounts have been considered;
- reviewed estimates and accounting judgements made by management and considered these for appropriateness;
- considered the potential effect of fraud on the annual accounts through discussions with senior management and internal audit to gain a better understanding of the work performed in relation to prevention and detection of fraud; and
- attended audit and risk committee meetings to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

Financial statements preparation

High quality working papers and draft financial statements were provided at the start of the audit fieldwork on 9 May 2016. This included the strategic report, directors' report, remuneration report and governance statement. There was evidence of accountability and ownership of working papers across the finance department.

Significant risks and other focus areas in relation to the audit of the financial statements

We summarise below the risks of material misstatement as reported within the audit strategy document. We set out the key audit procedures to address those risks and our findings from those procedures on the following pages, in order that the audit and risk committee may better understand the process by which we arrived at our audit opinion.

Significant risks:

- financial position;
- income and expenditure recognition; and
- management override of controls fraud risk.

Other focus areas:

- retirement benefits and
- NTP expenditure.

We have no changes to the risk or our approach to addressing the assumed ISA risk of fraud in management override of controls. We do not have findings to bring to your attention in relation to these matters. No control overrides were identified.

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Financial position SDS is operating in a challenging economic environment, with funding reductions and increasing expenditure pressures. This presents a risk to the financial position. The 2015-16 budget published in the annual operating plan assumed a break-even position with decreased core grant-in-aid funding, offset by proposed ring-fenced funding. Not all funding was confirmed at the start of the year. Through autumn and spring budget reviews, confirmed grant-in-aid was £12.4 million lower than the originally budgeted. Management undertook a reprioritisation exercise, which forecast a break-even position at year end. As already noted, funding for 2016-17 of £176 million was awarded, with budgeted expenditure of £215 million and further amounts to be confirmed in the ABR and SBR. Management is modelling funding scenarios, to inform executive decisions on spending priorities. This is against a backdrop of increased MA targets and other delivery requirements for SDS.	We have updated our understanding of SDS's financial position and year end outturn position through review of management accounts and other information. We commented on this on pages six to eight. We performed controls testing over the budgeting process including the monitoring of budgets throughout the year. We performed substantive procedures, including analytical procedures, over income and expenditure comparing the final position to budget and investigating significant variances.	We found that management is adequately monitoring the financial position through regular internal reporting. This is communicated to directors and the executive leadership group ('ELG') on a regular basis. Management has applied the going concern assumption in preparing the annual accounts. We considered this assumption on page six and concluded that it is appropriate.

Significant risks (continued)

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Fraud risk from income and expenditure recognition Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. Given the nature of SDS's activities, we consider that the risk of fraudulent expenditure recognition is linked. The risk is that income and expenditure relating to 2015-16 is incorrectly accrued or deferred. The timing of providing services across the year end can involve management estimates for what to accrue and defer to 2016-17.	We tested the design, implementation and operating effectiveness of the controls over expenditure as detailed in our interim report. The following substantive testing was performed to consider the fraud risk from income and expenditure recognition: ■ Predictive analytical procedures over income and expenditure, comparing the final position to budget and prior year and investigating significant variances. ■ Tests of detail over the accruals balance. ■ Cut-off testing of pre and post year income receipts and expenditure payments as recorded in the financial ledger. ■ Search for unrecorded assets and liabilities as recorded in SDS's main bank accounts. Whilst no significant exceptions were noted, two non-significant errors were identified in recording annual estate charges across the year end. As these errors were less than the audit differences posting threshold (total error < £20,000), we have not included them on the audit differences schedule. The root cause of the errors was annual charges recorded on one invoice not being split across the two financial periods. We extended the testing over the largest balances within the accruals balance to gain comfort that the balance could not be materially misstated. No further errors were found and we concluded that the accruals balance is complete and accurate. Cut-off testing identified that £6.4 million was approved for payment on 31 March 2016, but did not clear the bank until 4 April 2016. This was due to timing differences arising from the use of the BACS payment method. We considered the appropriateness of large payments being made close to year end, and tested a sample. No errors were noted from this testing. All income from European Structural Funds was accrued in 2015-16 (£0.8 million) and we agreed eligible expenditure and intervention rates to European Union funding documentation. Income was found to be accrued for correctly and expenditure allocated that related to 2015-16. The level of expected SERI funding changed during the year. We reviewed the income recognised in 2015-16 in line with the grant-in-aid letter and related expenditure to determine the levels of deferred income or prepayments to should be included on the balance sheet. As the programme was not as large as expected, having paused in December 2015, the recognition risk around year end income and expenditure was reduced and SERI was deemed to be accounted for correctly. As in previous years, an element of IT income relating to staff recharges to partner organisations Scottish Enterprise and Highlands and Islands Enterprise was yet to be invoiced at year end and therefore income was accrued. As this was calculated using annual salary rates and consideration of what had already been invoiced to the partners, the judgemental aspect of this accrual was limited and income was determined to be related to 2015-16.	We concluded that income and expenditure has been correctly recognised when it was incurred or related to 2015-16.

Other focus areas

OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
Retirement benefit obligations 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 actuarial consultants. SDS's actuaries use membership data and a number of assumptions in their calculations based on market conditions at the year end, including a discount rate to derive the anticipated future liabilities back to the year end date and assumptions on future salary increases. IAS 19 requires the discount rate to be set by reference to yields on high quality (i.e. AA) corporate bonds of equivalent term to the liabilities. The determination of the retirement benefit obligation is inherently judgemental and there is a financial statement risk as a result.	Our work consisted of: ■ KPMG specialists reviewing the financial assumptions underlying actuarial calculations and comparison to our central benchmarks; ■ testing of scheme assets and rolled-forward liabilities; ■ testing of the level of contributions used by the actuary to those actually paid during the year; ■ testing of membership data used by the actuary to data from SDS; and ■ agreeing actuarial reports to financial statement disclosures.	We are satisfied that the retirement benefit obligation: ■ is correctly stated in the balance sheet as at 31 March 2016; ■ has been accounted for and disclosed correctly in line with IAS19 *Retirement benefits*; and ■ assumptions used in calculating this estimate and management's judgements are appropriate and within the acceptable KPMG range. We set out further information in respect of the defined benefit obligation and the related assumptions on page 31. The defined benefit obligation decreased by £32.9 million compared to 31 March 2015, driven by an increase in discount rate (0.3% increase), and decreases in future salary increases (0.1% decrease), RPI (0.1% decrease) and future pension increases (0.2% decrease).

OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
Accounting for NTP expenditure NTP expenditure comprises the largest element of expenditure, and there are inherent risks in respect of correct disclosure and presentation of related creditor balances. Management reviewed and updated compliance processes in 2014-15 to provide further comfort over regularity of spend. Ongoing work is being undertaken to identify appropriate systems for managing and monitoring NTP contracts and expenditure to enhance the current Corporate Training System.	We tested the design, implementation and operating effectiveness of the following controls to verify that management had an appropriate control framework over NTP expenditure and the regularity of this spend: ■ visits performed by the compliance team, in line with corporate risk bandings; ■ assurance testing over payments made to training providers; and ■ monitoring of MAs and reconciliation of apprentices with the CTS system. Our controls testing of compliance team visits over 40 training providers identified the following exceptions: ■ One high risk training provider was only planned to receive one visit. This was due to the provider's risk banding not being updated. No issues were noted at the first visit and management deemed it appropriate that no further visits were required. ■ Three training providers from 40 tested did not receive any visits, although one visit at each had been planned. All three were based in the North, where SDS identified specific resource constraints. None of the providers are rated high risk. ■ One high risk training provider only received one visit as the second visit was postponed due to resource constraints and previous issues identified in Employment Fund outcomes which had not yet been claimed by the provider. ■ Three high risk training providers only received one visit. This was due to the first visits for these providers not identifying any issues and management agreed that only one visit was required. The introduction of FIPs in Winter 2016 will alter the compliance processes and improve mitigation of related risks. As part of final audit procedures, we performed work over clawbacks from training providers in the year to understand the reasons for recovery of funding. The actual clawback was £0.2 million and was predominantly driven by provider failure to retain correct documentation in respect of trainees. Recoveries were made based on sampled NTP spend of £3.6 million. These recoveries tended to relate to NTP providers claiming funds prior to all documentation being formalised. Corroborating analytical reviews were performed over NTP expenditure and related creditors, comparing these amounts to budget and prior year actual expenditure. Cut-off testing was performed, agreeing balances to third party evidence to verify that expenditure had been appropriately recorded in the correct financial year.	The controls were found to be designed effectively, and those related to monitoring and reconciliation systems were implemented and operating effectively. Whilst some exceptions were identified in compliance controls, we do not consider these to be a significant control failure and reliance can be placed that appropriate coverage of training providers has occurred during the year. NTP expenditure recognised in the year has been correctly recognised and presented in the financial statements. The accruals balance in respect of NTPs, of £1.4 million, is in line with the prior year, and continues to demonstrate strong cut-off procedures in the year. We do not consider the identified clawbacks to be indicative of the wider NTP expenditure population, due to the nature of the reasons for clawback.

REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
Strategic and Director’s report	SDS, as a registered company, must comply with the Companies Act and is not required to produce a performance and accountability report to comply with FReM chapter 5. A strategic report and directors’ report are included in the annual accounts. These outline the performance overview and the future plans and developments in line with their strategic objectives.	We are satisfied that the information contained within strategic and directors' report is consistent with the financial statements. We reviewed the contents of the strategic and directors’ report against the guidance issued by the Financial Reporting Council and are content with the proposed report.
Remuneration report	A draft remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided. For transparency, SDS chose to prepare the remuneration report in line with FReM chapter 5, although as a company SDS is exempt as noted above. Further disclosure was added to the remuneration report to explain the pay arrangements for one executive director. The director received remuneration via a third party whilst they undertook the role on an interim basis until appointment to the role on 1 January 2016. The total payments in relation to salary payments are disclosed in the remuneration table with narrative under the table to disclose the payments to the third party prior to appointment.	We are satisfied that the information contained within the remuneration report is consistent with the underlying records and the annual accounts and all required disclosures have been made. We concur with the appropriateness of the additional disclosures, which further explain the remuneration to readers of the annual accounts. Our independent auditor’s report confirms that the part of the remuneration report subject to audit has been properly prepared.
Annual governance statement	Changes were made to the Scottish Public Finance Manual guidance on governance statement requirements for reporting on controls for programme and project management, including compliance with the ICT assurance framework (where applicable) as well as details of significant lapses of data security. The statement for 2015-16 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on SDS's governance framework, operated internal controls, the work of internal audit, and risk management arrangements and analyses the efficiency and effectiveness of these elements of the framework.	We are satisfied that the annual governance statement is prepared in line with relevant guidance and is consistent with the governance framework in place at SDS and our understanding of the organisation.

SUBSIDIARY	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
Careers Trust Scotland Limited (‘CTSL’)	CTSL is a registered charitable company with one member, SDS, as at 31 March 2016. The principal activity of the charity is to provide career information and guidance to the people of Scotland and, where appropriate, to provide financial support to projects which are consistent with this aim. During 2015-16 management considered a change to the articles of association and trustees, to sever the control that exists under IFRS 10. CTSL would therefore be deconsolidated. However, If control were to be broken, SDS would incur a loss within the financial statements, equivalent to the net assets held in CTSL. The Scottish Government has not provided budget cover for the transaction, and therefore it has not been possible to deconsolidate CTSL from SDS; there was no change to the articles of association or trustees. CTSL holds £5.6 million in cash as at 31 March 2016. There were no significant transactions in 2015-16, as has been the case for a number of years. As CTSL is a consolidated subsidiary of SDS, there must be budget cover to enable this cash to be spent. As a charitable company CTSL was required to apply new accounting standards under FRS 102 for the period ending 31 March 2016. The transition had minimal effect on CTSL, with no transition adjustments required. We reviewed the accounting policies and financial statement disclosures to ensure they were in line with FRS102.	We intend to issue an unqualified audit opinion on the 2015-16 financial statements of CTSL, following their approval by the Trustees in September 2016. We completed a disclosure checklist and concluded that the accounts are prepared in accordance with new FRS 102 after providing minor updates to the accounting policies. We note that the lack of ability to utilise the cash held in CTSL compromises SDS’s value for money. Management has sought to obtain budget cover to utilise CTSL’s reserves or transfer them outside of the group.

Qualitative aspects

ISA 260 requires us to report to those charged with governance our views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

We consider the accounting policies adopted by SDS to be appropriate, and there have been no changes to adopted accounting policies in the year. There are no significant accounting practices which depart from what is acceptable under IFRS, the Companies Act and the FReM.

Significant accounting estimates relate to the present value of defined benefit obligations under IAS 19 (as calculated by SDS's actuary, Hymans Robertson) using agreed financial assumptions. We found the assumptions and accounting for pensions to be appropriate, as discussed on page 31. We did not identify indications of management bias.

Financial statement disclosures were considered against requirements of the FReM and IFRS. No departures from these requirements were identified.

Future accounting and audit developments

There are no significant changes to the FReM for 2016-17. There are no changes to or new IFRS' for 2016-17 which will have a significant impact on SDS.

The Charities SORP (FRSSE) has been withdrawn by OSCR for accounting periods beginning on or after 1 January 2016. This is a result of the FRC withdrawing the FRSSE. Amendments have also been made to the Charities Accounts (Scotland) Regulations 2006 to reflect this change. All charities, including CTSL, will be required to follow the Charities SORP (FRS 102). CTSL applied the Charities SORP (FRS 102) in full in 2015-16, therefore no further adjustments are expected.

ISA (UK & Ireland) 700 and 720 have been revised for accounting periods beginning on or after 17 June 2016. These revise the requirements for the structure and content of the independent auditor's report. Audit Scotland is considering whether to early adopt the standards for 2016-17.

Wider scope

Introduction

The 2016 Code frames the wider scope of audit in terms of four audit dimensions; financial management, financial sustainability, governance and transparency and value for money. At the centre of these dimensions is Best Value. We considered these audit dimensions in the current year.

It remains the responsibility of the audited body to ensure that it has appropriate arrangements across each of these audit dimensions. We review and provide conclusion on SDS's arrangements.

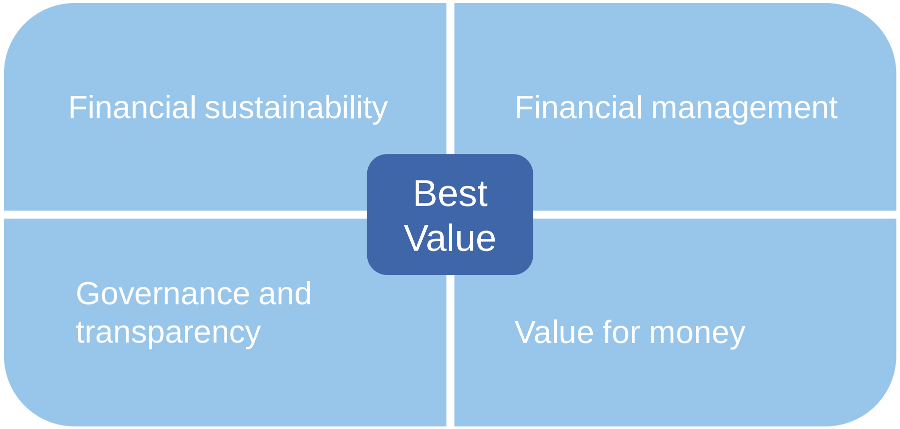
During our work on the audit dimensions we considered the work carried out by internal audit and other scrutiny bodies to ensure our work meets the proportionate and integrated principles contained within the Code.

Audit work and conclusions

We summarise over the next few pages the work we have undertaken in the year to obtain assurances over the arrangements for each audit dimension and our conclusions on the effectiveness and appropriateness of arrangements.

The next page sets out those risks we identified during audit planning, any emerging risks during the course of audit work and our overall conclusion on each audit dimension.

Where we found arrangements to not be effective or are absent we provide further narrative and recommendations for improvement. Where we have found the arrangements to be generally effective and operating as expected we have identified this in the conclusions we have formed.



Wider scope

Audit dimensions risk map and conclusions

Financial sustainability (Page 24)

Financial sustainability is an area which management continues to monitor. Further work is required over longer term financial planning to ensure SDS can appropriately mitigate risks over funding uncertainty.

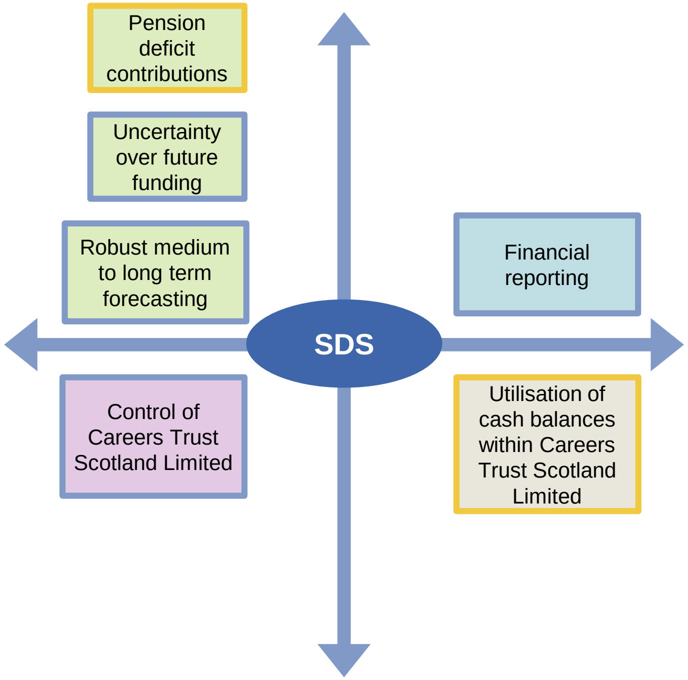
Pension deficit contributions support a reduction in the pension liability, which currently drives a net liabilities position.

With funding confirmed at stages through the year, financial sustainability is technically at risk; forward funding commitments are needed.

Governance and transparency (Page 25)

SDS has sound and well-established governance arrangements that ensure effective scrutiny, challenge and transparency on decision making, through high quality reporting.

It is appropriate for CTSL to remain as a wholly owned subsidiary, and governance arrangements did not change during the year.



Risks identified during our audit planning procedures

Emerging risks identified during the course of our audit

Financial management (Page 22)

SDS's finance department has appropriate financial capacity for current operations. Sound budgetary processes are supported by a strong internal control environment, and no significant control deficiencies were identified. This is supported by regular reporting and scrutiny by senior management and those charged with governance. The implementation of FIPs should enhance controls over training providers and support SDS's processes over the prevention and detection of fraud and error.

Value for money (Page 24)

SDS strives to achieve value for money in its delivery of services and has appropriate arrangements to enable Best Value to be secured. This has been seen through effective controls over procurement and the existence of the compliance team which carries out payment assurance checks on higher risk training providers, to ensure funding provided is appropriately administered.

Value for money is compromised within CTSL, as there is no budget cover to utilise the £5.6 million cash and reserves.

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Our conclusion on page 21 is derived from the following audit tests, carried to determine the effectiveness of the financial management arrangements. This included:

- *Assessing the budget setting and monitoring processes within SDS, including the approval of budget changes.* We found these to be robust, with regular accurate reporting and scrutiny by senior management, ELG and the finance and operational performance committee.
- *Review of SDS's compliance with Scottish Government's funding requirements by managing its resources to budget.* Effective management of cash ensured SDS met the working capital target to keep its bank balance below £10 million. We tested payments authorised pre year end but which cleared the bank post year end (£6.4 million). These were found to appropriate and attributable to timing differences when using BACS.
- *Consideration of the finance function and financial capacity within SDS.* We noted that the financial processes are efficient and effective, supported by strong automated controls inbuilt within Agresso. Finance team members have appropriate skills, capacity and capability to support SDS, although further strategic financial management is likely to be required as the external environment continues to develop and the functions SDS performs evolve.

We are also required to provide specific conclusions on the areas opposite, which relate to financial management and support our overall conclusion on this wider scope area.

Internal controls

Management is responsible for designing and implementing appropriate internal control systems to ensure a true and fair view of operations within the financial statements. Details of controls tested were reported to those charged with governance in our interim audit report. No significant recommendations were raised. One 'grade three' (minor) recommendation was raised in relation to IT controls.

A summary of the completion of prior year audit recommendations is provided at appendix four. Two 'grade three' (minor) recommendations were raised in 2014-15; one has been completed and the other relates to compliance team services. We have provided further narrative on compliance team services on page 15, and whilst similar observations are raised in 2015-16, no recommendation has been reported as we anticipate the FIPs software to mitigate the related risks.

Conclusion: Internal controls we tested over risk management, financial, operational and compliance systems and procedures that are designed, implemented and operating effectively.

National Fraud Initiative

The National Fraud Initiative ("NFI") is a data matching exercise which compares electronic data within and between participating bodies in Scotland to prevent and detect fraud. This exercise runs every two years and provides a secure website for bodies and auditors to use for uploading data and monitoring matches.

We submitted a return to Audit Scotland summarising our conclusions on SDS's participation in NFI. The questionnaire covered reporting of NFI progress and outcomes, recording of results of investigations in the NFI system, action taken for alleged fraud cases and the overall engagement of SDS with NFI.

Conclusion: The return concluded that SDS discussed and reported relevant feedback and responded effectively and efficiently to outcomes, utilising resources appropriately to respond to the outcomes. No alleged or actual fraud was identified through NFI.

Arrangements for the prevention and detection of fraud and error

Testing over the processes to prevent and detect fraud and error included:

- *Review of policies (fraud prevention policy and response plan) against best practice guidance and examples.* SDS's policies were found to be in line with relevant guidance.
- *Consideration of the accessibility of policies to staff and board members and if the policies had been implemented effectively.* The policies and processes tested are readily available to staff and had been implemented effectively.
- *Testing the design, implementation and operating effectiveness of compliance controls over training providers.* We provide commentary on our findings from testing the compliance controls on page 15.
- *Consideration of clawbacks from training providers in the year*; as discussed on page 16.

Conclusion: SDS has appropriate arrangements to prevent and detect fraud. It is recognised that the implementation of FIPs will further enhance the ability of SDS to prevent and detect fraud from its training providers.

Standards of conduct and the prevention and detection of corruption

Testing over the processes to prevent and detect corruption included:

- *Review of policies (codes of conduct for staff and board members, the whistleblowing policy and registers of interests) against best practice guidance and examples.* SDS's policies were found to be in line with relevant guidance.
- *Consideration of the accessibility of policies to staff and board members and if the policies had been implemented effectively.* The policies and processes we tested are readily available to staff and had been implemented effectively.
- *Testing of completeness of registers of interests of senior staff and board members.* No errors were identified in this testing, although it is noted management is considering the timing of completion of register of interests to ensure related parties are not inadvertently missed from the financial statements.
- *Review of reporting arrangements for conflicts of interests and whether these had been followed.* Conflicts of interest are a standing agenda item for committees to ensure appropriate reporting.

Conclusion: SDS has appropriate arrangements to prevent and detect inappropriate conduct and corruption.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

In considering financial sustainability of SDS we performed the following work:

- *Reviewing the financial position of SDS as at 31 March 2016 and future budgets and forecasts*; we provide commentary on the financial position on pages six to eight. This includes consideration of the pension deficit contribution payments.
- *Reviewing financial forecasting, financial strategies and key risks over financial sustainability.* A five year budget was formed in 2014-15 and management is revising this to reflect emerging issues and the changing focus of grant-in-aid between core and indicative funding. Funding is only confirmed annually, and at stages during the year – no forward funding commitments are provided to SDS which would support the consideration of financial sustainability.
- The longer term financial plans demonstrate management's understanding of the long term pressures on SDS and is used for scenario planning and sensitivity analysis. As noted in prior years, performance of strategic level financial planning could be increased and formalised to ensure it is embedded throughout SDS and flexible to take account of emerging or changing priorities or functions.
- *Reviewing efficiency projects implemented by SDS*. The IT transformation project is expected to achieve savings from 2016-17. Whilst transition costs are relatively high, they are in line with those budgeted, and the new IT structure helps demonstrate value for money by reducing administrative and support costs. Another efficiency measure in 2016-17 is the implementation of FIPs, which includes replacing the Corporate Training System (CTS). This is focused on improving automatic controls available to streamline the payments to the NTP's and allow for effective monitoring.

Value for money is concerned with using resources effectively and continually improving services.

We consider value for money and Best Value throughout our testing. Some of the areas where we had a specific focus on value for money and Best Value are:

- *Reviewing the procurement policy and performing controls testing over the procurement of goods and services.* No exceptions were found through our testing and the procurement policy was found to be in line with best practice. The tendering process provides evidence of scrutiny for value for money in the use of resources.
- *Reviewing how SDS has streamlined its services.* SDS has streamlined services it provides in line with government initiatives to support the employment of the people of Scotland. Targets set for MA and EF starts are on track. This demonstrates a clear link between funding received and outcomes delivered, which have been continually improving at a pace that is appropriate to the risk and challenges facing SDS.
- *Updating our understanding of improvements made to compliance team processes.* The compliance team has demonstrated continuous improvement by changing its approach in 2014-15 to focus on higher risk NTPs. This continued in 2015-16 with additional controls to monitor MA starts. The NTPs are subject to compliance visits at any point in the year. As these can recover payments made by SDS, this acts as a deterrent to reduce errors or potential frauds and provides a basis for benchmarking the delivery of outcomes by different NTPs. We noted a areas where there are continuing resource constraints for all training provider visits to be undertaken.
- *Consideration of the emerging risk in relation to CTSL;* as discussed on page 17.

Wider scope
Governance and transparency

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.

In considering governance and transparency we performed the following work:

- *Reviewing the organisational structure, reporting lines and level of scrutiny within SDS.* SDS demonstrates effective scrutiny, challenge and transparency on decision making through various levels of committee reporting reviewed. Decisions are transparent as actions are documented within detailed board minutes which are available to key stakeholders.
- *Reviewing financial and performance reporting within the organisational structure.* Reporting is of high quality, accurate and transparent. Management considers ways to enhance reporting, with dashboards used to focus reporting on objectives and targets at an appropriate level of detail on a timely basis to ensure transparency.
- *Reading the annual governance statement;* as discussed on page 16.
- *Consideration of key risks over governance and transparency in relation to CTSL, SDS's wholly owned subsidiary.* We supported management during the year to assess potential options to deconsolidate the charitable company.

We are required to provide specific conclusions on the following areas which relate to governance and transparency and support our overall conclusion on this audit dimension.

Corporate governance

We updated our understanding of the governance framework and documented this through our overall assessment of SDS's risk and control environment. This included testing entity wide controls, including risk management, operational and compliance controls, as reported in the interim management report.

Conclusion: Governance controls were found to be operating effectively and we consider the governance framework to be appropriate for SDS.

Internal audit

We considered the activities of internal audit against the requirements of Public Sector Internal Audit Standards ('PSIAS'), focusing our review on the public sector requirements of the attribute and performance standards contained within PSIAS. We updated the review we undertook in 2014-15, which included a review of the internal audit charter, reporting lines, independence, objectivity and proficiency and the range of work carried out by internal audit. We also considered the requirements of International Standard on Auditing 610 *(Considering the Work of Internal Audit)*.

We reviewed internal audit reports and conclusions, and through discussion obtained their views of risks of fraud within SDS.

Conclusion: We apply internal audit's work to inform our procedures, where relevant. The review of internal audit reports and conclusions did not indicate additional risks and there was no impact on our planned substantive testing.

In November 2013 the Accounts Commission and Auditor General for Scotland published a report on Scotland’s public sector workforce. The report highlighted a number of key messages on workforce changes across Scotland in the public sector and made recommendations to the Scottish Government.

We performed follow up work on this report, and submitted a return to Audit Scotland summarising our findings and conclusions. This work concluded on the following key issues:

- Planning: a plan has been completed and implemented across SDS. This automatically incorporates the HR system to allow technology to create an efficient and reliable management tool.
- Service delivery: SDS uses the information in the work plan to consider where areas of change are required in the business. This has included reviews of roles and effective change within resourcing to meet the required service delivery was noted.
- Partnership working: SDS has identified an effective partnership relationship with HIE and SE through their IT shared delivery service.
- Reporting: On a monthly basis, reports are sent to heads of services comparing the budgeted work force position to actual. This allows management to make informed decisions on a timely basis.
- Challenge and scrutiny: The information is summarised and sent to the ELG, highlighting any risks and issues arising. Clear visibility of this information provides accountability and encourages challenge and scrutiny.

A number of the points above were considered best practice in workforce planning and SDS has demonstrated a commitment to implementing the recommendations in the report. There is opportunity for further progress to be made for succession planning beyond 2016-17.

Appendices

Appendix one
Auditor independence

To the audit and risk committee members

Assessment of our objectivity and independence as auditor of Skills Development Scotland Co. Limited (the Company)

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity except for those detailed below where additional safeguards are in place.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the company and its affiliates for professional services provided by us during the reporting period.

We have detailed the fees charged by us to the company and its related entities for significant professional services provided by us during the reporting period below, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2016 are as follows:

	Current Year £000	Prior Year £000
Audit of Company	63	63
Audit of Subsidiaries	2	2
Total Audit	*65*	*65*
Tax Compliance Services (i.e. related to assistance with corporate tax returns)	2	2
Total non-audit services	*2*	*2*
Total Fees	**67**	**67**

Fees presented exclude VAT

The ratio of non-audit fees to audit fees for the year was 0.03 : 1.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the table opposite.

Independence and objectivity considerations relating to other matters

We set out below our consideration of other matters which, in our professional judgement, have a bearing on our independence and objectivity.

Business relationships – supply of services to KPMG

We have, during the year, had the following business relationships with you:

We have KPMG staff members who are on Modern Apprenticeship programmes funded by SDS. These are at terms which are at arms length and in common with other employers.

Disclosure	Description of scope of services	Principal threats to Independence	Safeguards Applied	Basis of fee	Value of Services Delivered in the year ended 31 March 2016 £000	Value of Services Committed but not yet delivered £000
Tax compliance services	Assistance with the completion of the corporate tax returns for The Skills Development Scotland Co. Limited	Self-review Management	Work performed by a team separate from the audit team. Work does not commence until after the financial statements to which the tax return relates are signed. Services do not result in any material judgments within the financial statements. Management remain responsible for any decisions.	Fixed	2	2

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the audit director and audit staff is not impaired.

This report is intended solely for the information of the audit and risk committee of the company and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

Appendix two

Prior year recommendations

We follow up prior year audit recommendations to determine whether these have been addressed by management. The table below summarised the recommendations made during the 2014-15 audit and their current status.

Grade	Number recommendations raised	Implemented	In progress	Overdue
One	-	-	-	-
Two	-	-	-	-
Three	2	1	1	-

We have provided a summary of progress against in progress actions below, and their current progress.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
Through review of the compliance services annual plan, it was noted that there have been instances of risk grade re-evaluation in the year, however these have not resulted in the communication of additional site visits on the plan. There is a risk that the number of site visits performed for providers is not commensurate with the assessed risk grading, and that this results in SDS not obtaining sufficient assurance over the controls and processes within higher risk providers.	Management should ensure that where risk bandings are escalated in the year this is translated into additional compliance visits, and that these are communicated on the compliance plan.	Management will review the processes related to updating of plans to take account of alterations of risk ratings. **Responsible officer**: Lead Head Finance and Audit **Implementation date:** 31 March 2015	During our testing of compliance work in 2015-16 we noted a number of areas where actions were not in line with that documented in the policy. As per page 16 there are a number of factors affecting SDS's ability to carry out a full compliance visits schedule. Following the implementation of FIPs in Winter 2016, the compliance process should be enhanced to mitigate related risks.

Defined benefit obligations

In respect of employee benefits, each of the assumptions used to value SDS's net pension deficit are within an acceptable range of KPMG's expectations.

We are of the view that this therefore represents a reasonable and balanced approach, in accordance with the requirements of IAS 19.

We set out below the assumptions in respect of defined benefit obligations.

<table>
<tr><th colspan="3">Defined benefit pension liability</th></tr>
<tr><th>2016
£'000</th><th>2015
£'000</th><th>KPMG comment</th></tr>
<tr><td>(61,211)</td><td>(94,126)</td><td>In line with our established practice and in advance of the audit fieldwork, our actuarial specialists reviewed the approach and methodology of the actuarial assumptions used in the IAS19 pension scheme valuation.

Details of key actuarial assumptions are included in the table, along with our commentary.

<table>
<tr><th>Assumption</th><th>SDS</th><th>KPMG central</th><th>Comment</th></tr>
<tr><td>Discount rate (duration dependent)</td><td>3.50%</td><td>3.50%</td><td>Acceptable. The proposed assumptions are within the acceptable range.</td></tr>
<tr><td>CPI inflation</td><td>RPI less 1.0%</td><td>RPI less 1.0%</td><td>Acceptable. The proposed assumptions are within the acceptable range.</td></tr>
<tr><td>Net discount rate (discount rate – CPI)</td><td>1.30</td><td>1.25%</td><td>Acceptable. The proposed assumptions are within the acceptable range of +/- 0.3% from the KPMG central range.</td></tr>
<tr><td>Salary growth</td><td>RPI + 1%</td><td>Typically 0% - 1.5% above inflation</td><td>Acceptable. The proposed assumptions are within the acceptable range.</td></tr>
</table>

The overall assumptions applied by management are considered to be reasonably balanced for a scheme with a liability duration of between 17 and 23 years. The closing deficit decreased by £32.9 million compared to 2014-15, primarily due to an increase in discount rate (0.3% increase), and decreases in future salary increases (0.1% decrease), RPI (0.1% decrease) and future pension increases (0.2% decrease).</td></tr>
</table>

Appendix four

Appointed auditors' responsibilities

Area	Appointed auditors responsibilities	How we've met our responsibilities
Corporate governance	Review and come to a conclusion on the effectiveness and appropriateness of arrangements to ensure the proper conduct of the bodies affairs including legality of activities and transactions. Conclude on whether the monitoring arrangements operate in line with recommended best practice.	Page 25 sets out our conclusion on these arrangements.
Financial statements and related reports	Provide an opinion on audited bodies' financial statements on whether financial statements give a true and fair view of the financial position of audited bodies and their expenditure and income. Provide an opinion on whether financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements. Provide an opinion on the regularity of the expenditure and income.	Page 10 summarises the opinions we expect to provide.
Financial statements and related reports	Review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports and grant claims.	Page 16 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report.
Financial statements and related reports	Notify the Auditor General when circumstances indicate that a statutory report may be required.	Page 10 sets out any notifications we have made to the Auditor General.
Financial statements and related reports	Review and conclude on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.	Page 22 sets out our conclusion on these arrangements.
WGA returns and grant claims	Examine and report on WGA returns Examine and report on approved grant claims and other returns submitted by local authorities.	SDS is below the threshold for the completion of audit work on the WGA return.

Appendix four

Appointed auditors' responsibilities (continued)

Area	Appointed auditors responsibilities	How we've met our responsibilities
Standards of conduct – prevention and detection of fraud and error	Review and conclude on the effectiveness and appropriateness of arrangements for the prevention and detection of fraud and irregularities, bribery and corruption and arrangements to ensure the bodies affairs are managed in accordance with proper standards of conduct. Review National Fraud Initiative participation and conclude on the effectiveness of bodies engagement.	Page 23 sets out our conclusion on these arrangements. Page 22 concludes on the bodies participation in the National Fraud Initiative.
Financial position	Review and conclude on the effectiveness and appropriateness of arrangements to ensure that the bodies financial position is soundly based.	Pages 6 and 7 set out our conclusion on these arrangements.
Financial position	Review performance against targets	Pages 6 and 7 summarise our review of how the body has performed against it's financial targets.
Financial position	Review and conclude on financial position including reserves balances and strategies and longer term financial sustainability.	Page 7 sets out our conclusion on the bodies financial position including reserves balances. Page 7 sets out our conclusion on the bodies financial strategies and longer term financial sustainability.
Best Value	Review and conclude on the effectiveness and appropriateness of arrangements of accountable officers specific responsibility to ensure that arrangements have been made to secure Best Value.	Page 24 sets out our conclusion of the bodies arrangements.

cutting through complexity

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