

# The Skills Development Scotland Co. Limited

Management Report 2017/18



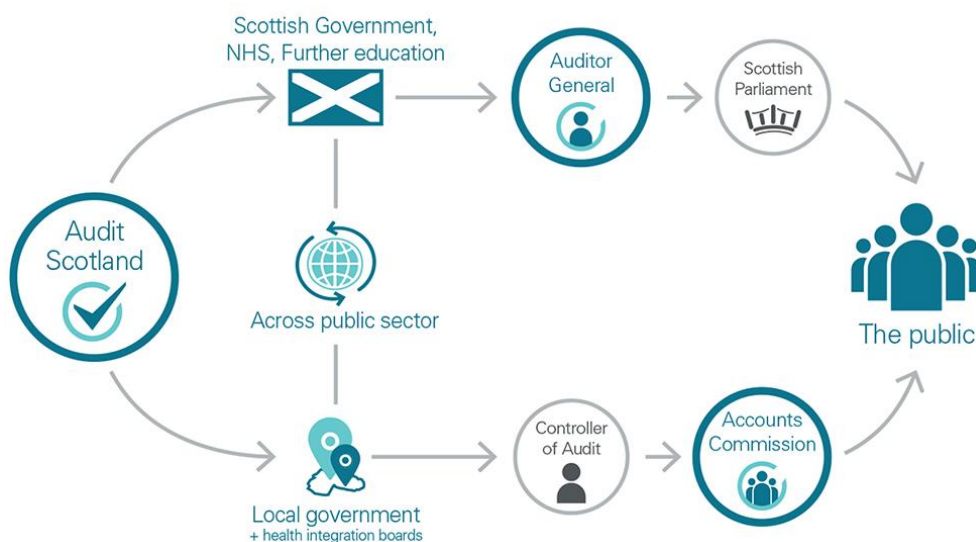
 AUDIT SCOTLAND

Prepared for Skills Development Scotland  
March 2018

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non – executive board chair, and two non – executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world – class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Audit findings

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## Introduction

1. This report summarises the key issues identified during our interim audit work at Skills Development Scotland (SDS). We will use the results of this work to inform our approach to the 2017/18 financial statements audit.

2. Our responsibilities under the [Code of Audit Practice](#) require us to assess the system of internal control put in place by management. We seek to gain assurance that SDS:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
- complies with established policies, procedures, laws and regulations.

3. Under the [Code of Audit Practice](#), we are also required to carry out work on the 'wider dimension' aspects of public audit, including financial management and sustainability..

## Conclusion

4. Our interim work identified two control weaknesses in the national training programmes (NTP) processes, as summarised in [Exhibit 1](#) overleaf. Our substantive testing did not identify any further issues.

5. In terms of our wider dimension audit work, we concluded that SDS has appropriate arrangements in place to assess financial sustainability. As last year, there is a risk that, without a specific commitment from the Scottish Government for additional funding, SDS' financial model will continue to show a significant funding gap going forward. We also concluded that, overall, SDS has good budgetary monitoring and control arrangements that support effective scrutiny of its finances.

## Work summary

6. Our 2017/18 interim work included walkthrough testing of the core financial systems - general ledger, payroll, payables, receivables, and cash and banking. This involved reviewing the key controls to confirm that they were operating as expected in a number of areas including bank reconciliations, payroll validation and exception reporting, authorisation of journals, change of supplier bank details and IT access controls. Our review of key controls also covered budget monitoring and control, feeder system reconciliations and controls for preventing and detecting fraud in areas such as payables.



### Bank reconciliations



### Payroll controls



### IT access



### Budgets

**7.** We also carried out a walkthrough of the main processes and controls used in the administration of the NTP. This included aspects of contract procurement, the work of the skills investment advisors (SIAs) and the NTP compliance/ fraud and error prevention (FEP) team, the corporate training system (CTS) and the funding information and processing system (FIPS). In carrying out this work we considered the findings from the internal audit report on National Training Programmes, published in August 2017.

**8.** In addition, we carried out interim substantive testing of expenditure, income, staff costs and NTP transactions.

**9.** As part of our work on the 'wider dimension' aspects of public audit, we followed up on developments in SDS' financial modelling arrangements including the use of scenario planning and sharing of the model with the SDS Board and the Scottish Government sponsor department. We also reviewed the SDS budgetary processes and budget monitoring arrangements.

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

## Audit findings and risks identified

### Review of key controls in the core financial systems

**11.** Our walkthrough testing of the core financial systems confirmed that the key controls were operating as expected.

### Review of key controls used in the administration of the NTP

**12.** Our walkthrough of the NTP processes confirmed that effective controls were in place, but it also identified two control issues as detailed in [Exhibit 1](#). Additionally, we highlight an inherent control risk in the system for making payments to training providers. This is described in more detail in paragraphs 13 to 16 below.

**13.** SDS does not currently have a fully comprehensive real-time internal check when training providers claim for payment either at registration or upon completion of agreed milestones. Management recognise this and are content that other checks mitigate the risk, namely the contract procurement process and reviews by SIAs and the compliance/ FEP team. In our view, while we accept that these controls mitigate the risk to some degree, we concluded that there is an inherent control risk as they are not present at the time the payment is made. In light of this, we have extended our substantive testing of NTP payments (results discussed in paragraph 19).

**14.** SDS is currently introducing a new IT system (FIPS) to administer NTPs while the older CTS system is still in operation. FIPS contains a number of developments which provide some real-time assurance over providers' claims, such as:

- a check to the Scottish Qualification Authority's (SQA) ELECTRIS database for those training plans which incorporate an associated qualification
- a validation email or SMS text to the individual undertaking the training programme requesting confirmation of completion of registration or milestone.

**15.** Additionally SDS is looking to develop a further automated check in FIPS to the modern apprenticeship online database (maintained by the Federation for Industry Sector Skills and Standards) for all new registrations on the modern apprenticeship programme

**16.** These additional checks in FIPS do not apply to all types of NTP, for instance the SQA check is only relevant where the programme involves a related qualification. Work is also ongoing to further refine the procedure to contact the individual to confirm completion of agreed stages. While these innovations offer further mitigation, there remains a control risk as SDS does not possess source evidence confirming completion of an agreed stage of a training programme at the point of payment. This is consistent with the view offered by internal audit who assessed the controls to ensure that appropriate, accurate and approved payments are made to training providers, with an amber rating.

**17.** We are also aware that SDS is considering the possibility of sharing information with other public bodies that would provide further assurance over the accuracy of data held in FIPS.

**18.** FIPS is expected to automate some currently manual checks (such as checking whether an individual has previously been registered on a training programme) and improve the quality of management information available. These improvements will only be available after all data currently held on CTS is transferred to FIPS. SDS plans to complete the data migration in 2018/19.

### Interim substantive testing

**19.** Our interim substantive testing of payables, income and staff cost transactions did not identify any issues. We also substantively tested a sample of payments to training providers in 2017/18, originating from both the CTS and FIPS systems and again found no issues.

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

### Financial sustainability and financial management

**21.** Last year, we completed a detailed review of the five-year rolling financial model maintained by SDS. We found that:

- SDS was well advanced in financial planning.
- the financial model identified a significant increase in apprenticeship family expenditure as SDS works towards achieving the targets set by the Scottish Government.
- SDS was at a stage where further scenario planning was necessary to identify required action over financial planning (following a period where sensitivity analysis had been applied).
- elements of the model were shared with the Board and the Scottish Government's sponsor department, but not the model in full.

**22.** Our review of the SDS' financial modelling during 2017/18 showed that SDS considered a number of different scenarios and that the model was adjusted to accommodate these. This involved analysing the impact from varying a number of different factors such as government income and volume of different training programmes. We concluded that there is adequate evidence of scenario planning.

**23.** SDS has been discussing the financial model with the Scottish Government and this has resulted in SDS analysing further suggested scenarios put forward by the Scottish Government. The Board is kept informed through regular updates in the Chief Executive's report, executive presentation to the Finance and Operational Performance Committee, and discrete Board agenda items, as appropriate.

24. As in 2016/17, the work carried out by SDS in developing the financial model identifies a significant increase in apprenticeship family expenditure as it works towards achieving the targets set by the Scottish Government. There remains a risk that, without a specific commitment from the Scottish Government for additional funding, SDS' longer term financial plans will continue to show a significant funding gap going forward.

25. We also reviewed the SDS budgetary processes and budget monitoring arrangements in 2017/18 and concluded that, overall, SDS has good budgetary monitoring and control arrangements that support effective scrutiny of its finances.

## Exhibit 1

### Key findings and action plan 2017/18

Issue identified	Management response	Responsible officer and target date
<b>Audit findings</b>		
<p><b>NTP compliance/ FEP team</b></p> <p>The NTP compliance/ FEP team takes a risk-based approach to checking payments to training providers on an annual basis. The team also assists with investigations and programme reviews as required. The mid-year report presented to the Audit and Risk Committee in December 2017 highlighted that the team was behind schedule in terms of delivering its annual review plan.</p> <p><b>There is a risk that the compliance/ FEP team will not perform checks on payments to training providers in line with its monitoring approach and annual review plan. This would weaken one of the key mitigating controls.</b></p>	<p>The original planning targets should be reviewed and amended to reflect iterations to the work of the team. The revised plan should be delivered in full.</p>	<p>Head of Compliance /FEP</p> <p>31 March 2018</p>
<p><b>FIPS user access</b></p> <p>We found that there was a large number of users of the FIPS system with administrator access, many of whom were system developers. SDS needs to ensure that it maintains adequate control over system access and continues to review user levels for appropriateness as the system becomes fully operational.</p> <p><b>There is a risk that unauthorised changes can be made to the system.</b></p>	<p>A full review of administrator access rights should be carried out immediately and, at the implementation of the Employability Fund phase, all rights should be withdrawn except those approved by the Head of PMO and Head of NTP Operations.</p>	<p>Director- Finance &amp; Audit</p> <p>15 March 2018</p>
<p><b>Financial sustainability</b></p> <p>As in 2016/17, the work carried out by SDS in developing the financial model identifies a significant increase in</p>	<p>This statement is accurate but there is no action for SDS. We will continue to liaise with SG officials, and to iterate the budget model in order to provide the most accurate</p>	<p>Director- Finance &amp; Audit</p> <p>7 March 2018</p>

Issue identified	Management response	Responsible officer and target date
<p>apprenticeship family expenditure as SDS works towards achieving targets set by the Scottish Government.</p> <p><b>Without a specific commitment from the Scottish Government for additional funding, there remains a risk that SDS' longer term financial plans will continue to show a significant funding gap going forward.</b></p>	<p>projections possible. We will raise this formally at the SG Sponsor Team Finance Liaison meeting in March.</p>	

Source: Audit Scotland

**26.** Any weaknesses identified represent those that have come to our attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to SDS.

**27.** All our outputs and any matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

# Skills Development Scotland

## Management Report 2017/18

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