The Skills Development Scotland Co. Limited

Management report 2019/20

AUDIT SCOTLAND

Audit findings

Introduction

1. This report summarises the key issues identified during our interim audit at Skills Development Scotland Co. Limited (SDS). We will use the results of this work to inform our approach to the 2019/20 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 the audited body:

- 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 such as financial management and value for money.

Conclusion

4. Our walkthrough testing of the main financial systems confirmed that controls are operating as expected. Our substantive testing of income and expenditure did not identify any issues.

5. The walkthrough of the national training programmes (NTP) processes confirmed that effective controls were in place but, as we have reported previously, there is an inherent control risk in the system for making payments to training providers. SDS management acknowledges this and believes that other controls mitigate this risk. Substantive testing in this area was satisfactory.

6. In terms of our 'wider dimension' audit work we concluded that SDS:

- has appropriate arrangements to mitigate the risk of fraud in procurement activities

- has made good progress in developing its performance management arrangements

- demonstrates good practice in fulfilling its duties under the Equalities Act 2010.

Work summary

7. Our 2019/20 interim work included walkthrough testing of key controls in the core financial systems - general ledger, payroll, payables, receivables and cash and banking – to confirm that they were operating as expected. This included the review of bank reconciliations, payroll validation and exception reporting, authorisation of journals, change of supplier bank details and IT access controls.

Our review also covered budget monitoring and control, feeder system reconciliations and controls for preventing and detecting fraud.

8. We also carried out walkthrough testing of the main processes and controls used in the administration of the NTP. We reviewed procurement controls, checks performed by the Skills Investment Advisors (SIA) and the Compliance / Fraud Error Prevention (FEP) teams, and controls built into the funding information processing system (FIPS).

9. In addition, we carried out pre year-end testing on a sample of income and expenditure transactions, including NTP payments to training providers.

10. In terms of our 'wider dimension' audit work, we:

- followed up areas in SDS's performance management arrangements we highlighted in last year's management report

- assessed SDS's arrangements for preventing fraud within procurement activities

- reviewed SDS's compliance with the Equalities Act 2010.

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

12. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

Audit findings

Review of key controls in the core financial systems and NTP

13. Our walkthrough testing of the core financial systems confirmed that the key controls are operating as expected.

14. The walkthrough of the NTP system confirmed that effective controls are in place but, as we have reported previously, there is an inherent control risk in the system for making payments to training providers. This is because there is no comprehensive, real-time internal check prior to paying training providers for the achievement of stated milestones.

15. As in previous years, SDS management acknowledges this and believes that other controls (such as SIA's and the Compliance/ FEP team's work, automated checks within FIPS and training providers' annual declaration of compliance with programme rules and the accuracy of data input to FIPS) mitigate the risk. While we accept these mitigate the risk to some degree, we are required to highlight this matter. In line with previous years, we extended our substantive testing of NTP payments to training providers in light of this finding.

Substantive testing

16. Our substantive testing of income and payroll transactions did not identify any issues. SDS plans to implement the non-current assets module of its financial system as part of preparations for the production of its 2019/20 financial statements. We shall carry out further tests later in the year on transactions within this module.

17. We also tested an extended sample of payments to training providers in 2019/20 and did not identify any issues.

18. We will carry out further substantive testing during our year-end 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.

Arrangements for preventing fraud in procurement

19. We reviewed how SDS manages the risk of fraud in its procurement activities with reference to the 'Red Flags: Procurement' document, developed by Audit Scotland and Police Scotland in 2019. The document highlights some risks in procurement activity and the controls that can help to prevent fraud.

20. SDS's 2018/19 Annual Procurement Report identified that more than 65 per cent of SDS's financial budget is spent on contracts with providers. We confirmed that SDS has a number of controls in place to mitigate the risk of fraud including:

- a range of appropriate policies, such as the staff code of conduct, procurement manual and whistleblowing policy

- appropriate segregation of duties between those delegated to authorise spending and those delegated to enter into contract

- the use of the Public Contracts Scotland portal for any contracts in excess of £5,000 with other controls for any contracts below this threshold

- appropriate training of procurement staff to identify any potential fraud.

21. SDS has a central procurement team which takes part in the Procurement and Commercial Improvement Programme (PCIP) assessment undertaken by the Scottish Government Procurement Capability team. The Annual Procurement Report highlights that SDS was ranked as high performing in the most recent assessment in early 2019 and that the procurement team was recognised for its best practice approach to talent management and skills/e-learning.

22. We concluded that SDS has appropriate arrangements in place to mitigate the risk of fraud in procurement activities. We note that internal audit has not carried out a specific review of procurement since the 2015/16 financial year. This is an area which SDS may wish to consider in determining future internal audit plans.

Performance management follow-up

23. In 2018/19 we reported that SDS had appropriate arrangements for performance management. We identified some minor areas for improvement. Our follow-up work included discussions with SDS staff and review of internal audit's report on strategic planning. We concluded that SDS has made good progress in addressing the areas we highlighted. The findings of our follow-up review are outlined in Exhibit 1.

Exhibit 1
Findings from the performance management follow-up

Prior-year observation	Progress since last year	Conclusion
Updates to the Corporate Performance Framework (CPF) The CPF should be kept up to date and approved by the FOP.	SDS has developed a revised CPF to support the new SDS Strategic Plan. As part of this it identified 16 key performance indicators (KPIs), each mapped to the four goals in the Strategic Plan. The KPIs were devised through a process led by the Corporate Planning and Performance Reporting team (CPPR) and were approved by the Directors Group (DG) and Finance and Operational Performance Committee (FOP) in autumn 2019. The covering reports provided to the DG and FOP also confirmed that any changes to the framework will be documented and agreed by Senior Directors and confirmed	SDS has addressed this area for improvement. The proposed approach for subsequent changes to the CPF is appropriate and should ensure that senior management and FOP exhibit suitable oversight of the CPF.

Prior-year observation	Progress since last year	Conclusion
	by the FOP on a quarterly basis.	
Application of unique references to the CPF The application of unique references to each indicator would in our view assist consistency, understanding and transparency of reporting.	Each of the 16 new KPIs has been allocated a unique reference number. SDS also plans to rationalise over 300 underlying measures under each KPI. Once this is complete, a unique reference number will be added to each of the underlying measures, following a logical sequence from the key KPIs. This process is due to be completed in April 2020.	The proposed approach is appropriate. The unique reference numbers should improve transparency over how indicators evolve over time.
Efficiency of data collection Due to the current need for a degree of manual input, there is scope for increasing efficiency of the overall process for collating and reporting performance information.	A new reporting tool (Power BI) has been introduced and reports are being transitioned to Power BI to improve efficiency and quality. The CPPR team carried out a benefits realisation review across three business areas (human resources (HR), NTP and Critical Skills and Occupations). It reported its findings to the Service Development Programme Board (SDPB) which includes both Senior Directors and reports to the Service Development Committee. The report concluded that the introduction of Power BI has resulted in efficiency savings equating to 12,045 hours, with a value of £448,623, for the period from April 2018 to December 2019. The CPPR team also received qualitative feedback from the Careers Information Advice and Guidance (CIAG) directorate that Power BI enables easier monitoring of performance and identification of areas for improvement. SDS is also planning to design and implement a data warehouse to further improve quality, accessibility to data and reduce cost with the project due for completion by March 2021.	SDS has made good progress in this area. The report to the SDPB identified that the introduction of Power BI resulted in recurring efficiency savings and improvements in some significant business areas. It also indicates that data warehouse arrangements can support further improvements.
Accuracy of performance data While we have no specific concerns regarding data quality, we note that internal audit does not currently have a role in verifying performance information and has not carried out a review in this area since 2013/14. In our view, further assurance on the verification process could be provided by internal audit.	Although internal audit has not carried out a formal review of performance management in 2019/20, it did carry out a review of strategic planning which involved reporting on arrangements to monitor progress against the SDS operating plan. Internal audit has not been involved in the verification process. In addition, SDS reported to the SDPB that the introduction of Power BI has also resulted in improvements in data quality by making information more accessible and visible to users.	Internal audit is not involved in verifying performance information. SDS will wish to consider the additional assurance that could be provided through internal audit's involvement.
Performance reporting	We were informed that the 16 new KPIs will be the focus of future reports to FOP and the Board	SDS has addressed this area for improvement. The

Prior-year observation	Progress since last year	Conclusion
SDS should continue to assess the range and volume of performance indicators reported to ensure that it is appropriate to the Board/committee members' needs.	with more detailed reports provided to the DG. The CPPR team also confirmed that this is an iterative process with feedback taken at meetings on the range and format of information reported.	16 new KPIs offer a high-level view of SDS's performance which is appropriate for the FOP and Board.

Source: Audit Scotland

Arrangements for compliance with the Equality Act 2010

24. Every public sector body must be able to demonstrate how it fulfils the general equality duty under the Equality Act 2010. We have reviewed how SDS demonstrates its compliance with the Act, and how it advances equalities within the organisation and in its business activities.

25. Our high-level review confirmed that SDS complies with the specific duties of the Equality Act 2010. In particular, SDS produces equality outcome reports every two years which focus on equality outcomes. The 2019 report reviewed progress to date and re-focused the outcomes to centre on increasing participation in education, training, employment and apprenticeships by people included under the protected characteristics covered by the Act.

26. Three teams in SDS are tasked with a particular focus on equalities. HR is responsible for equalities within the organisation, the NTP directorate look at equalities in apprenticeships and the CIAG team promotes equalities amongst job seekers. Over 40 staff members across Scotland are equality champions who volunteer to support colleagues and promote equality and diversity across SDS's activities. In addition, the Board has a dedicated diversity champion who provides updates on the activities of the above groups.

27. Notable recent achievements include:

- SDS won an award for Diversity in the Public Sector at The Herald & GenAnalytics Diversity Awards.

- SDS was listed as the top Scottish employer for LGBT employees in 2020 by Stonewall Scotland, with an overall 12th position in the UK.

- SDS delivered a programme of Continuing Professional Development (CPD) to training providers, which included basic Equality & Diversity training, deaf awareness training and Understanding Learning Disabilities. SDS reported that these CPD activities reached 117 training providers and over 500 individuals.

- SDS's gender pay gap reduced from 15.7% in 2010 to 10.9% in 2019.

28. We concluded that SDS demonstrates that equalities and diversity have a prominent place at the centre of its business. Furthermore, SDS has achieved a number of significant outcomes in promoting equalities and, in our view, demonstrates good practice in this area.

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