

Education Scotland

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Education Scotland

31 March 2023

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of Education Scotland (the agency). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual report and accounts, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Governance Statement and the Remuneration and Staff Report
- consideration of Best Value arrangements

Audit Appointment

2. We are pleased to be appointed as the external auditor of Education Scotland for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at [Appendix 1](#).

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

Adding value

5. We aim to add value to the agency through our external audit work by being constructive and forward looking, by attending meetings of the Audit and Risk Committee and by recommending and encouraging good practice. In so doing, we will help the agency promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit and Risk Committee and actively participate in discussions.

Respective responsibilities of the auditor and Audited Body

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and Education Scotland. Key responsibilities are summarised below.

Auditor responsibilities

7. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

8. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at Education Scotland. In doing this, we aim to support improvement and accountability.

Accountable Officer responsibilities

9. The Accountable Officer has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

Annual report and accounts audit planning

Introduction

10. The annual report and accounts are an essential part of demonstrating Education Scotland's stewardship of resources and its performance in the use of those resources.

11. We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

12. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance that the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2022/23 audit

13. The materiality values for Education Scotland are set out in [Exhibit 1](#).

Exhibit 1

2022/23 Materiality levels for Education Scotland

| Materiality | Amount |
|--|----------------|
| Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. We have set our materiality at 2% of gross expenditure based on the audited financial statements for 2021/22. | £0.830 million |
| Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality. | £0.620 million |
| Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. | £40 thousand |

Significant risks of material misstatement to the financial statements

14. Our risk assessment draws on our cumulative knowledge of Education Scotland, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

15. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

16. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2022/23 Significant risks of material misstatement to the financial statements

| Significant risk of material misstatement | Sources of assurance | Planned audit response |
|---|---|---|
| <p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p> | <p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p> | <ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Evaluate significant transactions outside the normal course of business. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. |

17. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. As an executive agency of the Scottish Government, most of the agency's funding is from central government; residual income comes mainly from other public sector organisations. We have rebutted this risk for Education Scotland because while the possibility of fraud exists, we do not judge it to be a significant risk due to the nature of the agency's revenue streams and key sources of income.

18. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk for Education Scotland as there are limited opportunities or incentives to manipulate expenditure recognition. Approximately 67% of expenditure is processed through the payroll system, SWAN and Glow expenditure is controlled by contracts with other public sector entities; other expenditure streams can be predicted and/or agreed to evidence. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

19. As part of our assessment of audit risks, we have identified other areas where we consider there are risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risks, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

20. The areas of specific audit focus are:

- **VAT (Value Added Tax) provision:** a recent HMRC decision means that the VAT provision is no longer required. We will review the accounting entries for provisions to ensure the correct treatment is applied in the 2022/23 financial statements.
- **Dilapidations provision:** there is a degree of estimation in the calculation of the dilapidations provision, which increases the risk of misstatement. We will review the methodology for calculating this provision. We will review the accounting entries for provisions to ensure the correct treatment is applied in the 2022/23 financial statements.
- **Intangible assets / assets under development:** the agency had material intangible assets as at 31 March 2022 in relation to the digital transformation programme. Projects within the programme were not separately identified within intangible assets, which increases the risk of misstatement. Some projects will now be operational and should be classified as operational intangible assets rather than assets under development, and amortised. We will review the accounting entries for intangible assets to ensure the correct treatment is applied in the 2022/23 financial statements.

- **IFRS 16 - Leases:** Education Scotland requires to comply with the new accounting requirements for *IFRS 16 - Leases*. The effect of IFRS 16 is to reclassify leases that were previously treated as operating leases, requiring capitalisation of the underlying assets. All future lease payments will need to be recognised as a Right of Use Asset together with a corresponding lease liability in the Statement of Financial Position. We will review the accounting entries for leases to ensure the correct treatment is applied in the 2022/23 financial statements.
- **Operational assets with nil value:** the 2021/22 audit identified a number of assets within the non-current asset register with a nil carrying value but still in use. There is a risk that the cost and accumulated depreciation balances for Property, Plant and Equipment in the financial statements do not accurately reflect the operational assets of the agency. We will assess management's review of the non-current asset register and any associated accounting entries to ensure that the value of non-current assets in the Statement of Financial Position is appropriate.

Wider Scope and Best Value

Introduction

21. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

22. In summary, the four wider scope areas cover the following:

- **Financial management** - means having sound budgetary processes. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities.
- **Financial sustainability** - as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the financial sustainability of Education Scotland.
- **Vision, leadership and governance** - we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by Education Scotland. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** - we will consider how Education Scotland demonstrates economy, efficiency and effectiveness through the use of financial and other resources.

23. [Ministerial Guidance to Accountable](#) Officers for public bodies and the Scottish Public Finance Manual (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. Our work on the above four audit dimensions will contribute to our assessment of the arrangements in place at Education Scotland.

Wider scope risks

23. We have identified wider scope audit risks in the areas set out in [Exhibit 3](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 3

2022/23 wider scope risks

| Description of risk | Sources of assurance | Planned audit response |
|--|---|--|
| <p>Education reform – impact on Education Scotland</p> <p>An extensive education reform programme is underway in Scotland. As part of this reform, three new national education bodies will be created, replacing Education Scotland and the Scottish Qualifications Authority: a qualifications body, a national agency for Scottish education, and an independent inspectorate body.</p> <p>The new bodies are due to be in place in 2024 but there is still significant uncertainty about the new arrangements. Education Scotland has to manage business as usual while implementing the changes arising from the Scottish Government’s education reform programme.</p> <p>Risk: There is a risk that key talent cannot be recruited or retained, that staff morale is impacted, and Education Scotland’s business performance is detrimentally affected during the transition period.</p> | <ul style="list-style-type: none"> • Detailed workforce planning. • Staff Engagement Group. • Change Team. • Updated Corporate Plan which includes Education Scotland’s involvement with SG’s Education Reform plans. • Monthly sessions with updates from the Leadership Team (‘Leading Together’ and ‘Connect with Colleagues’ sessions). • Weekly updates in the staff newsletter. | <ul style="list-style-type: none"> • We will liaise with management and review the agency’s preparations for the transfer of services and people to the new bodies • We will review the Performance Report in the annual report and accounts to ensure appropriate disclosure is made. |

| Description of risk | Sources of assurance | Planned audit response |
|---|--|---|
| <p>Performance reporting</p> <p>The agency has developed a set of corporate Key Performance Indicators (KPIs) which are reported to the Advisory Board on a quarterly basis.</p> <p>Some relevant KPIs do not have an assigned target; data gathering on each of the KPIs could be improved and the performance report enhanced so that a meaningful, transparent assessment of performance can be made by stakeholders over time.</p> <p>Risk: There is a risk that the agency is not able to monitor progress against its key objectives and is not transparent in reporting its performance.</p> | <ul style="list-style-type: none"> • Updated Corporate Plan which includes Education Scotland's involvement with SG's Education Reform plans. • New strategic priority within the Corporate Plan | <ul style="list-style-type: none"> • We will consider and assess management's review of the KPIs. • We will review the Performance Report in the annual report and accounts to ensure it is clear, balanced and understandable. |

Source: Audit Scotland

24. Our planned work on our wider scope responsibilities is risk based and proportionate and in addition to local risks we consider challenges which are impacting the public sector as a whole. In 2022/23 we will consider tackling climate change and responding to cyber security threats.

Climate Change

25. Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

26. The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will gather information on Education Scotland's arrangements for responding to climate change covering areas such

as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

Cyber Security

27. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we will consider Education Scotland's arrangements for managing and mitigating cyber security risks.

Duty of Best Value

28. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within Education Scotland.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

29. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 4](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

30. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

31. We will provide an independent auditor's report to Education Scotland, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide Education Scotland and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

32. [Exhibit 4](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 31 August 2023.

Exhibit 4 2022/23 Audit outputs

| Audit Output | Target date | Audit and Risk Committee Date |
|------------------------------|----------------|--|
| Annual Audit Plan | 31 March 2023 | To be circulated to members by 31 March for information and approval |
| Independent Auditor's Report | 31 August 2023 | 5 July 2023 |
| Annual Audit Report | 31 August 2023 | 5 July 2023 |

Source: Audit Scotland



Timetable

33. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

34. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

35. We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 5 Proposed annual report and accounts timetable

|  Key stage |  Provisional Date |
|--|--|
| Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package. | 9 May 2023 |
| Latest date for final clearance meeting with the Strategic Director of Corporate Services and Governance. | 29 May 2023 |
| Issue of draft Letter of Representation and proposed Independent Auditor's Report | 20 June 2023 |
| Issue of Annual Audit Report to those charged with governance. | 5 July 2023 |
| Signed Independent Auditor's Report | 12 July 2023 |
| Latest date for signing of Scottish Government Consolidation return | 31 August 2023 |

Source: Audit Scotland

Audit fee

36. In determining the audit fee, we have taken account of the risk exposure of Education Scotland and the planned management assurances in place. The agreed audit fee for 2022/23 is £37,940 (2021/22: £37,800) as set out in [Exhibit 6](#).

37. Our fees have increased in 2022/23 and this is a reflection of the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

Exhibit 6
Audit fees (including VAT)

| Fee component | Fees (£) |
|--------------------------------------|----------|
| External Auditor Remuneration | 43,490 |
| Pooled costs | 2,890 |
| Contribution to Audit Scotland costs | 1,530 |
| Sectoral Cap Adjustment | (9,970) |
| 2022/23 Audit fee | 37,940 |

Source: Audit Scotland

38. In setting the fee for 2022/23 we have assumed that Education Scotland has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

39. It is the responsibility of Education Scotland to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

40. Internal audit is provided by the Scottish Government Internal Audit Directorate (SGIAD). The annual assessment of the adequacy of internal audit will be performed centrally by Audit Scotland colleagues. We will obtain confirmation that the Scottish Government Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

41. While we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

42. Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

43. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual '*fit and proper*' declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

44. The appointed auditor for Education Scotland is Mark Laird, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Education Scotland.

Audit Quality

45. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

46. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

47. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

48. Audit Scotland is committed to delivering high quality audits. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supplementary guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

49. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

Appendix 1. Your audit team

50. The audit team involved in the audit of Education Scotland have significant experience in public sector audit.

Mark Laird
Senior Audit Manager
mlaird@audit-scotland.gov.uk

Mark has 13 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.

David Meechan
Senior Auditor
dmeechan@audit-scotland.gov.uk

David has considerable experience in planning and delivering audits. David will manage the team and work alongside the Audit Director to deliver the audit.

51. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

52. Where possible and appropriate, we use our data analytics team to enable us to capture whole populations of your financial data. This analysis allows us to identify specific exceptions and anomalies within populations to enhance the focus of audit testing and support efficiency.

Education Scotland

Annual Audit Plan 2022/23

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

For the latest news follow us on social media or [subscribe to our email alerts.](#)



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