

# Education Scotland

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for Education Scotland  
February 2019

## 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

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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# Risks and planned work

## Introduction

1. This audit plan provides an overview of the planned scope and timing of our audit of Education Scotland for 2018/19. Our audit is carried out in accordance with International Standards on Auditing (ISAs) and the [Code of Audit Practice](#) issued by Audit Scotland.
2. The plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit. The wider scope of public sector audit includes assessing arrangements for financial sustainability, governance and transparency, and value for money. We make a public report of conclusions on these matters in our annual audit report to the board and Auditor General.
3. We seek to add value to the agency by identifying areas of improvement and recommending and encouraging good practice on financial sustainability, governance, risk management and performance. In so doing, we aim to help the agency promote improved standards, better management and decision making, and more effective use of resources.

## Audit risks

4. Based on our experience of the agency, discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Education Scotland. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are set out at [exhibit 1](#).

## Exhibit 1 2018/19 Key audit risks

|  Audit Risk  | Source of management assurance   | Planned audit work  |
|---|--|---|
| <b>Financial statements issues and risks</b>  |  |   |
| <b>1 Risk of management override of controls</b><br>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls. | In view of the nature of this risk, assurances from management are not appropriate.          | <ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul> |
| <b>2 Risk of fraud over expenditure</b><br>The Code of Audit Practice extends the consideration of fraud under ISA 240. The risk of fraud over  | Internal controls in operation in the finance team, participation in the NFI and segregation | <ul style="list-style-type: none"> <li>• Analytical procedures on expenditure streams.</li> <li>• Sample testing of expenditure.</li> </ul>   |

|  <b>Audit Risk</b>  | <b>Source of management assurance</b>   | <b>Planned audit work</b>   |
|--|---|---|
| <p>expenditure applies due to the variety and extent of expenditure incurred by the agency.</p>  | <p>controls across finance systems.</p>   |   |
| <p><b>3 Internal controls</b></p> <p>During each of our audits in 2015/16, 2016/17 and 2017/18 our payroll testing identified salary overpayments relating to former employees who continued to be paid despite having left the agency.</p> <p>There is a risk of financial loss to the agency from continuing overpayments to former employees.</p>   | <p>Checking regime in place to reconcile payments.</p>                                    | <ul style="list-style-type: none"> <li>• Review of supervisory checks of payroll data.</li> <li>• Focussed substantive payroll testing.</li> </ul>  |
| <p><b>4 Accounting practices</b></p> <p>Our 2017/18 report to those charged with governance included reference to the following aspects of the agency's accounting practices:</p> <ul style="list-style-type: none"> <li>• duplicate prepayment/accruals.</li> <li>• asset additions not capitalised</li> <li>• holiday pay accrual</li> <li>• maintenance of asset register</li> <li>• historical payables balances</li> <li>• seconded debt</li> <li>• notional charges</li> </ul> <p>Action plan points for these matters were agreed with management and included in an action plan appended to our annual audit report. At the time of writing, limited progress has been made in addressing these issues.</p> <p>There is a risk that the 2018/19 financial statements are again misstated because of these matters.</p> | <p>Implementation of the priority areas in the action plan.</p>                           | <ul style="list-style-type: none"> <li>• Detailed testing of year-end prepayments and accruals.</li> <li>• Focussed testing of in-year asset additions.</li> <li>• Review of the holiday pay accrual data and calculation.</li> </ul>   |
| <p><b>5 Finance capacity</b></p> <p>Due to lack of capacity the agency places great reliance on the Acting Chief Financial Officer to produce the annual accounts and day-day operation of the finance function.</p> <p>There is a risk that the timeliness and/or quality of the annual accounts is compromised.</p>  | <p>The recruitment undertaken to resolve short and long term finance capacity issues.</p> | <ul style="list-style-type: none"> <li>• Review of the quality of 2018/19 annual accounts and working papers presented for audit.</li> <li>• Review of the agency's completed disclosure checklist.</li> <li>• Focussed audit testing on areas where prior year errors were noted.</li> </ul> |
| <p><b>Wider dimension issues and risks</b></p>   |   |   |
| <p><b>6 Financial sustainability</b></p>   | <p>Ongoing engagement with the Scottish Government and the</p>                            | <ul style="list-style-type: none"> <li>• Review financial monitoring papers presented to committee.</li> </ul>  |

|  <b>Audit Risk</b>  | <b>Source of management assurance</b>   | <b>Planned audit work</b>  |
|--|---|--|
| <p>Education Scotland's initial core budget was reduced for 2018/19, the agency is reliant on Scottish Government budget transfers to achieve a year-end break even position.</p> <p>At October 2018 a projected overspend of £0.320 million was anticipated based on the assumption that the Scottish Government would provide further budget transfers of £1 million at the Spring Budget Revision. Actual spend at October 2018 was close to exceeding the whole year budgeted in some areas.</p> <p>Education Scotland continues to face a risk to its financial sustainability due to budget pressures and uncertainty over future funding allocations.</p> | <p>increased initial budget for Education Scotland by £2.5m for 2019/20.</p>  | <ul style="list-style-type: none"> <li>Review of arrangements to secure efficiencies.</li> </ul>   |
| <p><b>7 Budget monitoring</b></p> <p>During the 2017/18 audit we reported issues with Education Scotland's budget monitoring arrangements.</p> <p>There is a risk that inaccurate budget forecasting impacts upon the ability of management and non-executive board members to scrutinise and respond to emerging pressures and effectively manage the agency's budget.</p>  | <p>Improved processes and financial responsibility that have been put in place in 2018/19.</p>                                  | <ul style="list-style-type: none"> <li>Review of arrangements to manage the projected overspend.</li> </ul>  |
| <p><b>8 Medium and long term financial planning</b></p> <p>Education Scotland do not currently have medium to long term financial plans.</p> <p>There is a risk that the agency cannot respond to future budget changes and other cost pressures.</p>  | <p>Work is underway to improve medium to long term financial planning where possible.</p>                                       | <ul style="list-style-type: none"> <li>Monitor progress of implementation.</li> </ul>  |
| <p><b>9 Plans and policies</b></p> <p>A number of corporate plans and policies require to be updated, including:</p> <ul style="list-style-type: none"> <li>corporate plan</li> <li>framework document</li> <li>workforce plan</li> <li>risk management strategy</li> <li>business continuity plan</li> <li>cyber security framework</li> <li>digital strategy</li> <li>2017/2018 annual review</li> </ul>   | <p>Steps have been undertaken to take forward these plans and policies. With clear implementation plans being put in place.</p> | <ul style="list-style-type: none"> <li>Monitor progress of implementation.</li> <li>Consider the adequacy and appropriateness of the finalised documents.</li> </ul> |

|  | Audit Risk   | Source of management assurance  | Planned audit work  |
|---|--|---|---|
|   | <p>Whilst we acknowledge that some of the above are now in draft form, there is a risk that this lack of strategic operational guidance impacts upon the ability of the agency to plan and operate effectively.</p>  |   |   |
| <b>10</b>   | <p><b>Non-executive board members</b></p> <p>Education Scotland's five non-executive board members play an important role in the strategic governance of the agency. The term of office of three board members is due to expire in the summer of 2019.</p> <p>There is a risk that the extent of the change in board membership will impact upon the operation of the Board and scrutiny arrangements of the agency.</p> | <p>The recruitment exercise has been planned to reduce this risk.</p> | <ul style="list-style-type: none"> <li>Review operation of the audit and risk committee and advisory board during 2018/2019.</li> </ul> |

## Reporting arrangements

**5.** This annual audit plan and the outputs set out in [exhibit 2](#), and any other outputs on matters of public interest will be published on Audit Scotland's website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**6.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officer(s) to confirm factual accuracy prior to the issue and publication of final reports.

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

## Exhibit 2 2018/19 Audit outputs

| Audit Output                 | Target date | Committee Date |
|------------------------------|-------------|----------------|
| Annual Audit Plan            | 15 February | 25 February    |
| Annual Audit Report          | 14 June     | 24 June        |
| Independent Auditor's Report | 24 June*    | 24 June        |

\*The independent auditor's report will be signed by the certifying auditor after the annual accounts are approved by the Audit and Risk Committee.

## Audit fee

**8.** The agreed audit fee for the 2018/19 audit of Education Scotland is £37,840 (2017/18 fee £37,840). In determining the audit fee we have taken account of the

risk exposure of Education Scotland, the management assurances in place and the level of reliance we plan to take from the work of internal audit.

**9.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

## Responsibilities

### Accountable Officer

**10.** The accountable officer has 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 the agency to successfully deliver its objectives.

**11.** The audit of the annual accounts does not relieve the Accountable Officer of her responsibilities.

### Appointed auditor

**12.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000, Audit Scotland's Code of Audit Practice and the auditing profession's ethical guidance.

**13.** Auditors in the public sector give an independent opinion on the financial statements. We aim to support improvement and accountability by reviewing and reporting on arrangements to manage performance, regularity and use of resources.

# Audit scope and timing

## Annual accounts

**14.** The annual accounts audit will be the foundation and source for much of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Education Scotland and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Education Scotland will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**15.** We will give an opinion on:

- whether the financial statements give a true and fair view of the state of affairs of Education Scotland as at 31 March 2019 and of the income and expenditure for the year
- whether the annual accounts have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union as interpreted and adapted by the 2018/19 Government Financial Reporting Manual (FReM)
- whether the annual accounts have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers
- the regularity of the expenditure and income.

## Other information in the annual accounts

**16.** We also review and report on the performance report, governance statement and the remuneration and staff report. We give an opinion on whether these have been prepared in accordance with the appropriate regulations and guidance. We also read and consider any other information in the annual accounts and report any material inconsistencies.

## Materiality

**17.** We apply the concept of materiality in planning and performing our audit. Materiality defines the maximum error that we are prepared to accept and still conclude that the financial statements give a true and fair view. It helps assist our planning of the audit and allows us to assess the impact of any potential audit



characteristics



responsibilities



principal activities



risks



governance arrangements

adjustments on the financial statements. Our calculated materiality levels are set out at [exhibit 3](#).

### Exhibit 3 Materiality levels

| Materiality  | Amount   |
|--|----------|
| <b>Planning materiality</b> – This is the figure we use in assessing the overall impact of potential adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2018.   | £309,000 |
| <b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 65% of planning materiality. | £200,000 |
| <b>Reporting threshold</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 3% of planning materiality.  | £10,000  |

Source: Audit Scotland planning documentation

### Timetable

18. An agreed timetable is included at [exhibit 4](#) which takes into account submission requirements and planned Audit and Risk Committee dates.

### Exhibit 4 Annual accounts timetable

|  Key stage   |  Date |
|---|--|
| Latest submission date of unaudited annual accounts with a complete working papers package  | 13 May 2019  |
| Latest date for final clearance meeting with Strategic Director of Corporate Services and Governance and the Acting Chief Finance Officer | 31 May 2019  |
| Issue of annual audit report;<br>Agreement of audited unsigned annual accounts  | 14 June 2019   |
| Issue of independent auditor's report   | 24 June 2019*  |

\* The independent's auditor's report will be signed by the certifying auditor after the annual accounts are approved by the audit and risk committee.

### Internal audit

19. 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. We will obtain confirmation that the Scottish Government Internal Audit Service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. Subject to that confirmation, we may consider

aspects of internal audit's work in respect of our wider scope of public audit responsibilities.

## Audit dimensions

**20.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements, [exhibit 5](#).

### Exhibit 5 Audit dimensions



Source: Code of Audit Practice

### Financial sustainability

**21.** As external auditors we consider the appropriateness of the use of the going concern as the basis for the preparation of the financial statements. We will also comment on the agency's financial sustainability in the medium term and longer term. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability including the potential impact of the EU withdrawal.
- the arrangements in place to address any identified funding gaps.

### Financial management

**22.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review and report on:

- whether the agency has arrangements in place to ensure systems of internal control are operating effectively
- the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how the agency has assured itself that its financial capacity and skills are appropriate
- whether the agency has established appropriate arrangements for the prevention and detection of fraud and corruption.

### Governance and transparency

**23.** 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. We will review and report on:

- whether the agency can demonstrate that the governance arrangements in place are appropriate and operating effectively
- the quality and timeliness of financial and performance reporting
- whether there is effective scrutiny, challenge and transparency.

### Value for money

**24.** Value for money refers to using resources effectively and continually improving services. We will consider whether the agency can provide evidence that it is demonstrating value for money in its use of resources.

### Independence and objectivity

**25.** Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. 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. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

**26.** The engagement lead for Education Scotland is Dave Richardson, 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.

### Quality control

**27.** International Standard on Quality Control (UK and Ireland) 1 requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

**28.** 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 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. External quality reviews are conducted by the Institute of Chartered Accountants of Scotland.

**29.** 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.

# Education Scotland

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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