

Education Scotland

2018/19 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Education Scotland and the Auditor General for Scotland

June 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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Key messages

2018/19 annual report and accounts

- 1 The financial statements of Education Scotland give a true and fair view of the state of the affairs of the agency as at 31 March 2019 and of the net expenditure for the year then ended. An unqualified independent auditor's opinion has been issued for the 2018/19 annual accounts.
- 2 Expenditure and income were in accordance with relevant legislation and ministerial guidance.
- 3 The audited part of the Remuneration and Staff Report, Performance Report, and Governance Statement were consistent with the financial statements and properly prepared in accordance with the accounts direction.

Financial management

- 4 The agency reported an underspend of £0.829 million against its budget of £32.940 million in 2018/19.
- 5 Management have taken steps in 2018/19 to improve the capacity of the finance function.
- 6 Systems of internal control operated effectively in 2018/19 with scope for improvements in some areas.

Financial sustainability

- 7 Education Scotland's core budget has been increased by £2.500 million to £22.943 million for 2019/20, an increase of 12% from the 2018/19 core budget allocation.
- 8 Although the agency does not yet have a medium /long term financial plan in place, the preparation of a long-term estates strategy and workforce plan will facilitate the preparation of longer term financial planning.

Governance and transparency

- 9 The agency has implemented improved governance arrangements.
- 10 Good progress has been made in implementing improvements to the system of governance and controls operating over the IT service. However, the agency still has some way to go to ensuring that it has arrangements in place to maintain a secure, effective and resilient IT function.

Value for money

- 11 Performance reporting has been improved in 2018/19 through the development of a set of new corporate key performance indicators (KPIs). This will assist the management team and non-executive board members in monitoring performance.

Introduction

1. The scope of our audit was set out in our Annual Audit Plan presented to the February 2019 meeting of the Audit and Risk Committee.
2. This report sets out our findings from:
 - the audit of the annual accounts
 - our consideration of the wider audit dimensions of public sector audit, [exhibit 1](#), as set out in the [Code of Audit Practice 2016](#).

Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2018/19 were:
 - a review of Education Scotland's main financial systems and governance arrangements
 - the audit of Education Scotland's 2018/19 annual accounts
 - a follow up review of IT governance arrangements
 - a review of Education Scotland's arrangements to manage performance, regularity and use of resources.
4. The Chief Executive of Education Scotland, as Accountable Officer, is responsible for, inter alia:

- preparing financial statements which give a true and fair view in accordance with HM Treasury Financial Reporting Manual (FReM) and the Scottish Public Finance Manual (SPFM)
- ensuring the regularity of transactions by putting in place systems of internal control
- ensuring that the agency's financial position is soundly based.

5. An audit of the annual accounts is not designed to identify all matters that may be relevant to those charged with governance. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made. It is the auditor's responsibility to express an opinion on the financial statements prepared by management: this does not relieve management of the responsibility for the preparation of the annual accounts.

6. Further details of the respective responsibilities of management and the auditor can be found in Audit Scotland's Code of Audit Practice.

7. An action plan is included at [appendix 1 \(page 23\)](#) setting out our recommendations to address the issues identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Agreed management action/timing". Members of the Audit and Risk Committee should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.

8. We can confirm that we comply with the Financial Reporting Council's Ethical Standards. We are not aware of any relationships that could compromise our objectivity and independence. We can also confirm that we have not undertaken any non-audit related services and that the previously agreed audit fee of £37,840, is unchanged.

9. Our aim is to add value to Education Scotland by increasing insight into, and offering foresight on, financial sustainability, risk and performance, by identifying areas of improvement and by recommending and encouraging good practice. In so doing, we aim to help the agency promote improved standards of governance, better management and decision making and more effective use of resources.

10. This report is addressed to both the Accountable Officer and the Auditor General for Scotland and following the agency's audited annual accounts being laid at the Scottish Parliament the report will be published on Audit Scotland's website: www.audit-scotland.gov.uk.

11. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Part 1

Audit of 2018/19 annual report and accounts



Main judgements

The financial statements of Education Scotland give a true and fair view of the state of the affairs of the agency as at 31 March 2019 and of the net expenditure for the year then ended. An unqualified independent auditor's opinion has been issued for the 2018/19 annual accounts.

Expenditure and income were in accordance with relevant legislation and ministerial guidance.

The audited part of the Remuneration and Staff Report, Performance Report and Governance Statement were consistent with the financial statements and properly prepared in accordance with the accounts direction.

Audit opinions on the annual accounts

12. The annual accounts for the year ended 31 March 2019 were approved for issue by the Accountable Officer following the meeting of the Audit and Risk Committee of 24 June 2019.

13. We reported in the Independent Auditor's Report that:

- the financial statements give a true and fair view and were properly prepared
- expenditure and income were in accordance with governing legislation and guidance issued by Scottish Ministers
- the audited part of the Remuneration and Staff Report, Performance Report, and Governance Statement were all consistent with the financial statements and properly prepared in accordance with relevant legislation and directions made by Scottish Ministers.

14. We are satisfied that there are no matters upon which we are required by the Auditor General to report by exception.

Submission of annual report and accounts for audit

15. We received the unaudited annual accounts on 13 May 2019 in line with the agreed audit timetable.

16. The quality of the annual accounts submitted for audit was significantly improved over previous years. Supporting working papers were generally of a good standard although this could be improved in some areas. Finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

Education Scotland's annual accounts are the principal means by which it accounts for the stewardship of resources and its performance in the use of those resources.

Risk of material misstatement

17. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which could impact on the financial statements. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. [Appendix 2](#) sets out the significant audit risks identified and how we addressed each risk in arriving at our opinion on the financial statements.

Materiality

18. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the perceptions and decisions of users of the financial statements. The assessment of what is material is a matter of professional judgement. A misstatement or omission, which would not normally be regarded as material by value, may be important for other reasons (for example, an item contrary to law). In forming our opinion on the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

19. Our initial assessment of materiality for the financial statements was undertaken during the planning phase of the audit and was based on the gross expenditure reported in the 2017/18 audited annual accounts.

20. On receipt of the unaudited annual accounts we recalculated materiality levels based on actual gross expenditure for the year. We concluded that there was no significant impact on the audit approach of the recalculated materiality level. Our final materiality levels are summarised at [exhibit 2](#)

Exhibit 2 Materiality levels

Materiality level	Amount
Planning materiality – 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 2019.	£0.339 million
Performance materiality – 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.	£0.220 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been set at 3% of planning materiality.	£0.010 million

Source: Audit Scotland

Evaluation of misstatements

21. We identified three misstatements in the unaudited financial statements, none of which have been adjusted in the audited accounts. The gross value of misstatements (including classification errors) totalled £0.074 million.

22. It is our responsibility to request that all misstatements are corrected although the final decision on this lies with those charged with governance, taking into

account advice from senior officers and materiality levels. Management do not propose to adjust for the errors because the impact is not material to the financial statements: we concur with this view.

23. If the errors had been corrected, comprehensive expenditure would have increased by £0.010 million and net liabilities also by £0.010 million. Further details can be found in [appendix 3](#).

Significant findings from the audit

24. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to “those charged with governance”. The qualitative aspects of the agency’s accounting practices, accounting policies, accounting estimates and financial statements disclosures are satisfactory and appropriate to the agency.

25. Significant findings are summarised at [exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the action plan in [appendix 1](#) has been included.

Exhibit 3 Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Under accrual</p> <p>A transaction amounting to £0.014 million that should have been included in the 2018/19 year end accrual balance was omitted.</p>	<p>Management has decided not to adjust for this in the audited Annual Accounts due to its level of materiality.</p>
<p>2. Overstatement of income</p> <p>Income of £0.028 million relating to 2017/18, had been included erroneously in the 2018/19 accounts.</p>	<p>Management has decided not to adjust for this in the audited Annual Accounts due to its level of materiality</p>
<p>3. Over depreciation of leasehold improvements</p> <p>A leasehold asset has been over-depreciated by £0.032 million in 2018/19.</p>	<p>Management has decided not to adjust for this in the audited Annual Accounts due to its level of materiality</p>
<p>4. Historic payables balance</p> <p>In our 2017/18 annual audit report, we noted that the aged creditors report included 17 balances totalling £0.053 million that date back to 2012.</p> <p>This remains unresolved with these "cancelled invoices" still included in the 31 March 2019 trade payables total of £0.274 million.</p>	<p>Management advised that these items are currently being investigated but as they relate to amounts owed by the agency they cannot be cleared until it is confirmed that the debt has been settled.</p> <p> Recommendation 1 (refer appendix 1, action plan)</p>
<p>5. Seconded debt</p> <p>As at 31 March 2019 the agency owed £0.990 million (£1.175 million in 2017/18) to various Scottish councils in respect of the costs of inward secondees for which no invoice had yet been received. While the onus is on councils to issue timeous invoices, regular payment arrangements with the local authorities should be considered to prevent such high levels off debt accumulating in the future.</p>	<p>Management has confirmed that the Finance team will work with the agency’s Strategic Business Unit to pursue the local authorities to ensure prompt billing of invoices.</p> <p> Recommendation 2 (refer appendix 1, action plan)</p>

Issue	Resolution
<p>6. Accrued income</p> <p>In 2017/18 the agency was successful in an appeal to HMRC relating to the secondment of staff to Education Scotland. This resulted in a significant VAT refund due from Scottish Councils amounting to a total of £2.893 million.</p> <p>As at 31 March 2019, £0.550 million of this refund is still outstanding. The level of the outstanding balance suggests that the agency need to be more proactive in ensuring recovery of this debt.</p>	<p>Management will actively pursue all outstanding debts owed to the agency.</p> <p> Recommendation 3 (refer appendix 1, action plan)</p>
<p>7. Annual flexi leave balance</p> <p>Accounting standards require that an accrual is made for any staff flexi time balances at the year end. Management eliminated anomalous data from the year end e-HR system print to obtain credible balances in order to make the accrual calculation. We are content with the methodology applied.</p> <p>However, the clear anomalies in the balances on the e-HR prints are indicative of, in some areas, a lack of regular supervisory review of staff flexi balances.</p>	<p>Management will remind line managers of the need to monitor flexi balances and ensure there is an appropriate reason for balances that exceed the policy threshold.</p> <p>HR have completed an analytical review of all staff annual leave balances and will present the findings at the Leadership Team meeting in June.</p> <p>Action will be taken to train all line managers in their responsibilities to monitor and challenge the annual leave and flexi balances of their direct reports, including the provision of training materials and guidance.</p> <p>As part of the 2019/20 year end accounts process, finance will work with HR to query any large balances with line managers.</p> <p> Recommendation 4 (refer appendix 1, action plan)</p>
<p>8. Contingent liability</p> <p>In 2015 the government introduced reforms to public sector pensions. Most civil servants were moved into a new (“alpha”) pension scheme.</p> <p>In December 2018, the Court of Appeal ruled that the transitional protection provided to some members of the judicial and fire fighters’ schemes as part of the reforms amounted to unlawful age discrimination. The judgement is expected to have an impact on other public sector groups who have seen similar changes to their pension schemes. The government is to appeal against the Court of Appeal’s decision. As the legal process is ongoing, it is therefore not possible to say what impact, if any, this will have on Education Scotland.</p> <p>Management have elected, in the absence of Scottish Government guidance, not to include a contingent liability in the annual accounts of 2018/19.</p>	<p>Management are content to include a disclosure in the format suggested by Audit Scotland in the Remuneration Report alongside the disclosures relating to Civil Service pensions.</p> <p>Management do not agree that disclosure as a contingent liability would be appropriate.</p>

Other findings

26. In addition to the issues set out above, and in accordance with normal audit practice, a number of presentational and disclosure amendments were discussed and agreed with management.

Follow up of prior year recommendations

27. We followed up on actions agreed in the 2017/18 Annual Audit Report, to assess what progress on implementation had been made. We have commented on the progress in the [Governance and transparency](#) section at Part 4 of this report.

Part 2

Financial management



Main judgements

The agency reported an underspend of £0.829 million against its budget of £32.940 million in 2018/19.

Management has taken steps in 2018/19 to improve the capacity of the finance function.

Systems of internal control operated effectively in 2018/19 with scope for improvements in some areas.

Financial performance in 2018/19

28. Education Scotland, as an executive agency of the Scottish Government, receives most of its funding directly from the Scottish Government. Its main financial objective is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

29. The initial budget, £20.443 million, was set out in the Scottish Government's Draft Budget 2018/19 published in December 2017. The agency received additional allocations totalling £12.497 million during the course of the year resulting in a final budget for 2018/19 of £32.940 million.

30. Education Scotland has reported an outturn of £32.111 million: a net underspend of £0.829 million. The financial performance against budget is set out at [exhibit 4](#).

Financial management is about financial capacity, sound budgetary processes and whether the control environment effective.

Exhibit 4 Performance against budget in 2018/19

Performance	Initial budget £m	Final budget £m	Outturn £m	Over (under) spend £m
Resource budget	20.423	32.890	32.024	(0.866)
Capital budget	0.020	0.050	0.087	0.037
Total budget	20.433	32.940	32.111	(0.829)

Source: Education Scotland audited Annual Accounts 2018/19

2018/19 financial position

31. The Statement of Financial Position summarises the assets and liabilities of Education Scotland and is equivalent to a conventional balance sheet. Taxpayers' equity is an accounting measurement of the amount invested that has continuing public benefit. It shows how much of this has arisen from the application of revenues and that which has resulted through changes over time in the value of physical assets.

32. As at 31 March 2019 the agency had net liabilities of £2.317 million (£1.238 million as at 31 March 2018) an increase of £1.079 million.

Financial management capacity

33. In our 2017/18 annual audit report we commented that the finance team were operating without some key staff due to vacancies and other absences and that management had advised that a finance action plan had been developed to address the longer-term staff capacity and financial management issues. We expressed the view that addressing financial management resourcing challenges was vital to providing an effective, sustainable finance function.

34. Two permanent appointments have recently been made: one accountant and one assistant accountant. The post of Head of Finance, Infrastructure and Analysis role has been also created: this sits above the Chief Financial Officer post and will add further depth and capacity to the finance function.

Quality of financial reporting and budget monitoring

35. Effective budgetary processes allow non-executive board members (NEBMs) and the management team to carry out effective scrutiny of the agency's finances. In our Annual Audit Report of 2017/18, we made adverse comment on arrangements in place for budget monitoring and control. We noted an improvement in these processes during 2018/19 and anticipate further refining of reporting and monitoring as the capacity of the agency's finance team increases.

Systems of internal control

36. As part of our 2018/19 audit we tested key controls operating over the main accounting systems. Our objective was to gain assurance that systems of processing and recording transactions provide a sound basis for the preparation of the financial statements.

37. We concluded that, generally, controls were operating satisfactorily. However, we have, in our interim management letter, suggested several areas where improvements could be made.

Dependency on key suppliers

38. The collapse of Carillion has had a significant impact across the public sector. This has brought into focus the risk of key supplier failure and underperformance of suppliers that are experiencing difficult trading conditions.

39. Management has advised that:

- for any tender exercise over £0.050 million a proportionate European Single Procurement Document is used.
- financial documentation is reviewed by the agency's finance team.
- all key contracts are subject to monthly review meetings.
- the agency employs external company to provide an alert in the event of a significant financial incident with the supplier.

Part 3

Financial sustainability



Main judgements

Education Scotland's core budget has been increased by £2.500 million to £22.943 million for 2019/20, an increase of 12% from the 2018/19 core budget allocation.

Although the agency does not yet have a medium /long term financial plan in place, the preparation of a long-term estates strategy and workforce plan will facilitate the preparation of longer term financial planning.

Financial planning

40. The Scottish Government's Draft Budget 2019/20 was published in February 2019. Education Scotland's core budget has been increased by £2.500 million to £22.943 million for 2019/20, an increase of 12% from the 2018/19 core budget allocation.

Medium to longer term planning

41. Management is preparing an estate strategy which will cover the next 10 years. This work, to be published in the summer 2019, will set out the short, medium and long term options for the existing accommodation and what requires to be done to support the enhanced remit and new structure of the agency.

42. The agency is also in the process of developing a strategic workforce plan that better supports the business into the future.

43. The preparation of an estate strategy and workforce plan will, in conjunction with the digital strategy provide a good foundation for longer term financial planning.

Education Governance: Next Steps

44. The conclusions from the consultation on governance arrangements in Scottish education were published in the *Education Governance: Next Steps* document in June 2017. This paper set out the Scottish Government's plans for Education Scotland and how its role and functions will be developed, including:

- strengthening the inspection function;
- a lead role in providing national support for professional learning and leadership development; and
- a significant contribution to the development and implementation of Regional Improvement Collaboratives.

45. The most recent information presented to the Leadership Team indicated that the agency is reviewing the staffing requirement to support the delivery of its new

Financial sustainability looks forward to the medium and longer term to consider whether the agency is planning effectively to continue to deliver its services.

and enhanced remit. This will have payroll implications for 2019/20 and 2020/21 that will need to be agreed with the Scottish Government.

46. The recruitment of the extra staff has increased pressure on the agency's budget and the Leadership Team is considering strategies to reduce the cost pressures through non filling of vacant posts and a reduction of non-staff costs.

European Union withdrawal

47. EU withdrawal will inevitably have implications for the public sector in Scotland. In October 2018, Audit Scotland published the briefing paper: [Withdrawal from the European Union](#). The paper emphasised the importance of public sector bodies working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports
- Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

48. We performed a high-level review of the agency's preparedness for EU withdrawal focussing on these three key themes.

49. Management has undertaken analysis regarding the potential implications for Education Scotland and its work. This was particularly focussed in the event of a "No Deal" withdrawal. The agency engaged with the Scottish Government Organisational Readiness and Resilience Group (SGoRR) and the EU Exit Rapid Response Group. The intelligence and information gathered from participation in these groups has been brought together in the SGoRR Delivery Plan that is being utilised across the SG to provide consistency in planning and response, led by the Constitution and Programme Office.

50. The Readiness Delivery Plan highlights areas of possible risk and concern to the delivery of the work of the agency, with steps to manage and mitigate potential risks, including a framework for contingency arrangements outlined.

51. There remains uncertainty as to the detail behind the UK's withdrawal from the EU. However, in our view, the agency has taken reasonable action to prepare for the impact of the UK's withdrawal from the EU. As part of our 2019/20 audit, we will continue to monitor its preparations for EU withdrawal.

Part 4

Governance and transparency



Main judgements

The agency has implemented improved governance arrangements.

Good progress has been made in implementing improvements to the system of governance and controls operating over the IT service. However, the agency still has some way to go to ensuring that it has arrangements in place to maintain a secure, effective and resilient IT function.

Governance arrangements

52. Education Scotland has responsibility for supporting quality and improvement in Scottish education. The agency is headed by a Chief Executive, to whom responsibility for all operational matters is delegated by the Director General for Education, Communities and Justice. The Chief Executive also holds the office of Chief Inspector of Education for Scotland and is the appointed Accountable Officer.

53. The Chief Executive is supported by a number of NEBMs and the agency's strategic directors who together form the Advisory Board. The role of the Advisory Board is to undertake an advisory and enabling function, providing strategic leadership and guidance for the agency in pursuing its objectives.

54. The Audit and Risk Committee's (ARC) role is to support the Advisory Board by overseeing audit, risk and governance arrangements.

55. The ARC's operations were subject to self-evaluation by its members in February 2019. This evaluation gives assurances on the effectiveness of the ARC as well as identifying areas for improvement. These learning points will be of particular use to new NEBMs joining the agency in September 2019.

56. The term of office for three of the NEBMs is due to expire in the summer of 2019. A recruitment process was undertaken in Spring 2019 to appoint replacements. The agency is looking to recruit four new members to sit on the Advisory Board, with two of the new recruits invited to sit on the ARC.

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.

Progress against previously reported governance issues

57. In our Annual Audit Report of 2017/18, we reported a number of governance issues some of which had been carried over from previous years. The following issues had been highlighted as areas of concern:

- outdated Framework Document
- corporate planning
- risk management strategy
- workforce planning
- non-executive board member recruitment

58. A new Framework Document has been produced and shared with a variety of key stakeholders, including the Public Bodies Unit and the Director General for Education, Communities and Justice within the Scottish Government. The revised Framework is now with SG Legal Directorate for final review after which it will be submitted to the Cabinet Secretary for Education and Skills for formal approval in Summer 2019.

59. Education Scotland has developed a corporate plan for the period 2019-22, setting the future direction for the agency. This reflects the Scottish Government's vision for education reforms and the agency's enhanced remit arising from the Education Governance: Next Steps 2017 review.

60. Work is still ongoing to develop a risk management strategy for the agency. A new risk management framework is under development and will be rolled out across the agency in the summer of 2019.

61. The agency is in the process of developing a strategic workforce plan that better supports the business. This will be developed during 2019/20.

62. Recruitment process is underway to replace three NEBMs in anticipation of periods of office ending in the summer of 2019.

63. We acknowledge the progress made by management in improving governance arrangements over a broad range of areas. Good governance is a continuous process and we anticipate further progress to be made in 2019/20.

IT governance issues follow-up

64. In June 2018 we submitted a report which set out some significant and ongoing governance deficiencies concerning the agency's IT function. As part of our 2018/19 audit work we reviewed progress against the agreed action plan included within that report.

65. Education Scotland has made good progress in addressing the weaknesses identified, despite the large scale reorganisation of the inspection function which also had a significant impact and call on IT resources.

66. Of the total of 11 actions, the conclusions of the follow-up review were as follows:

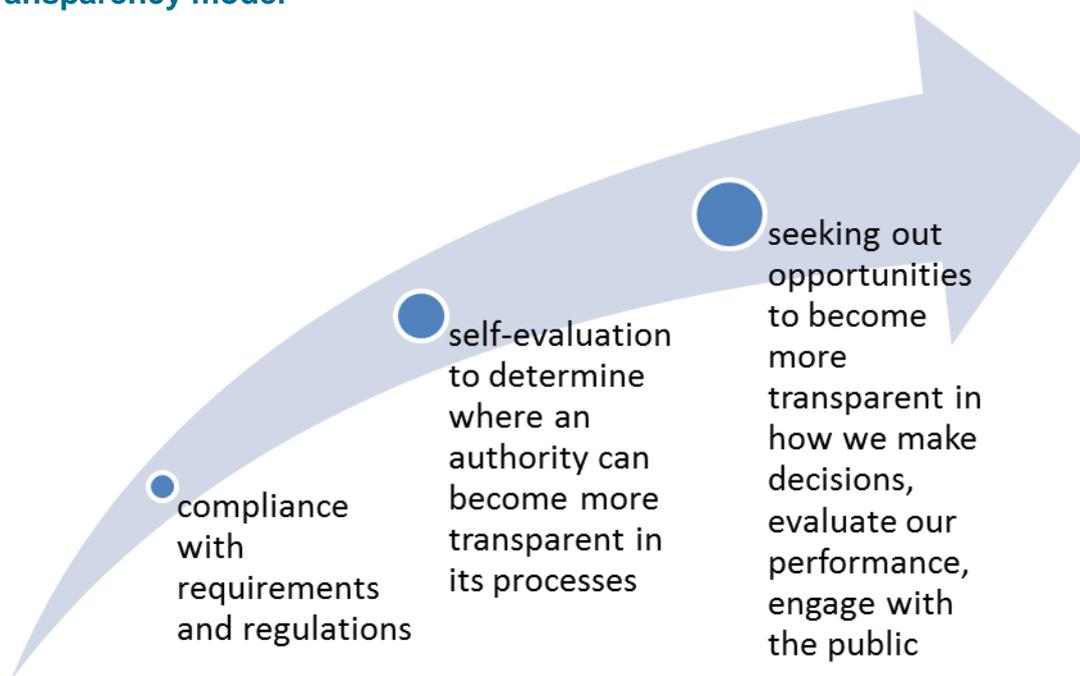
- Six areas have been dealt with satisfactorily, including a restructuring the IT function and the inclusion of cyber security as a corporate risk.
- One action is considered to have been partly implemented. This relates to the Digital Strategy which has been prepared and discussed at senior level but has not, as yet, been ratified as yet by the Advisory Board.
- Our opinion on one action has been deferred. A recruitment process for new non-executive directors has started with appointments expected in August 2019. The make-up of the Advisory Board and availability of suitable IT skills to form judgements on the feasibility of significant IT projects cannot be assessed until then.
- Three recommendations have been assessed as not implemented. These relate to staffing levels in the IT function (whilst permanent staff are not yet in place, the majority of roles are filled on a temporary basis with permanent recruitment planned for the coming months), lack of progress on developing business continuity arrangements for the organisation as a whole and the preparation of system documentation for key systems.

67. While acknowledging good progress, the agency still has some way to go to ensuring that it has arrangements in place to maintain a secure, effective and resilient IT function.

Openness and transparency

68. Transparency means that the public have access to understandable, relevant and timely information about how the agency is taking decisions and how it is using resources such as money, people and assets. Transparency is a process - good governance leads to an approach designed to increase transparency, [exhibit 5](#).

Exhibit 5 Transparency model



Source: Audit Scotland

69. Education Scotland's website is the principal means by which information is made available to the public. The website has links from the home page to all public facing services (for example Parentzone) as well as corporate information, including: inspection reports, the corporate plan, framework document and various policy documents. The website is in our view accessible and informative.

70. Minutes of the Advisory Board and ARC are made available to the public on the website. Neither agendas nor papers are published. The agency should consider enhancing transparency by publishing papers on its website. Where papers include confidential information, these can be withdrawn or redacted as appropriate.

71. Overall, we concluded that Education Scotland conducts its business in an open and transparent manner, but we believe that there is scope to shift the organisation further to the right in the model at [exhibit 5](#). As part of the renewal of the agency's governance framework, management should consider performing an assessment of the organisation's openness and transparency against best practice and the Scottish Government's values of Open Government which aim to foster openness, transparency and citizen participation.

Performance report

72. In addition to the opinion on the performance report covered in Part 1 of this report, we also consider the qualitative aspects of the performance report included in the annual report and accounts. The purpose of a performance report is to provide information on the agency, its main objectives and strategies, and the principal risks that it faces. It is required to provide a fair, balanced and reasonable

analysis of a body's performance and is essential in helping stakeholders understand the financial statements.

73. Overall the performance report presents a reasonable picture of the agency's performance. The structure and content have improved from that of previous years. The report could, however, be further developed by greater use of infographics and in particular by more information on actual performance versus targets. Management should consider whether the annual accounts reflect good practice as set out in Audit Scotland's guidance, '[Improving the quality of central government accounts – performance reports](#)'.

74. We understand that following the approval and sign off, management intend to enhance and supplement the presentation of the annual report and accounts on the agency's website with more graphic representations of the agency's performance.

Governance Statement

75. HM Treasury Financial Reporting Manual 2018/19 (FReM), specifies the preparation of a governance statement as part of the annual accounts. The Scottish Public Finance Manual (SPFM) sets out guidance on the content and minimum requirements of the statement but does not prescribe a format. We concluded that the governance statement 2018/19 complies with the guidance issued by the Scottish Ministers and presents a satisfactory explanation and assessment of Education Scotland's governance arrangements for the year under review.

Internal audit

76. Internal audit provides the Accountable Officer, the Advisory Board and ARC with independent assurance on risk management, internal control and corporate governance processes. The internal audit function is carried out by the Scottish Government Internal Audit Division (SGIAD). We did not plan to place any specific reliance on the work of internal audit for the purposes of the audit of the financial statements.

77. Public Sector Internal Audit Standards (PSIAS) are mandatory for all central government departments, agencies and executive NDPBs. The standards require the "chief audit executive" to provide an annual internal audit opinion and report that can be used to inform the annual governance statement.

78. The opinion provided by internal audit is that of "reasonable assurance". SGIAD define reasonable assurance as: "some improvements are required to enhance the adequacy and effectiveness of procedures. There are weaknesses in the risk, governance and/or control procedures in place but not of a significant nature."

National Fraud Initiative

79. The National Fraud Initiative (NFI) in Scotland brings together data from local government, health boards and other public sector bodies, to help identify and prevent a wide range of frauds against public funds. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.

80. Education Scotland participates in the NFI through the Scottish Government Payroll and Financial Services Division. As the Scottish Government does not hold a separate record of data matches relating specifically to Education Scotland we have not been able to establish the number of data matches identified or

investigated. However, the agency has not been advised of any issues by the Scottish Government in relation to NFI matches.

Special investigation

81. In our 2017/18 Annual audit Report we reported that management were conducting an enquiry into award and late delivery of an IT contract. An independent investigating officer was appointed from the Scottish Government. We are advised that the investigation has recently been concluded and that a report is imminent. We will review the final report and discuss the outcome with officers in due course.

Part 5

Value for money



Main judgements

Performance reporting has been improved in 2018/19 through the development of a set of new corporate key performance indicators (KPIs). This will assist the management team and non-executive board members in monitoring performance.

Best value

82. [Ministerial guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) sets out the accountable officers' duty to ensure that arrangements are in place to secure Best Value.

83. The Auditor General may require that we consider aspects of Best Value at an audited body. We performed no specific Best Value work during 2018/19.

Performance management

84. Best practice performance reports contain detailed information for each performance target including trend analysis, specific performance issues and actions being taken to improve performance. We expressed the opinion in 2017/18 that performance reporting could be improved and suggested that management consult with NEBMs to ensure that the format and detail of performance reports provide sufficient information to enable good quality scrutiny and challenge.

85. The corporate plan for the period 2019-22 sets out new strategic priorities for the agency:

- a strong focus on learning, teaching and leadership;
- national collaborative professional learning networks;
- getting it right for every child;
- best use of high-quality evidence; and
- effective partnerships

86. The priorities have been used to inform the development of a set of corporate Key Performance Indicators (KPIs). The KPIs are a defined set of quantitative measures, clearly linked to the agency's inputs, outputs and short-term outcomes. Many of the proposed KPIs involve collecting evidence against new metrics which will be baselined in financial year 2019/20.

87. Initial progress on the development of these new KPIs was presented to the ARC in December 2018. The committee welcomed the development of approach, and recognised the work undertaken at that stage to develop more impact and outcome KPIs.

88. We are pleased to note the progress made in this area and as part of our 2019/20 audit work, we will continue to monitor the new arrangements put in place by the agency.

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

Procurement

89. The Procurement Reform (Scotland) Act 2014 requires any public organisation which has an estimated annual spend of £5.000 million or more to develop and thereafter annually review a procurement strategy. The agency has a procurement strategy in place (last reviewed April 2019). The strategy is compliant with the requirements of the Act. It is prescriptive and notes the processes required to be followed: from defining and approving the business need through to contract management. The agency's 2018/19 annual procurement report is under development.

90. Internal audit carried out a review of procurement activity within the agency in 2018/19. They identified a number of control weaknesses. The recommendations raised to address these weaknesses will be included as part of Education Scotland's 2019/20 procurement action plan.

National performance audit reports

91. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. At each meeting of the Audit and Risk Committee, the external audit team present an update paper that highlights recent reports published by Audit Scotland and planned national audits that may be of interest to members. Reports published in 2018/19 are outlined in [appendix 4](#).

Appendix 1

Action plan 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Historic payables balance</p> <p>Our review of the aged creditors report at 31 March 2018 identified that this included 17 balances totalling £0.053 million that date back to 2012.</p> <p>Risk: There is a risk that the agency is continuing to recognise an obligation for debts that have already been settled in full or that no longer need to be paid.</p>	<p>Management should now write off these balances.</p> <p>Exhibit 3 – Issue 4</p>	<p>We are awaiting the results of an investigation by the Scottish Government on the accuracy of these balances and would expect the matter to be resolved before next year end.</p> <p>Audrey Parfinowska 30 September 2019</p>
2	<p>Secondee debt</p> <p>As at 31 March 2019 the agency owed £0.990 million (£1.175 million in 2017/18) to various councils for the costs of inward secondees for which it had not yet been invoiced.</p> <p>Risk: There is a risk that Education Scotland are not reimbursing the employing organisations within an appropriate time period.</p>	<p>The arrangements for paying secondee costs should be improved to ensure regular payment of all such debt.</p> <p>Exhibit 3 – Issue 5</p>	<p>We have been actively chasing councils over the last few months to encourage timely submission of invoices and will continue to work on this over the 2019 summer period when a concerted effort will be made to chase up outstanding secondee invoices from councils, to reduce the amount owed by the Agency.</p> <p>Andrew Duncan 30 September 2019</p>
3	<p>Accrued income</p> <p>In 2017/18 the agency was successful in an appeal to HMRC relating to the secondment of staff to Education Scotland. This resulted in a significant</p> <p>As at 31 March 2019, £0.550 million VAT refund due from councils is still outstanding.</p> <p>Risk: There is a risk of financial loss to the agency, in particular it is missing out on</p>	<p>The agency should be more proactive in ensuring recovery of this debt.</p> <p>Exhibit 3 – Issue 6</p>	<p>We recognise the importance of chasing outstanding debt and will focus on ensuring that this debt is recovered during the current financial year.</p> <p>An exercise to reclaim all outstanding VAT will take place during the Summer of 2019 in conjunction with the exercise noted at point 2 above.</p> <p>Andrew Duncan 30 September 2019</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>the interest it would receive on these funds.</p>		
4	<p>Annual flexi leave balance</p> <p>There were a number of clear anomalies in the balances on the year-end e-HR prints are indicative of, in some areas, a lack of regular supervisory review of staff flexi balances.</p> <p>Risk: Staff are not working the correct number of hours.</p>	<p>Management should remind supervisory staff that flexi balances should be subject to regular review and be maintained within the limits of the annual leave / flexi policy.</p> <p>Exhibit 3 – Issue 7</p>	<p>Management will remind line managers of the need to monitor flexi balances and ensure there is an appropriate reason for balances that exceed the policy threshold.</p> <p>HR have completed an analytical review of all staff annual leave balances and will present the findings at the Leadership Team meeting in June.</p> <p>Action will be taken to train all line managers in their responsibilities to monitor and challenge the annual leave and flexi balances of their direct reports, including the provision of training materials and guidance.</p> <p>As part of the 2019/20 year end accounts process, finance will work with HR to query any large balances with line managers.</p>
			<p>Nicola Rudnicki</p> <p>September 2019</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>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.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>Journal adjustments were tested, and no indications of management override of controls were found.</p> <p>Judgements and estimations applied were tested to confirm they were appropriate and reasonable. No issues were highlighted with the judgements and estimates applied.</p> <p>We tested accruals and prepayments and confirmed that income and expenditure was properly accounted for in the financial year.</p> <p>We reviewed transactions during the year – no issues highlighted of significant transactions outside the normal course of business.</p>
<p>2 Risk of fraud over expenditure</p> <p>The Code of Audit Practice extends the consideration of fraud under ISA 240. The risk of fraud over expenditure applies due to the variety and extent of expenditure incurred by the agency.</p>	<p>Analytical procedures on expenditure streams.</p> <p>Sample testing of expenditure.</p>	<p>We obtained satisfactory explanations for any significant increases or decreases in expenditure.</p> <p>Satisfactory results were obtained from our testing of expenditure transactions.</p>
<p>3 Internal controls</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</p>	<p>Review of supervisory checks of payroll data.</p> <p>Focused substantive payroll testing.</p>	<p>Satisfactory results were obtained from our testing of payroll. We did not identify any overpayment issues.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>overpayments to former employees.</p>		
<p>4 Accounting practices</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"> • duplicate prepayment/accruals. • asset additions not capitalised • holiday pay accrual • maintenance of asset register • historical payables balances • secondee debt • notional charges <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>Detailed testing of year-end prepayments and accruals.</p> <p>Focussed testing of in-year asset additions.</p> <p>Review of the holiday pay accrual data and calculation.</p>	<p>Each of the areas listed were reviewed as part of our annual accounts work.</p> <p>We noted ongoing issues with the following:</p> <p>flexi leave calculation.</p> <p>Exhibit 3 – Issue 7</p> <p>Historical payables balances</p> <p>Exhibit 3 – Issue 4</p> <p>Secondee debt</p> <p>Exhibit 3 – Issue 5</p> <p>No other significant issues were identified.</p>
<p>5 Finance capacity</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>Review of the quality of 2018/19 annual accounts and working papers presented for audit.</p> <p>Review of the agency's completed disclosure checklist.</p> <p>Focussed audit testing on areas where prior year errors were noted.</p>	<p>Two permanent appointments were recently made: one accountant and one assistant accountant. The post of Head of Finance, Infrastructure and Analysis role has been also created: this sits above the Chief Financial Officer post and will add further depth and capacity to the finance function.</p> <p>Paragraph 34</p> <p>As part of our financial statements work we completed the NAO disclosure checklist. There were no significant disclosure issues identified.</p> <p>The quality of the annual accounts submitted for audit was much improved over previous years. Supporting working papers were generally of a good standard although this could be improved in some areas.</p>

Audit Risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>6 Financial sustainability</p> <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>Review financial monitoring papers presented to committee.</p> <p>Review of arrangements to secure efficiencies.</p>	<p>The agency received additional allocations totalling £12.497 million during the course of the year and reported an underspend of £0.829 million for 2018/19.</p> <p>The Scottish Government's Draft Budget 2019/20 was published in February 2019. Education Scotland's core budget has been increased by £2.510 million to £22.943 million for 2019/20, an increase of 12% from the 2018/19 core budget allocation.</p> <p>The agency's financial position is sustainable in the foreseeable future.</p>
<p>7 Budget monitoring</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>Review of arrangements to manage the projected overspend.</p>	<p>We noted an improvement in these processes during 2018/19 and expect further refining of reporting and monitoring as the agency's finance team capacity increases.</p>
<p>8 Medium and longer term financial planning</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>Monitor progress of implementation.</p>	<p>Work is ongoing to develop an estates strategy and workforce plan that will align to the resource requirement under the agency's enhanced remit.</p> <p>Paragraph 43</p>
<p>9 Plans and policies</p>	<p>Monitor progress of implementation.</p>	<p>The agency has taken steps to improve the governance arrangements in 2018/19. Good</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>A number of corporate plans and policies require to be updated, including:</p> <ul style="list-style-type: none"> • corporate plan • framework document • workforce plan • risk management strategy • business continuity plan • cyber security framework • digital strategy • 2017/2018 annual review <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>	<p>Consider the adequacy and appropriateness of the finalised documents.</p>	<p>governance is a continuous process and we would expect further progress to be made in 2019/20.</p> <p>Paragraph 58</p>
<p>10 Non-executive board members</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>Review operation of the audit and risk committee and advisory board during 2018/2019.</p>	<p>A recruitment campaign is underway to appoint four new NEBMs.</p>

Appendix 3

Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £0.010 million and request they be corrected.

The table below summarises misstatements that were identified during our audit testing and have not been corrected by management. Cumulatively these errors are below our performance materiality level as shown in [exhibit 2](#). We are satisfied that these errors do not have a material impact on the financial statements however we request that they be corrected.

#	Account areas	Comprehensive income and expenditure statement		Statement of financial position	
		Dr £000	Cr £000	Dr £000	Cr £000
1	Purchase of goods and services – Training costs	14			
	Accruals and deferred income				(14)
2	Trade receivables				(28)
	Income (State of Guernsey strategic inspection work)	28			
3	Depreciation and impairment charges		(32)		
	Property plant & equipment			32	
	Net impact	42	(32)	32	(42)

Notes:

Entry 1 relates to an accrual that was incorrectly not recognised in the 2018/19 accounts.

Entry 2 relates to income from the 2017/18 financial year that was incorrectly not recognised in the 2018/19 accounts.

Entry 3 relates to a depreciation charge that was incorrectly applied to property plant & equipment in the 2018/19 accounts.

Appendix 4

Summary of national performance reports 2018/19

		 2018/19 Reports	
Local government in Scotland: Challenges and performance 2018		Apr	
Councils' use of arm's-length organisations		May	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		Jun	
		Jul	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		Aug	 Major project and procurement lessons
Children and young people's mental health		Sept	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		Oct	
Health and social care integration: update on progress		Nov	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		Mar	 Local government in Scotland: Challenges and performance 2019

Central Government relevant reports

[Scottish Fire and Rescue Service: an update](#) – May 2018

[Scotland's colleges 2018](#) – June 2018

[The National Fraud Initiative in Scotland 2016/17](#) – July 2018

[Forth Replacement Crossing](#) – August 2018

[Major project and procurement lessons](#) – August 2018

[Superfast broadband for Scotland: further progress update](#) – September 2018

Education Scotland

2018/19 Annual Audit Report

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