

# Education Scotland

2019/20 Annual Audit Report



 AUDIT SCOTLAND

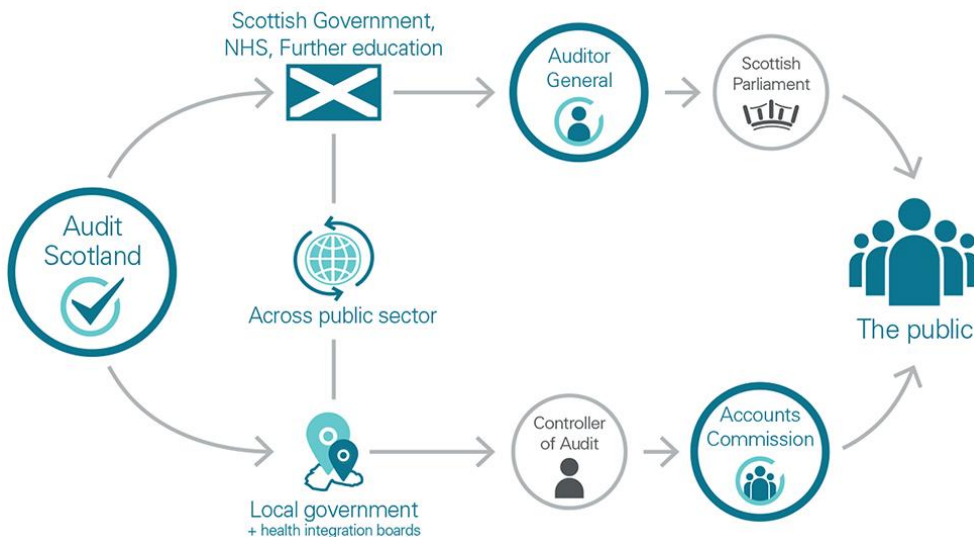
Prepared for Education Scotland and the Auditor General for Scotland

June 2020

## 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

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## 2019/20 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 2020 and of the net expenditure for the year then ended. An unqualified Independent Auditor's Report has been issued for the 2019/20 Annual Report and Accounts.
- 2** Expenditure and income in the financial statements were incurred or applied in accordance with legislation and guidance issued by Scottish Ministers.
- 3** The Performance Report, Governance Statement and Remuneration and Staff Report are consistent with the financial statements and properly prepared in accordance with guidance.

## Financial sustainability

- 4** The agency reported an underspend of £0.577 million against its budget of £38.381 million in 2019/20. The underspend was in part due to the suspension of operations during March, as a consequence of COVID-19 disruption.
- 5** Management has taken steps in 2019/20 to improve the capacity and stability of the finance function. This in turn has led to improvements in financial monitoring and budget reporting.
- 6** The preparation of a workforce plan, in conjunction with the Finance, Procurement, Estates and Digital strategies already in place, will provide the agency with a sound foundation for longer term financial planning.

## Governance arrangements

- 7** The agency benefits from strong leadership. The recently implemented organisational structure and revitalised Advisory Board should further enhance the agency's ability to deliver its objectives.
- 8** Governance and operational arrangements have been appropriately adjusted in the light of the COVID-19 disruption.
- 9** The agency operates in an open and transparent manner and publishes, on its website, agendas and minutes of Advisory Board and Audit and Risk Committee meetings as well other key governance documents.
- 10** We concluded that, generally, internal controls were operating satisfactorily and provided a sound basis for the preparation of the financial statements.

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# Introduction

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1. The scope of our audit was set out in our Annual Audit Plan presented to the December 2019 meeting of the Audit and Risk Committee.
2. This report sets out our findings from:
  - the audit of the Annual Report and Accounts
  - consideration of the agency's financial sustainability and governance arrangements.
3. Subsequent to the publication of the Annual Audit Plan, in common with all public bodies, the agency has had to respond to the COVID-19 pandemic. This impacted on the final month of the financial year and will continue to have a significant impact into 2020/21. Our planned audit work has had to adapt to new and emerging risks as they relate to the audit of the financial statements and the wider dimensions of audit.
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 the HM Treasury Financial Reporting Manual (FRoM) and the Scottish Public Finance Manual (SPFM).
  - ensuring the regularity of transactions by putting in place appropriate systems of internal control.
  - maintaining proper accounting records and appropriate governance arrangements.
5. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and Audit Scotland's [Code of Audit Practice](#). We undertake our audit in accordance with International Standards on Auditing, and the auditing profession's ethical guidance.
6. At the conclusion of our audit, we provide an Independent Auditor's Report for inclusion in the Annual Report and Accounts. The Independent Auditor's Report sets out our opinions on:
  - whether the financial statements give a true and fair view of the state of the affairs of the agency and of the net expenditure for the year.
  - whether the Annual Report and Accounts have been properly prepared in accordance with the FRoM.
  - whether the Annual Report and Accounts have been prepared in accordance with relevant legislation.
  - the regularity of the expenditure and income.
  - other matters as directed by the Auditor General.
7. Audit Scotland's Code of Audit Practice includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then annual audit work can focus on disclosures in the governance statement and the financial sustainability of the body. In our 2019/20 Annual Audit Plan we conveyed our intention to apply the

small body provisions to the 2019/20 audit of the agency's Annual Report and Accounts.

**8.** Best Value is about ensuring that there is good governance and effective management of resources, with a focus on improvement, to deliver the best possible outcomes for citizens. The duty of Best Value is a formal duty on the agency's Accountable Officer. As we have applied the Code of Audit Practice small body provisions to the audit of Education Scotland our wider scope responsibilities do not fully apply. Our Best Value work is limited to our audit work on financial sustainability and governance arrangements. In addition, for 2019/20 we reviewed the agency's response to its public sector equality and diversity duty and its website accessibility. Our findings on the latter reviews are included in our interim management letter.

**9.** An audit of 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.

**10.** It is the auditor's responsibility to provide an Independent Auditor's Report on the Annual Report and Accounts prepared by management. This does not relieve management of responsibility for the preparation of the Annual Report and Accounts. Further details of the respective responsibilities of management and the auditor can be found in Audit Scotland's Code of Audit Practice.

**11.** An action plan is included at [appendix 1](#) 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.

**12.** We 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 also confirm that we have not undertaken any non-audit related services and that the previously agreed audit fee of £37,840, is unchanged.

**13.** In addition to our primary responsibility of reporting on the Annual Report and Accounts we seek to add value to agency by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we aim to help the organisation promote improved standards of governance, better management and decision making, and more effective use of resources.

**14.** This report is addressed to both the Accountable Officer and the Auditor General for Scotland and following the agency's Annual Report and Accounts being laid at the Scottish Parliament, the report will be published on Audit Scotland's website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

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

# Part 1

## Audit of 2019/20 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 2020 and of the net expenditure for the year then ended. An unqualified Independent Auditor's Report has been issued for the 2019/20 Annual Report and Accounts.

Expenditure and income in the financial statements were incurred or applied in accordance with legislation and guidance issued by Scottish Ministers.

The Performance Report, Governance Statement and Remuneration and Staff Report are consistent with the financial statements and properly prepared in accordance with guidance.

### Audit opinions on the Annual Report and Accounts

**16.** The Annual Report and Accounts for the year ended 31 March 2020 were approved for issue by the Accountable Officer following the meeting of the Audit and Risk Committee of 30 June 2020.

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

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

**18.** 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

**19.** We received the unaudited Annual Report and Accounts on 11 May 2020 in line with the agreed audit timetable. MyCSP is the agency which administers the Civil Service pension schemes. There was significant delay in MyCSP providing the agency with pension information for inclusion in remuneration and staff report. MyCSP provided the information on 5 June.

**20.** Notwithstanding the incomplete Remuneration and Staff Report, the Annual Report and Accounts submitted for audit was of a high standard as were supporting working papers. Finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

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

## Performance Report

- 21.** HM Treasury Financial Reporting Manual (FReM) requires a performance report to be included in a body's 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. The FReM specifies that it should provide "a fair, balanced and understandable" analysis of a body's performance to meet the needs of Parliamentarians and other stakeholders.
- 22.** We concluded that the agency's 2019/20 Performance Report is consistent with our knowledge and experience of the organisation and presents a reasonable picture of the agency's performance.
- 23.** In 2018/19 the agency developed a set of corporate key performance indicators (KPIs). 2019/20 was the first year it began to collect data against these measures. The KPIs do not have a target. Management have advised that 2019/20 will act as a baseline for each of the KPIs.
- 24.** Management should establish targets for each of the KPIs and report on progress against these going forward, including trend analysis over time.



### [Recommendation 1 \(Appendix 1 - Action Plan\)](#)

## Governance Statement

- 25.** The FReM requires inclusion of a governance statement in an annual report and 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. The agency's governance statement complies with SPFM guidance and presents a satisfactory explanation and assessment of Education Scotland's governance arrangements for the year under review.

## Remuneration and Staff Report

- 26.** The FReM requires inclusion of a remuneration and staff report in an annual report and accounts. The remuneration and staff report is consistent with the financial statements and has been prepared in accordance with guidance.

## Risk of material misstatement

- 27.** 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

- 28.** 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.
- 29.** 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 2018/19 audited annual report and accounts.



**30.** On receipt of the 2019/20 unaudited annual report and 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 1](#).

## Exhibit 1 Materiality levels

Materiality level	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 2020.	£0.390 million
<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 calculated performance materiality at 65% of planning materiality.	£0.250 million
<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 set at 5% of planning materiality.	£0.020 million

Source: Audit Scotland

## Misstatements

**31.** We identified misstatements with a gross value of £0.342 million in the unaudited financial statements. As the total was above our performance materiality level, we revised our audit approach accordingly.

**32.** 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 have adjusted for the errors. These adjustments have contributed to the comprehensive net expenditure increasing by £0.065 million, with an increase of £0.280 million in net liabilities. Further details are included in [exhibit 2](#).

## Significant findings from the audit


**33.** 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.

**34.** Significant findings are summarised at [exhibit 2](#). Where a finding has resulted in a recommendation to management, a cross reference to the action plan in [appendix 1](#) has been included.

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

## Exhibit 2

### Significant findings from the audit

Issue	Resolution
<p><b>1. Delays in processing 2019/20 income</b></p> <p>Education Scotland, as an agency of the Scottish Government, uses Scottish Government financial systems for the administration of its affairs.</p> <p>Two elements of income had not been credited to the agency by the financial year end. The first related to a balance of £0.072 million for VAT due to the agency. The second element related to income of £0.143 million that had been incorrectly credited to the Scottish Government rather than to the agency.</p> <p>Scottish Government finance staff had not made the correcting entries by the year end. Management brought this misstatement to the attention of the audit team prior to the start of audit work.</p>	<p>Management have confirmed that the corrections have now been processed.</p>
<p><b>2. Income double counted</b></p> <p>For transactions between the Scottish Government and executive agencies, inter entity journals should be raised rather than issuing sales invoices.</p> <p>A sales invoice for £0.045 million was erroneously raised by Education Scotland against another executive agency.</p> <p>This error was identified by Education Scotland's finance team and an inter entity journal was raised. The cancellation of the sales invoice Scottish Government finance staff had not been made by the year end. As a consequence, income was overstated by £0.045 million.</p>	<p>Management have confirmed that the invoice has now been cancelled.</p>
<p><b>3. Historical payables balances</b></p> <p>In our previous annual audit reports, 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 2020 trade payables total of £0.489 million.</p>	<p>Management confirmed that they are not in a position to write this amount off but have raised various requests to the Scottish Government to do this. This has not yet been actioned.</p> <p> <a href="#">Recommendation 2 (Appendix 1 - Action Plan)</a></p>
<p><b>4. Omission of year end accrual</b></p> <p>An accrual amounting to £0.029 million was omitted from the unaudited accounts.</p>	<p>Management have adjusted for this error.</p>

## Follow up of prior year recommendations

**36.** We followed up on actions agreed in our 2018/19 Annual Audit Report, to assess what progress on implementation had been made. Details of the follow up are included in [appendix 1](#).

# Part 2

## Financial sustainability



### Main judgements

The agency reported an underspend of £0.577 million against its budget of £38.381 million in 2019/20. The underspend was in part due to the suspension of operations during March, as a consequence of COVID-19 disruption.

Management has taken steps in 2019/20 to improve the capacity and stability of the finance function. This in turn has led to improvements in financial monitoring and budget reporting.

The preparation of a workforce plan, in conjunction with the Finance, Procurement, Estates and Digital strategies already in place, will provide the agency with a sound foundation for longer term financial planning.

### Education Scotland operated within budget in 2019/20

**37.** 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.

**38.** The initial budget, £22.943 million, was set out in the Scottish Government's Budget 2019/20 published in December 2018. The agency received additional allocations totalling £15.438 million during the course of the year resulting in a final budget for 2019/20 of £38.381 million.

**39.** Education Scotland has reported an outturn of £37.804 million: a net underspend of £0.577 million. The financial performance against budget is set out at [exhibit 3](#).

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

### Exhibit 3

#### Performance against budget in 2019/20

Performance	Initial budget £m	Final budget £m	Outturn £m	Over (under) spend £m
Resource budgets	22.923	38.361	37.772	(0.589)
Capital budget	0.020	0.020	0.032	0.012
<b>Total budget</b>	<b>22.943</b>	<b>38.381</b>	<b>37.804</b>	<b>(0.577)</b>

Source: Education Scotland audited Annual Report and Accounts 2019/20

## COVID-19 had an impact on the year end outturn

40. At the Audit and Risk Committee (ARC) meeting on 4 March 2020 management provided non-executive board members (NEBMs) with a budget monitoring update as at 31 January 2020. A forecast year end underspend of £0.360 million was reported. The actual outturn was an underspend of £0.577 million, an increase of £0.217 million.

41. The increased underspend was, in part, due to the introduction of COVID-19 suppression measures during March. Savings were made in staff travel and subsistence budgets. In addition, planned spend of £0.120 million by the agency's digital team was not taken forward because of the uncertainties around contractors being able to work remotely without access to the Scottish Government IT platform.

## Financial reporting and budget monitoring

42. Detailed and timeous budget reporting allows NEBMs and the management team to carry out effective scrutiny of the agency's finances and hold budget holders to account. In previous annual audit reports, we commented on the need for complete, detailed and timeous budget monitoring updates to be provided to the members of the ARC to facilitate scrutiny and challenge. During 2019/20 we noted an improvement in budget reporting and a commitment by management to continue to develop and improve the agency's financial reporting.

43. A detailed examination of specific processes is termed "deep dive". Education Scotland use this technique to target business areas and projects which are considered to be of higher risk. The conclusions of deep dives are regularly reported to the ARC.

44. In 2019/20 the governance arrangements within the finance team and the budget setting process for 2020/21 were the subject of a deep dive. As part of this work, finance undertook a commendably open and transparent review into the agency's 2019/20 budget setting process. The review highlighted a number of areas for review and improvement and lessons learned have informed processes and engagement in building the 2020/21 budget.

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### Good Practice

Changes have been implemented to improve the budget process and thereby provide managers with the financial information they need to manage their budgets. This refined process also helps to assign clear accountability to budget holders and establish a collective responsibility for budget management and monitoring.

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## Financial planning

45. The conclusions from the Scottish Government's consultation on governance arrangements in Scottish education were published in the *Education Governance: Next Steps* report in June 2017. This paper set out the Scottish Government's plans for Education Scotland and how its role and functions were to be developed. At that time management estimated, that to deliver the agency's enhanced remit, over 100 additional staff were required at an annual cost of some and £6.6 million.

46. The Scottish Government's 2020/21 budget was published in February 2020. Education Scotland's core budget for 2020/21 was increased by £3.6 million (which includes a £2.8 million capital allocation for the Digital Transformation project) to £26.6 million, an increase of 16% from the 2019/20 core budget allocation. The agency estimates that this falls some £5.9 million short of funding needed for its core activities in 2020/21.

**47.** The agency's core budget has not been updated to incorporate all of the, mainly staff, costs arising from the *Education Governance: Next Steps* enhanced remit. The setting of a budget, which excludes a significant element of the agency's core expenditure, and then drip-feeding further budget allocations is an impediment to efficient and effective short-term budget planning and monitoring. It also presents an obstacle to preparing medium to longer term funding strategies to address the agency's priorities. In this respect we would expect there to be dialogue between the agency and Scottish Government on agreeing a future sustainable financial model.

### **Medium to longer term financial planning**

**48.** Staff costs comprise the greater part of the agency's annual expenditure (2019/20 68% of total expenditure). This should dictate that the agency adopts a strategic approach to workforce and succession planning and that this should be closely related to the agency's other corporate strategies. Historically workforce planning has not been a strategic activity, however, the new management regime has recognised the need for a longer-term approach and is developing a workforce plan which better supports the agency into the future.

**49.** The preparation of a workforce plan, in conjunction with the Finance, Procurement, Estates and Digital strategies already in place, will provide the agency with a sound foundation for longer term financial planning.

### **Resourcing the finance function**

**50.** In our previous annual audit reports, we have commented on the need for the agency to have a stable and sufficiently resourced finance function to help improve its financial management.

**51.** The finance function has already been strengthened and this has had a direct impact on the quality of budget reporting and monitoring and the quality of the Annual Report and Accounts presented for audit.

**52.** A Corporate Finance Strategy covering the three year's 2020 - 2023 has recently been published on the agency's website. This document provides an overarching structure of the role of the Finance Team in supporting delivery of Education Scotland's objectives and specifies the remit and responsibilities of the Finance Team. The strategy also includes arrangements for monitoring and reporting the performance of the Finance Team.

**53.** Good financial management is an ongoing process and as part of our work in 2020/21 we will continue to monitor the agency's progress in this area. Internal audit is due to undertake a review of the agency's financial management as part of its 2020/21 audit plan and we will review the findings as part of our 2020/21 work.

# Part 3

## Governance arrangements



### Main judgements

**The agency benefits from strong leadership. The recently implemented organisational structure and revitalised Advisory Board should further enhance the agency's ability to deliver its objectives.**

**Governance and operational arrangements have been appropriately adjusted in the light of the COVID-19 disruption.**

**The agency operates in an open and transparent manner and publishes, on its website, agendas and minutes of Advisory Board and Audit and Risk Committee meetings as well other key governance documents.**

**We concluded that, generally, internal controls were operating satisfactorily and provided a sound basis for the preparation of the financial statements.**

### Strategic leadership

**54.** 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.

**55.** The Chief Executive is supported by a number of non-executive board members (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.

**56.** A new Framework Document has been produced and is in draft format. Management have advised that the revised Framework Document is now with the Director of Learning for final review after which it will be submitted to the Cabinet Secretary for Education and Skills for formal approval in Summer 2020.

### Advisory Board

**57.** Previous annual audit reports have been critical of the deployment of and lack of succession planning for NEBMs. The term of office for three NEBMs expired in the summer of 2019. A recruitment process was undertaken to appoint replacements. The agency recruited five new members, from a variety of backgrounds, to sit on the Advisory Board, two of the new recruits sit on the Audit and Risk (ARC). The increase in membership draws on an increased breadth of experience and will improve the functioning of the Advisory Board and the supporting ARC.

### Audit and Risk Committee

**58.** The ARC's role is to support the Advisory Board by overseeing audit, risk and governance arrangements. The ARC's operations were subject to self-evaluation by its members in March 2020. This evaluation gives assurances on the effectiveness of the ARC as well as identifying areas for improvement.

Good governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial and performance information.

**59.** We attend all meetings of the ARC. We have noted from our attendance that NEBMs demonstrate a clear understanding of their responsibilities and of the respective roles of management, internal and external audit. We have also observed a good level of scrutiny and challenge to officers over finance and performance.

## Implementation of new organisational structure

**60.** Following the publication of the Education Governance: Next Steps in November 2017, management undertook a review of the organisational structure to ensure that it was best fitted to deliver its new and enhanced remit.

**61.** Following a period of consultation and adjustments, the new structure was implemented from 1 April 2019 and the agency's Leadership Team undertook a review of its effectiveness in October and November 2019.

**62.** The review noted several strengths with the new structure, including improved strategic leadership and line management arrangements and clarity with individual roles and responsibilities. In addition to this, it also identified six recommendations that are being taken forward by the agency's strategic directors.

## COVID-19 governance and operational arrangements

**63.** The agency reviewed its governance structure in light of the COVID-19 pandemic. The Leadership Team now meets by teleconference on a daily rather than weekly basis and terms of reference for directorates have been revised to focus on recovery activity. The new arrangements also include the setup of a number of work streams to take forward the agency's recovery activity and support for the sector.

**64.** The last formal Advisory Board meeting of 2019/20 was cancelled as a result of the government's lockdown measures. It was replaced with a teleconference between the non-executive members, the Chief Executive, and the Strategic Director for Corporate Services and Governance. Teleconference arrangements will remain in place for the duration of the government's lockdown measures.

**65.** In advance of Scottish schools closing on 20 March 2020, the agency took several steps to relieve pressure on the education system, including pausing all inspections and professional learning activity and events from 16 March. These suspensions remain in place.

**66.** Education Scotland have contacted all local authorities with an offer of support, including to make staff available to be deployed in hubs, early years or educational establishments following specific requests from local authorities. In anticipating the re-opening of schools in August the agency has taken the early decision to pause its inspection regime next year to enable teachers to concentrate on reopening schools.

**67.** Education Scotland has been working closely with local authorities, teachers, parents and BBC Scotland to support the education system in a number of ways, including the immediate need to support remote learning. The range of support agency has put in place includes:

- Online resources - learning and teaching materials in curriculum areas and sectors to meet immediate demand and requests from professional associations.
- Glow - Scotland's nationally available digital learning platform - is helping learning to continue outside of the classroom by enabling learners and teachers to access a range of tools, features and resources at any time, on any device with an internet connection.



- Remote learning - developed and shared a range of webinars aimed at providing support with getting started with Glow.
- Supporting parents with home schooling - working with Scottish Government, the agency has provided a range of practical advice and tips for parents which is shared through Parents' Club online resource. The Parentzone Scotland website has been updated with current and materials to support parents and families in learning at home.

**68.** In addition to the above, the Chief Executive and two of the Strategic Directors of Education Scotland are members of the national [COVID-19 Education Recovery Group](#). The group aims provide advice on education policy in the context of the response to the COVID-19 pandemic and decisions around the re-opening of schools.

## Openness and transparency

**69.** There is an increasing focus on how public money is used and what is achieved. 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,

**70.** There is evidence from several sources which demonstrate the agency's commitment to openness and transparency:

- The agendas and minutes of the Advisory Board and ARC are published on the agency's website on a timely basis.
- The register of interests for NEBMs is up to date and publicly available on the agency's website.
- The agency makes its annual report and accounts available on its website. These include a performance report which adequately explains the agency's financial performance for the year.
- The website also provides the public with access to a wide range of corporate information including details of the agency's corporate plan and equality and diversity reporting.

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### Good practice

The agency ensures that minutes and agendas of board and committee meetings and other key governance documents for publication are available for public review via its website.

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## Systems of internal control

**71.** As part of our 2019/20 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.

**72.** We concluded that, generally, internal controls were operating satisfactorily and provided a sound basis for the preparation of the financial statements. However, we did, in our interim management report, identified two areas where improvements could be made.

## Internal audit opinion

**73.** 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.

**74.** 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.

**75.** 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.”

## Special investigation

**76.** During 2017/18, as a result of an enquiry into late delivery of an IT contract by an external contractor, the interim Chief Executive (August 2017- December 2017) established that a payment, in advance, of approximately £0.500 million had been made to the contractor. The payment was not in line with normal business practice and contrary to the provisions of the Scottish Public Finance Manual. A preliminary investigation into the circumstances was undertaken by Internal Audit following which management referred the issue to Counter Fraud Services (CFS) (a division of NHS National Services Scotland) for further enquires.

**77.** The CFS investigation was concluded during 2019/20. Education Scotland were advised that CFS were unable to retrieve any information evidencing fraud and consequently the case was closed.

**78.** The original project was for the digitisation and enhancement of the agency’s National Improvement Hub. The Internal Audit preliminary investigation found a number of significant governance failures in project management and governance. Three of the four individuals involved in the project management and procurement of this contract have since left the agency. Under the new management regime steps have been taken to revise governance procedures in respect of procurement.

## National performance audit reports

**79.** 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 ARC, the external audit team presents 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 2019/20 are set out at [appendix 3](#).

# Appendix 1

## Action plan 2019/20



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Key performance indicators</b></p> <p>In 2018/19 the agency developed a set of corporate Key Performance Indicators (KPIs). 2019/20 was the first year it began to collect data against these measures. The KPIs do not have a target. Management have advised that 2019/20 will act as a baseline for each of the KPIs.</p> <p><b>Risk:</b> There is a risk that the agency is not able to monitor progress against its key objectives.</p>	<p>Management should establish targets for each of the KPIs and report on progress against these going forward, including trend analysis over time.</p>	<p>Corporate KPIs have been developed and 2019-20 is intended to be the baseline year. KPIs may require amendment given the change of focus in some aspects of Education Scotland's work in line with Covid-19 response.</p>
2	<p><b>Historic payables balance</b></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><b>Risk:</b> 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>Prior to the 2020/21 year-end, if this balance remains outstanding, then as part of the ARC annual reporting exercise the Chair should consider writing to the Scottish Government to progress the write off.</p>	<p>The balances are not able to be written off because they have arisen as a result of a systems issue which will need to be resolved by the supplier, Oracle. This issue has been logged with the SG systems team. The Chair of the ARC and the Accountable Officer will jointly raise this issue with the Scottish Government.</p>

## Follow up of prior year (PY) recommendations

<p><b>PY1 Historic payables balance</b></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><b>Risk:</b> 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><b>Outstanding</b></p> <p>See recommendation 2 above.</p>
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**PY2 Seconded debt**

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.

**Risk:** There is a risk that Education Scotland are not reimbursing the employing organisations within an appropriate time period.

The arrangements for paying secondee costs should be improved to ensure regular payment of all such debt

**Ongoing**

The agency has made good progress in reducing this balance in 2019/20, with the year-end figure being reduced to £0.464 million.

**PY3 Accrued income**

In 2017/18 the agency was successful in an appeal to HMRC relating to the secondment of staff to Education Scotland. As a result the agency is able to reclaim from councils significant sums of VAT paid on invoices for seconded staff.

As at 31 March 2019, £0.550 million VAT refund due from councils is still outstanding.

**Risk:** There is a risk of financial loss to the agency, in particular it is missing out on the interest it would receive on these funds

The agency should be more proactive in ensuring recovery of this debt

**Complete**

Following a review in 2019/20 of the outstanding VAT, a total of £0.057 million was written off. Education Scotland is only able to claim back VAT for the preceding four years and this figure represents VAT outwith this four-year period

However, the agency has successfully recovered the remaining £0.493 million of this balance in 2019/20.

**PY4 Annual flexi leave balance**

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.

**Risk:** Staff are not working the correct number of hours.

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

**Complete**

Work has been conducted to improve the flexi leave balance, with no significant anomalies in this year's data.

# 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.

Audit Risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></p> <p>Auditing Standards require 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><b>2 Risk of fraud over expenditure</b></p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. Due to the variety and extent of expenditure incurred by the agency there is a risk that expenditure may be materially misstated in the accounts.</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>

Audit Risk	Assurance procedure	Results and conclusions
<b>Risks identified from the auditor's wider responsibility</b>		
<p><b>3 Budget monitoring</b></p> <p>It is important that budget monitoring reports are detailed, accurate and prepared on a timeous basis. As at September 2019 there had been no detailed budget update provided to the members of the Audi and Risk Committee.</p> <p>There is a risk that incomplete budget forecasting impacts upon the ability of non-executive board members to carry out effective scrutiny of the agency's finances.</p>	<p>Review financial monitoring papers presented to committee.</p>	<p>We noted an improvement in these processes during 2019/20 and anticipate further development as the enhanced arrangements bed in over time.</p>

# Appendix 3

## Summary of national performance reports 2019/20

		 <b>2019/20 Reports</b>	
		Apr	
Social security: Implementing the devolved powers		<b>May</b>	
Scotland's colleges 2019		<b>Jun</b>	 Enabling digital government
		Jul	
NHS workforce planning - part 2		<b>Aug</b>	
Finances of Scottish universities		<b>Sept</b>	
NHS in Scotland 2019		<b>Oct</b>	
		Nov	
Local government in Scotland: Financial overview 2018/19		<b>Dec</b>	
Scotland's City Region and Growth Deals		<b>Jan</b>	 Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		<b>Mar</b>	 Early learning and childcare: follow-up

### Central Government relevant reports

[Social security: Implementing the devolved powers](#) – May 2019

[Enabling digital government](#) – June 2019

[Scotland's City Region and Growth Deals](#) – October 2019

[Privately financed infrastructure investment: The Non-Profit Distributing \(NPD\) and hub models](#) – Jan 2020

[Early learning and childcare: follow-up](#) – March 2020

# Education Scotland

## 2019/20 Annual Audit Report

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