

# Education Scotland

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for Education Scotland  
2 March 2022

# Contents

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Introduction	3
Annual report and accounts audit planning	5
Audit dimensions and Best Value	9
Reporting arrangements, timetable, and audit fee	13
Other matters	16

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# Introduction

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## Summary of planned audit work

**1.** This document summarises the work plan for our 2021/22 external audit of Education Scotland (the agency). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual report and accounts and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Governance Statement and the Remuneration and Staff Report
- consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency and value for money that frame the wider scope of public sector audit
- consideration of Best Value arrangements
- review of Education Scotland's participation in the National Fraud Initiative.

## Impact of Covid-19

**2.** The coronavirus (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

**3.** The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

## Adding value

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

## Respective responsibilities of the auditor and the Accountable Officer

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and Education Scotland. Key responsibilities are summarised below.

### Auditor responsibilities

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

7. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the arrangements within the agency to manage its performance, regularity, and use of resources. In doing this, we aim to support improvement and accountability.

### Accountable Officer responsibilities

8. The Accountable Officer has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety, and regularity. The audit of the annual report and accounts does not relieve the Accountable Officer of her responsibilities.

## Managing the transition to 2022/23 audits

9. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

# Annual report and accounts audit planning

## Materiality

**10.** Materiality is an expression of the relative significance of a matter in the context of the annual report and accounts. We are required to plan our audit to determine with reasonable confidence whether the annual report and accounts are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

### Materiality levels for the 2021/22 audit

**11.** The materiality levels for the agency are set out in [exhibit 1](#).

## Exhibit 1

2021/22 materiality levels for Education Scotland

Materiality levels	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure based on the latest audited annual report and accounts for 2020/21.	£0.380 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the annual report and accounts audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 65% of planning materiality.	£0.247 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.	£0.020 million

Source: Audit Scotland

## Significant risk of material misstatement to the annual report and accounts

**12.** Our risk assessment draws on our cumulative knowledge of Education Scotland, its major transaction streams, key systems of internal control and risk

management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

**13.** Based on our risk assessment process, we identified the following significant risk of material misstatement to the annual report and accounts. This risk has the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

## Exhibit 2

### 2021/22 significant risk of material misstatement to the annual report and accounts

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

Source: Audit Scotland

## Consideration of the risks of fraud in the recognition of income and expenditure

**14.** As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. As an executive agency of the Scottish Government, most of the agency's funding is from central government, residual income comes mainly from other public sector

organisations. We assess that the risk of material misstatement arising from fraud over income is limited. This limitation is of such an extent that we have excluded the risk of fraud over income from our significant audit risks.

**15.** In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to income recognition. We have rebutted this risk for Education Scotland as the expenditure streams are not considered to be an area susceptible to material misstatement from fraud based on our knowledge of the agency and our risk assessment to date.

**16.** We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures. Our audit testing will maintain an oversight of any unusual transactions or accounting entries.

## Other areas of audit focus

**17.** As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the annual report and accounts. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

**18.** The areas of specific audit focus are:

- **VAT (Value Added Tax) provision:** There is an element of uncertainty surrounding the VAT provision due to the outstanding technical query raised with HMRC, which may not be resolved by 31 March 2022. The potential for a post balance sheet event increases the risk of material misstatement in this area.
- **Dilapidation provision:** There is a degree of estimation required in the calculation of the new dilapidation provision required for Denholm House. This increases the risk of material misstatement in this area.
- **Intangible assets:** The digital transformation project is due to be completed by 31 March 2022, with assets becoming operational by the financial year-end. This will require assets to be transferred from “Assets under Development” to “Intangible Assets.” This transfer will give rise to a necessary impairment review to ensure assets are transferred at their existing use value. The accounting treatment and subjectivity involved in the required impairment review increases the risk of material misstatement in this area.

## Audit risk assessment process

**19.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur,

we will advise management and where relevant, report them to those charged with governance.

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# Audit dimensions and Best Value

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## Introduction

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

## Audit dimensions

21. The four dimensions that frame our audit work are shown in [exhibit 3](#).

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### Exhibit 3

Audit dimensions



Source: Code of Audit Practice

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22. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).
- **Governance and transparency** – 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.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

## Duty of Best Value

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

## Audit dimension risks

**24.** We have identified audit risks in the areas set out in [exhibit 4](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks. The conclusions from this work will be reported in our 2021/22 Annual Audit Report.

## Exhibit 4

### 2021/22 audit dimension risks

Description of risk	Sources of management assurance	Planned audit response
<p><b>1. Education reform – impact on Education Scotland</b></p> <p>Following the Organisation for Economic Development (OECD) review of Curriculum for Excellence, the Cabinet Secretary for Education and Skills announced in June 2021 that the Scottish Qualifications Authority was to be replaced and there is</p>	<ul style="list-style-type: none"> <li>• Education Scotland is committed to working collaboratively to implement any recommendations from the review.</li> </ul>	<ul style="list-style-type: none"> <li>• Review of the outcomes of the reform consultation.</li> <li>• Liaise with management on any immediate implications for Education Scotland and plans going forward.</li> <li>• Ensure appropriate disclosure is made within the Performance Report in the annual report and accounts.</li> </ul>

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to be substantial reform of Education Scotland.

An advisory panel led by Professor Ken Muir has undertaken consultations, with the outcomes due to be published in February 2022.

**Risk:** The outcomes of the review will have a significant impact on the role, remit, functions, and governance of Education Scotland going forward.

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## 2. Service delivery and performance

Delivery of key operations of the agency, such as school inspections, continue to be impacted by the Covid-19 pandemic. Similarly, reporting against key performance indicators (KPIs) in 2021/22 will again be impacted by the pandemic, with data unavailable for some indicators.

The agency is projecting an underspend of £1.1m for 2021/22, which is mainly attributable to underspends within staff costs. Current staffing levels within the agency are low and have been impacted by a variety of factors including the pandemic, the uncertainty surrounding the reform and market competition.

**Risk:** When the agency returns to full operational capacity, current staffing levels will not be sufficient to meet the agency's objectives. This in turn will impact on its KPIs.

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- The Oversight Board, chaired by the Chief Executive, monitors the agency's performance against its agreed objectives and outcomes
- A workforce plan is in place to monitor current pressures and staff vacancies
- Effective financial reporting and budget monitoring arrangements are place within the agency.
- Liaise with management on a regular basis for any updates surrounding service delivery and staff recruitment.
- We will review and consider the reporting against the KPIs within the annual report and accounts.
- Review updates to the agency's workforce plan.
- We will review the agency's ongoing budget monitoring and medium to longer term financial planning in the context of the challenges it is facing.

Source: Audit Scotland

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# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**25.** Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [exhibit 5](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

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

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

**28.** [Exhibit 5](#) outlines the target dates for our audit outputs, and we aim to issue the Independent Auditor's Report by the Audit Scotland deadline of 31 August 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19.

## Exhibit 5

### 2021/22 audit outputs

Audit Output	Audit Scotland target date	Audit and Risk Committee Date
Annual Audit Plan	28 February 2022	2 March 2022
Independent Auditor's Report	31 August 2022	29 June 2022
Annual Audit Report	31 August 2022	29 June 2022

Source: Audit Scotland

## Timetable

**29.** To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [exhibit 6](#) that has been discussed with management.

**30.** Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month relative to the two prior years. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

**31.** We will continue to work in close partnership with management with clarity over timescales and the requirement for high quality unaudited accounts and supporting working papers. Progress will be discussed with management and finance officers over the course of the audit.

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### Exhibit 6

#### Proposed annual report and accounts timetable

Key stage	Provisional date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	9 May 2022
Latest date for final clearance meeting with Strategic Director of Corporate Services and Governance.	10 June 2022
Issue of Letter of Representation and proposed Independent Auditor's Report.	15 June 2022
Issue of Annual Audit Report to those charged with governance.	29 June 2022
Signed Independent Auditor's Report.	7 July 2022
Latest date for signing of SG (Scottish Government) Consolidation return.	29 July 2022

Source: Audit Scotland

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## Audit fee

**32.** The agreed audit fee for the 2021/22 audit of Education Scotland is £37,800 (2020/21: £37,040). In determining the audit fee, we have taken account of the risk exposure of Education Scotland, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

**33.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate supporting working papers or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

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# Other matters

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## Internal audit

**34.** International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures.
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort.
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities; and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

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

**36.** From our initial review of the internal audit plan, we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities. Subject to the above confirmations, we may consider aspects of internal audit's work in respect of our wider audit dimension responsibilities.

## Independence and objectivity

**37.** Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

**38.** The engagement lead (i.e., appointed auditor) for Education Scotland is Andrew Kerr, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Education Scotland.

## Quality control

**39.** International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

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

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

# Education Scotland

## Annual Audit Plan 2021/22

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

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

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