

Education Scotland

2020/21 Annual Audit Report



 AUDIT SCOTLAND

Prepared by Audit Scotland
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Key messages

2020/21 annual report and accounts

- 1 An unqualified independent auditor's report has been issued for the 2020/21 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 Education Scotland reported an underspend of £0.931 million against its budget of £41.147 million in 2020/21.
- 5 The agency has in place effective financial reporting and budget monitoring arrangements.
- 6 Education Scotland is working towards producing a longer-term financial strategy.
- 7 The Digital Transformation project is progressing as planned and is subject to ongoing scrutiny and oversight.

Governance arrangements

- 8 The Scottish Government announced proposals to substantially reform Education Scotland and replace the Scottish Qualifications Authority (SQA).
- 9 Education Scotland is working with partners to address the recommendations in the Audit Scotland national report on improving outcomes for young people.

Introduction

1. The scope of our audit was set out in our Annual Audit Plan presented to the March 2021 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.

Responsibilities and reporting

3. The Chief Executive of Education Scotland, as Accountable Officer, has responsibility for:

- 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.

4. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#) and supplementary guidance and International Standards on Auditing in the UK. We undertake our audit in accordance with International Standards on Auditing, and the auditing profession's ethical guidance.

5. At the conclusion of our audit, we provide an independent auditor's report for inclusion in the annual report and accounts.

6. Audit Scotland's Code of Audit Practice 2016 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 the financial sustainability of the body and the disclosures in the governance statement. In our 2020/21 Annual Audit Plan we conveyed our intention to apply the small body provisions to the 2020/21 audit of the agency's annual report and accounts.

7. 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 provision 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.

8. This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

9. Our Annual Audit Report contains an agreed action plan at [appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation. It also includes any outstanding actions from last year and progress against these. 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.

Adding value through the audit

10. In addition to our primary responsibility of reporting on the annual report and accounts we seek to add value to the 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.

Auditor Independence

11. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

12. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2020/21 audit fee of £37,040, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

13. 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.

14. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

1. Audit of 2020/21 annual report and accounts

The principal means of accounting for the stewardship of resources and performance.

Key messages

An unqualified independent auditor's report has been issued for the 2020/21 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.

Our audit opinions on the annual report and accounts are unmodified

15. The annual report and accounts for the year ended 31 March 2021 were approved for issue by the Accountable Officer following the meeting of the Advisory Board of 7 July 2021.

16. 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.

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

The unaudited annual report and accounts were submitted for audit in line with the agreed timetable

18. Despite the ongoing restrictions caused by the Covid-19 pandemic, we received the unaudited annual report and accounts on 7 May 2021 in line with the agreed audit timetable. The annual report and accounts submitted for audit were 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 2020/21 performance report provides a good picture of its performance and operational activity for the year

19. 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.

20. We concluded that the agency's 2020/21 performance report is consistent with our knowledge and experience of the organisation and presents a reasonable picture of the agency's performance.

21. 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 did not have a target. Management advised that 2019/20 would act as a baseline for each of the KPIs.

22. It is recognised that Covid-19 has had an impact on many of the areas covered by the KPIs in 2020/21. Following the agency's return to a more normal way of delivering its objectives, management should establish targets for each of the KPIs. This will allow for progress to be reported against these going forward, including trend analysis over time.

See [appendix 1](#), action plan, prior year follow-up, recommendation 1

The annual governance statement includes appropriate disclosure of the ongoing impact of Covid-19 on the agency's governance arrangements during 2020/21

23. 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 annual governance statement complies with SPFM guidance and presents a satisfactory explanation and assessment of Education Scotland's governance arrangements for the year under review.

24. Public bodies have had to quickly change how they deliver services in response to the ongoing Covid-19 outbreak and the related restrictions introduced. The widespread use of virtual working and the rapid introduction of new programmes and services create a range of potential financial risks and

challenges to internal controls. In its annual governance statement, the agency has made appropriate disclosure of the impact that Covid-19 has had on its governance arrangements in 2020/21 and the steps it has taken in response to this.

The audited part of the remuneration and staff report was consistent with the annual accounts and has been prepared in accordance with applicable guidance

25. The FReM requires Education Scotland to include a remuneration and staff report within its annual report and accounts that includes details of:

- the agency's remuneration policy,
- details of the remuneration of senior officers, including pension entitlements, for the financial year (and prior year comparator); and accrued pension benefits figures at 31 March of that year,
- the number and cost of exit packages approved during the financial year, and
- a median pay disclosure and a range of other information on staff costs, numbers, and related activity.

26. We have no issues to report in relation to the information included within the remuneration and staff report in the agency's 2020/21 annual report and accounts.

Our audit identified and addressed the risks 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 annual report and accounts. 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 annual report and accounts.

Our audit testing reflected the calculated materiality levels

28. Materiality can be defined as the maximum amount by which auditors believe the annual report and accounts could be misstated and still not be expected to affect the perceptions and decisions of users of the annual report and accounts. 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).

29. Our initial assessment of materiality for the annual report and accounts is undertaken during the planning phase of the audit. On receipt of the unaudited annual report and accounts, and following completion of audit testing, we reviewed our original materiality calculations and concluded that they remained appropriate. Our materiality levels are set out at [exhibit 1](#).

Exhibit 1

Materiality levels

Materiality level	Amount
Overall 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 2021.	£0.379 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 calculated performance materiality at 65% of planning materiality.	£0.246 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 5% of planning materiality.	£0.019 million

Source: Audit Scotland

Identified misstatements of £0.753 million were adjusted in the accounts, these were more than our performance materiality and as such we revised our audit approach accordingly

30. We identified misstatements, including misclassifications, with a gross value of £0.753 million in the unaudited annual report and accounts. As the total was above our performance materiality level, we revised our audit approach accordingly.

31. Management have adjusted for all the errors. These adjustments have contributed to the comprehensive net expenditure increasing by £0.006 million, with a corresponding decrease in net liabilities. Further details of these adjustments are included in [exhibit 2](#).

We have significant findings to report on the annual report and accounts

32. 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 accounts disclosures are satisfactory and appropriate to the agency.

33. 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.

34. 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 of the annual report and accounts**

Issue	Resolution
<p>1. Consideration of going concern</p> <p>The Organisation for Economic Co-operation and Development (OECD) review of Curriculum for Excellence was published on 21 June 2021. The OECD review identified 12 recommendations. The Cabinet Secretary for Education and Skills made a statement to the Scottish Parliament on 22 June 2021 stating that all 12 of the review's recommendations would be accepted in full. In response it was also announced that the Scottish Qualifications Authority (SQA) would be replaced and there is to be substantial reform of Education Scotland.</p> <p>It is proposed that Education Scotland will no longer undertake inspections, with this work becoming a separate, independent role. The curriculum work currently undertaken by Education Scotland, together with the setting of assessments currently undertaken by the SQA, will transfer to a new organisation which will replace the SQA.</p> <p>The accounts have been prepared on a going concern basis. Due to the announcement we considered accounting guidance and the Financial Reporting Manual (FRM), to ensure that the use of the going concern assumption remained appropriate. We concluded that it does as the functions of Education Scotland will continue to be delivered by the body until the reform is complete. At that time the functions will transfer and continue to be delivered by an alternative public sector body.</p>	<p>For information only.</p> <p>We believe that the use of the going concern basis of accounting remains appropriate for the 2020/21 annual report and accounts. Appropriate disclosure is included in the accounts of the recent decision regarding the future of Education Scotland.</p>
<p>2. Disclosure of trade receivables</p> <p>The unaudited year-end trade receivables balance included balances (£0.598 million) relating to unspent grants that were returned to the agency by grantees at 31 March 2021. The balances were disclosed as prepayments.</p> <p>Given the value of the unspent grants we requested that these be separately identified and disclosed as grant debtors within the trade receivables note (note 7) in the annual report and accounts.</p>	<p>Management made the appropriate adjustment in the audited accounts.</p> <p>All year-end amounts relating to grant debtors have been identified.</p>

Issue	Resolution
<p>The adjustment had the effect of decreasing prepayments by £0.598 million, with a corresponding increase in the newly created grant debtors balance within note 7.</p> <p>The adjustment has no impact on the net assets position.</p>	
<p>3. Year-end grant debtors</p> <p>Following the submission of the annual report and accounts for audit, finance staff drew our attention to an adjustment that was required for one of the year-end grant debtor balances. The original figure was based on an estimate, but this required adjustment once backup in support of the grant was received from the grantee. The updated estimate increased the balance by £0.039 million.</p> <p>Our testing of the year-end grant debtors subsequently identified another error, in which a grant debtor had been processed in error, overstating the balance by £0.060 million.</p> <p>The corrections had the net effect of decreasing the grant debtor balance, within note 7 to the annual report and accounts, by £0.021 million.</p>	<p>Management made the appropriate adjustment in the audited accounts.</p> <p>As a result of the errors, we extended our sample of grant debtors but did not identify any further issues.</p> <p>Recommendation 1 (See appendix 1, action plan)</p>
<p>4. Year-end accrual double counted</p> <p>Following the submission of the annual report and accounts for audit, finance staff drew our attention to an input error with one of the year-end accruals that was detected during their final control checking.</p> <p>The correction had the effect of decreasing the accruals balance for the year by £0.035 million.</p>	<p>Management made the appropriate adjustment in the audited accounts.</p> <p>As part of our testing of accruals we reviewed a sample and did not identify any further errors. We have therefore accepted that the issue highlighted by finance staff was an isolated input error.</p>
<p>5. Provision understated</p> <p>As part of our testing of provisions we identified that the dilapidations provision was understated by £0.021 million, due to a rounded estimate being used in the calculation.</p> <p>The correction had the effect of increasing provisions expenditure by £0.021 million, with a corresponding increase in the provisions balance in the Statement of Financial Position.</p>	<p>Management made the appropriate adjustment in the audited accounts.</p> <p>As noted in paragraphs 35 – 37, our testing of provisions noted no further issues.</p>

Issue	Resolution
<p>6. Historical payables balances</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 2021 trade payables total of £0.378 million.</p>	<p>Management confirmed that they are not able 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>See appendix 1, action plan, prior year follow-up, recommendation 2</p>

Source: Audit Scotland

Other areas of audit interest from the annual report and accounts

Provisions

35. In 2020/21 Education Scotland created provisions in year that amounted to £1.433 million. Most of this balance (£1.100 million) relates to provisions for future dilapidation costs for Education Scotland's leased office space. A further provision for potential VAT costs was also created amounting to £0.313 million. This relates to the VAT on the digital transformation capital expenditure and is awaiting a ruling from HMRC.

36. We reviewed the accounting treatment of these new provisions. Other than issue 5 in [exhibit 2](#), we are satisfied that they were created in accordance with the applicable accounting standard. We also consider the disclosures made by management in respect of these provisions to be appropriate.

37. The treatment of the dilapidations is due to change in 2022/23 with the introduction of IFRS 16, the new accounting standard for leases. Management should assure themselves that they have arrangements in place to comply with this change.

Assets Under Construction

38. The 2020/21 accounts include a balance for an asset under construction that totals £3.532 million. This majority of this relates to Education Scotland's ongoing digital transformation project.

39. We are satisfied that the capital expenditure has been correctly classified and complies with the requirements of IAS 16 – Property, Plant and Equipment.

40. On completion of the project, when the asset becomes operational, management should undertake an impairment review to determine its existing use value.

Follow up of prior year recommendations

41. We followed up on actions agreed in our [2019/20 Annual Audit Report](#), to assess what progress on implementation had been made. Details of the follow up are included in [appendix 1](#).

2. Financial sustainability

Financial Sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services.

Key messages

Education Scotland reported an underspend of £0.931 million against its budget of £41.147 million in 2020/21.

The agency has in place effective financial reporting and budget monitoring arrangements.

Education Scotland is working towards producing a longer-term financial strategy.

The Digital Transformation project is progressing as planned and is subject to ongoing scrutiny and oversight.

Education Scotland operated within budget in 2020/21

42. 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.

43. The initial budget, £26.604 million, was set out in the Scottish Government's 2020/21 budget published in February 2020. The agency received additional allocations totalling £14.543 million during the year resulting in a final budget for 2020/21 of £41.147 million.

44. At the Audit and Risk Committee meeting on 3 March 2021 management provided non-executive board members with a budget monitoring update as at 31 January 2021. A forecast year end underspend of £0.900 million was reported. Education Scotland has reported an actual outturn of £40.216 million: a net underspend of £0.931 million. This is consistent with the projected outturn reported to the committee in March. The financial performance against budget is set out at [exhibit 3](#).

Exhibit 3 Performance against budget in 2020/21

Performance	Initial budget £m	Final budget £m	Outturn £m	Over (under) spend £m
Resource budgets	23.804	37.480	36.441	(1.039)
Capital budget	2.800	3.667	3.775	0.108
Total budget	26.604	41.147	40.209	0.931

Source: Education Scotland audited 2020/21 annual report and accounts

Covid-19 impacted on Education Scotland's overall 2020/21 outturn

45. In 2020/21 the agency performed within 2.3% of its budget. Set in the context of the total expenditure for the year, this is evidence of effective financial management over its final budget.

46. The following areas were impacted by Covid-19:

- **Staff costs** – the pandemic impacted on the need to recruit temporary staff to support inspection work as inspections were paused throughout 2020/21. This resulted in an underspend of £0.259 million in this area.
- **Travel & subsistence** – with most activities paused in 2020/21, travel significantly decreased as all staff were working remotely. This resulted in an underspend of £0.050 million in this area.
- **Capital** – the £0.108 million overspend related to the purchase of additional laptops. As a result of the pandemic, Education Scotland staff have been working remotely over the past year and a laptop refresh was undertaken to support this.

47. In addition to the above, there was an underspend of £0.598 million in grant funding. A number of grantees were not able to spend part of their funding by 31 March 2021, with these unspent funds being returned to Education Scotland.

48. Direct Covid-19 related expenditure was tracked using specific account codes in the general ledger. A total of £2.097 million was incurred on Covid-19 related expenditure in 2020/21. This figure includes £0.867 million on staffing costs relating to Education Scotland staff removed from their main duties to focus on Covid-19 priorities. Education Scotland provided a grant to e-Sgoil of £1.175 million as part of the National e-Learning offer. This funding was to compliment the work of schools through remote learning and teaching during the Covid-19 lockdown restrictions. At the year-end, £0.439 million was returned to Education Scotland as the grantee was not able to spend this by 31 March.

49. Education Scotland requested an in-year budget transfer of £1.700 million from the Scottish Government for the National e-Learning expenditure. The funding covered both the grant funding to e-Sgoil as well as staff costs related to the project. Other Covid-19 staffing costs were managed within the agency's core budget allocation.

50. Management anticipates further funding being received for the National e-Learning offer in 2021/22.

Education Scotland has in place effective financial reporting and budget monitoring arrangements

51. Education Scotland monitors its budget position through the budget monitoring reports presented to each meeting of the Audit and Risk Committee. The budget monitoring reports provide an overall picture of spend against budget and include a good level of detail in the narrative to explain the main budget variances.

52. The agency has in place detailed and timeous budget reporting that allows non-executive board members and the management team to carry out effective scrutiny of the agency's finances.

53. Our view is supported by the work undertaken by internal audit on the agency's financial management arrangements in 2020/21. The review provided an overall 'substantial' assurance opinion, which means internal audit consider that the financial management controls in place within Education Scotland are effective and any exposure to potential weakness is low.

Education Scotland's core budget allocation has increased for 2021/22 but ongoing dialogue with the Scottish Government will be required to address known financial pressures

54. The Scottish Government's 2021/22 budget was published in January 2021. Education Scotland's core budget for 2021/22 was increased by £3.280 million to £29.884 million, an increase of 12% from the 2020/21 core budget allocation. The agency estimates that this overall allocation falls some £3.100 million short of funding needed for its core activities in 2021/22. This estimated shortfall mainly relates to the staff costs arising from the agency's enhanced remit. The budget also includes a £2.200 million capital allocation for the completion of the digital transformation project.

55. As with previous year's the Scottish Government does not allocate the full amount of resource budget needed by Education Scotland at the start of the financial year. Further tranches of funding will be allocated during the year as part of the Spring and Autumn budget revisions. This funding model makes short-term budget planning and monitoring challenging for the agency and presents an obstacle to preparing medium to longer term funding strategies.

56. The agency's effective budget monitoring arrangements will be key in ensuring it delivers its strategic priorities within its allocated budget. Given the wider economic impact of the pandemic, Education Scotland will need to keep its budget under close review.

57. Management should ensure there is appropriate dialogue with the Scottish Government during the year to address any known financial pressures.

Education Scotland is working towards producing a longer-term financial strategy

58. Staff costs comprise the greater part of the agency's annual expenditure (2020/21 70% 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.

59. In 2020/21, internal audit reviewed the processes put in place by the agency to develop its workforce plan. The review provided an overall 'reasonable' assurance opinion, which means internal audit consider that Education Scotland's workforce planning requires some improvements to enhance the adequacy and effectiveness of the procedures.

60. Management have advised that Education Scotland is taking steps to produce a longer-term financial plan, with the aim of having this in place by Autumn 2021. This ability to plan for different scenarios will be vital to ensure that the agency can be flexible and responsive to its financial position and any changing demands upon its objectives caused by the pandemic.

61. It is recognised that the ongoing uncertainty caused by the pandemic will make longer-term financial planning more challenging. However, the preparation of a workforce plan, in conjunction with the Finance, Procurement, Estates and Digital strategies already in place, should provide the agency with a sound foundation for longer-term financial planning.

The digital transformation project is progressing as planned and is subject to ongoing scrutiny and oversight

62. For the 2020/21 and 2021/22 financial year's, Education Scotland will receive combined capital funding of £5.500 million to invest in its digital transformation programme. The programme aims to update the business processes and supporting technical platforms in use across the organisation, to ensure Education Scotland is better placed to support Scotland's teachers and their support of learners.

63. Education Scotland's 2020/21 budget included £2.800 million in relation to the digital transformation project. We held discussions with management during the year to confirm which items of project expenditure could be capitalised. This resulted in £0.500 million of the agency's resource budget being transferred to its capital project. This brought the programme's capital budget to £3.300 million in 2020/21, with almost all of this being spent by the year-end. As part of its 2021/22 budget, Education Scotland will receive £2.200 million to complete the project.

64. Due to the project's budget, it is subject to assurance by the Scottish Government's Digital Assurance Office. Primarily this assurance is via the Technology Assurance Framework (TAF) and the Digital First Service Standard.

65. Education Scotland has established a Digital Transformation Programme Board that has oversight of the project, with this meeting monthly. The Board membership includes representation from the Strategic Leadership team and a non-executive board member. The Board reviews the programme risk register to ensure that governance across the programme is complied with. The Audit and Risk Committee is provided with regular updates on the project, including details from the gateway reviews as part of the TAF, and the project risk register.

66. Education Scotland has put in place an appropriate level of governance and oversight of the project. We will continue to monitor the progress of the project as part of our 2021/22 audit.

3. Governance arrangements

The effectiveness of scrutiny and oversight, and transparent reporting of information.

Key messages

The Scottish Government announced proposals to substantially reform Education Scotland and replace the Scottish Qualifications Authority (SQA).

Education Scotland is working with partners to address the recommendations in the Audit Scotland national report on improving outcomes for young people.

Effective governance and decision making-arrangements were in place during 2020/21

67. Our review of the governance arrangements of an organisation includes consideration of:

- Board and committee structure and conduct.
- Overall arrangements and standards of conduct including those for the prevention and detection of fraud, error, bribery, and corruption.
- Openness of board and committees.
- Reporting of performance and whether this is fair, balanced, and understandable.

68. There has been no significant change to these arrangements during 2020/21, except for the refreshed Framework Document that was approved by the Deputy First Minister during the year. This document was considered by the agency's Audit and Risk Committee prior to it being published on its website. The document sets out the broad framework within which Education Scotland operates, and defines its key roles and responsibilities.

69. We have concluded that our previous year's conclusion is still relevant, i.e., that "the agency benefits from strong leadership...with the revitalised Advisory Board enhancing the agency's ability to deliver its objectives."

Education Scotland conducts its business in an open and transparent manner

70. As we reported in 2019/20, there is evidence from several sources which demonstrate Education Scotland's commitment to openness and transparency:

- The agendas, papers and minutes of the Advisory Board and other committees are published on the agency's website on a timely basis.
- The register of interests for non-executive board members 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 Education Scotland's corporate plan, performance information, and equality and diversity reporting.

71. We remain of the view that Education Scotland conducts its business in an open and transparent manner.

The Scottish Government announced proposals to substantially reform Education Scotland and replace the Scottish Qualifications Authority (SQA)

72. The Cabinet Secretary for Education and Skills made a statement to the Scottish Parliament on 3 June 2021 noting that the Scottish Government would be considering the role, remit, and purpose together with the functions and governance arrangements of both Education Scotland and the Scottish Qualifications Authority (SQA).

73. The Cabinet Secretary stated that key priorities of any review would be informed by the findings of the Organisation for Economic Co-operation and Development (OECD) review of Curriculum for Excellence that was due for publication on 21 June 2021.

74. The OECD review identified 12 recommendations. The Scottish Government announced on 22 June 2021 that all 12 of the review's recommendations would be accepted in full. It was also announced that SQA will be replaced and there is to be substantial reform of Education Scotland.

75. An advisory panel led by Professor Ken Muir CBE will be established that will lead work to replace the SQA with a new specialist agency for both curriculum and assessment. The panel will also look at reforms to Education Scotland, including removing the function of inspection from the agency. This work will begin August 2021 and it is anticipated that it will conclude around 6 months' after this start date.

76. Management within Education Scotland have noted their commitment to working collaboratively to implement the recommendations of the report.

77. Education Scotland has made appropriate disclosure of the announcement in its 2020/21 annual report and accounts. We will continue to monitor the developments in this area.

Governance and operational arrangements have been appropriately adjusted in light of the ongoing Covid-19 disruption

78. The Chief Executive and three of the Strategic Directors of Education Scotland were members of the national [Covid-19 Education Recovery Group](#) throughout 2020/21. The group provided advice on education policy in the context of the response to the Covid-19 pandemic and decisions around the re-opening of schools.

79. In July 2020, Internal Audit issued a management letter that detailed its review of the revised governance arrangements that were implemented by Education Scotland as a result of the pandemic. The letter highlighted some development opportunities but overall, there were several areas of good practice identified with the revised arrangements.

80. The agency's Corporate Plan was reviewed in light of the Covid-19 pandemic. The refreshed Corporate Plan for the 2020/21 academic year was published in September 2020. The Plan focused on how Education Scotland would work alongside the education system to support its recovery. It was recognised that to best support this recovery, the agency needed to adapt its style of work to support four re-focused priority themes:

- System leadership
- Collaboration
- Education support and improvement
- Professional learning

81. To deliver on these priority themes the agency organised its work for 2020/21 into two broad areas: People and Place.

82. Education Scotland established an Oversight Board in November 2020. The Board is chaired by the Chief Executive and has representation from across the organisation. The Board is tasked with overseeing the work of the organisation in supporting recovery across the sector, by monitoring its progress and impact following the development of the refreshed Corporate Plan.

Good practice

Education Scotland was proactive in re-focussing its priorities for 2020/21, with the newly established Oversight Board responsible for overseeing the agency's Covid-19 recovery plan.

High-level systems of internal control operated effectively during 2020/21

83. As part of our 2020/21 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 annual accounts.

84. We concluded that internal controls were operating satisfactorily and provided a sound basis for the preparation of the annual report and accounts.

Internal audit provided a reasonable level of assurance over Education Scotland’s risk management, control, and governance arrangements in place during 2020/21

85. Internal audit provides the Accountable Officer, the Advisory Board and Audit and Risk Committee 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 annual report and accounts.

86. 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.

87. 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.” In this annual report, internal audit commented positively on several areas, including the strong leadership from senior management together with the effectiveness of the Audit and Risk Committee.

Relevant national performance audit reports are considered by the Audit and Risk Committee

88. 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 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 2020/21 are set out at [appendix 3](#).

Education Scotland is working with partners to address the recommendations in the Audit Scotland national report on improving outcomes for young people

89. The Audit Scotland national report on [Improving outcomes for young people through school education](#) was published in March 2021. The report included several recommendations for Education Scotland to work with schools, councils, and Regional Improvement Collaboratives to:

- understand the factors that cause variation in performance across schools and councils
- achieve greater consistency in applying the National Improvement Framework drivers through a targeted response that reflects local priorities for improvement, with a focus on reducing inequalities

- ensure the successful innovation and learning from the Covid-19 response, such as the opportunities from using digital learning, informs future planning for improved outcomes for children and young people.

90. The report also notes a number of recommendations to be taken forward collaboratively by the Scottish Government, Education Scotland, and councils:

- continue to ensure a coordinated policy response within and across government (for example with health and children and families services) when planning to improve longer-term outcomes for children and young people and delivering the education recovery response to the equality impacts of Covid-19
- use the Equity Audit and other evidence to monitor the short- and longer-term impact of Covid-19 on children's and young people's learning and wellbeing, and to inform the development of local and national priorities and targeting of mitigating actions
- further promote the importance of the different pathways, qualifications and awards available to young people with parents, carers, politicians, and the media, to support wider public understanding of the importance of broader outcomes.

91. Education Scotland is working with Scottish Government, COSLA and the Association of Directors of Scotland in Education (ADES) to address the recommendations. A follow-up will be undertaken by the audit team involved in the national report in due course.

Appendix 1. Action plan 2020/21

2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Grant debtors</p> <p>There were a number of issues with the year-end accounting treatment of grant debtors that resulted in adjustments to the annual report and accounts.</p> <p>Risk: There is a risk that year end trade receivables balance is misstated in the annual report and accounts.</p>	<p>Management should ensure that all balances are subject to review prior to audit and that there is a clear audit trail for each.</p> <p>Exhibit 2 – issues 2 and 3</p>	<p>Desk instructions have been updated to clarify the process for recording the return of grant documentation and any follow up action needed. Business partners to regularly review information on grants awarded and paid.</p> <p>Head of Finance, Governance and Infrastructure</p> <p>31 March 2022</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>PY1. Key performance indicators</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>Risk: 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>Ongoing: Covid-19 has had an impact on many of the areas covered by the KPIs in 2020/21. Following the agency's return to a more normal way of delivering its objectives, management should establish targets for each of the KPIs.</p> <p>By 31 March 2022.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>PY2. 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>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>Outstanding: These balances are still included in the system. Management have raised this issue with the systems provider. It is expected that as part of the ledger migration in 2021/22, these balances will not be transferred over.</p> <p>By 31 March 2023.</p>

Appendix 2. Significant audit risks

The table below sets out the audit risks we identified on the 2020/21 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 financial statements and those relating to our wider responsibility under the Code of Audit Practice 2016.

Overarching financial statements and wider dimension risk

Audit risk	Assurance procedure	Results and conclusions
<p>1. Impact of Covid-19</p> <p>The Covid-19 disruption has had a fundamental impact on what and how services are delivered by the agency.</p> <p>Risk: The impact of Covid-19 will have a pervasive effect on all aspects of the agency's operations and presents a wide range of risks for the 2020/21 audit.</p>	<p>We will continue to monitor the governance arrangements, including any temporary measures put in place as a result of the pandemic.</p> <p>We will review the agency's ongoing budget monitoring and medium to longer term financial planning in the context of the challenges and uncertainties it is facing because of Covid-19.</p> <p>We will continue to discuss our audit approach, and timetable, with management during the year to agree how we can work together to adapt and respond to the changing circumstances.</p>	<p>Results: The agency's governance and operational arrangements have been appropriately adjusted in the light of the ongoing Covid-19 disruption.</p> <p>Education Scotland has in place effective financial reporting and budget monitoring arrangements. It is taking steps to produce a longer-term financial plan.</p> <p>There were no delays to the annual report and accounts timetable.</p> <p>Conclusion: No issues were identified from our work in response to this risk.</p>

Risks of material misstatements in the annual accounts

Audit risk	Assurance procedure	Results and conclusions
<p>2. Risk of management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the 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>Results: 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>Conclusion: Other than points 2, 3 and 4 of exhibit 2, no significant issues were identified from our work in response to this risk.</p>
<p>3. Risk for expenditure fraud</p> <p>Audit Scotland’s Code of Audit Practice requires that auditors should plan to address the risk that the financial statements may be materially misstated as a result of fraud.</p>	<p>Payroll expenditure (2019/20 68% of expenditure) is well forecast and will be reconciled to the payroll system, the risk of material misstatement is not significant. Similarly, for major ongoing IT contracts (2019/20 9% of expenditure).</p> <p>We will focus on other non-pay expenditure. We consider the risk to be particularly prevalent around the year end and therefore focus our testing on cut-off of non-pay expenditure.</p>	<p>Results: We obtained satisfactory explanations for any significant increases or decreases in expenditure.</p> <p>Satisfactory results were obtained from our testing of expenditure transactions. Our testing confirmed that expenditure was accounted for in the correct financial year.</p> <p>Conclusion: No issues were identified from our work in response to this risk.</p>

Appendix 3. Summary of 2020/21 national performance reports

April

[Affordable housing](#)

June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July

[The National Fraud Initiative in Scotland 2018/19](#)

January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February

[NHS in Scotland 2020](#)

March

[Improving outcomes for young people through school education](#)

Education Scotland

Annual Audit Report 2020/21

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