

Education Scotland

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for Education Scotland
March 2024

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2023/24 external audit of Education Scotland. The main elements of the audit include:

- an audit of the financial statements leading to an independent audit opinion
- audit opinions on regularity and other statutory information published within the annual report and accounts, including the Performance Report, Governance Statement, and the Remuneration and Staff Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- an Annual Audit Report setting out our conclusions.

Respective responsibilities of the auditor and Audited Body

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

Auditor responsibilities

3. Our responsibilities as appointed 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.

4. 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 wider scope arrangements in place at Education Scotland. In doing this, we aim to support improvement and accountability.

5. The appointed auditor and engagement lead for Education Scotland is Tommy Yule, Senior Audit Manager. A brief biography of the audit team is provided at [Appendix 1](#).

Education Scotland's responsibilities

6. Education Scotland is responsible for maintaining adequate accounting records and internal controls, and preparing financial statements for audit that give a true and fair view. They are also required to produce other reports in the annual report and accounts in accordance with statutory requirements and applicable guidance.

7. Education Scotland 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 that enable them to deliver their objectives.

Adding Value

8. We aim to add value by: tailoring audit work to the circumstances of Education Scotland and the audit risks identified; being constructive and forward looking; providing independent conclusions; attending meetings of the Audit and Risk Committee; and by recommending and encouraging good practice. In so doing, we will help Education Scotland promote improved standards of governance, better management and decision making, and more effective use of resources.

Annual report and accounts

Introduction

9. The annual report and accounts are an essential part of demonstrating Education Scotland's stewardship of resources and its performance in the use of those resources.

10. Appointed auditors are required to perform an audit of the financial statements, consider other information within the annual report and accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

11. We focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

12. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance about whether the financial statements 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 2023/24 audit

13. We assess materiality at different levels. The materiality values for Education Scotland are set out in [Exhibit 1](#).

Exhibit 1

2023/24 Materiality levels for Education Scotland

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of Education Scotland's operations. For the year ended 31 March 2024, we have set our materiality at 2 per cent of gross expenditure based on the audited financial statements for 2022/23.	£870 thousand
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality,	£650 thousand

this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 75 per cent of planning materiality.

Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the ‘reporting threshold’ amount. We have set this threshold at 5 per cent of planning materiality.	£43 thousand
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Source: Audit Scotland

Significant risks of material misstatement to the financial statements

14. Our risk assessment draws on our cumulative knowledge of Education Scotland, its major transaction streams, key systems of internal control, and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees, and a review of supporting information.

15. 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.

16. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risks, management’s sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

Exhibit 2

2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Management’s sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. 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. Test journals at the year-end and post-closing entries and focus on significant risk areas. Consider the need to test journal entries and other adjustments throughout the year.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
because of management's ability to override controls that otherwise appear to be operating effectively.		<ul style="list-style-type: none"> • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.

Source: Audit Scotland

17. As set out in ISA (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 revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

18. As an executive agency of the Scottish Government, most of Education Scotland's funding is from central government. In addition, Education Scotland's residual income comes mainly from other public sector organisations. These sources of income are clearly communicated and can be readily agreed to third party confirmations. We have concluded there is limited opportunity or incentive to manipulate the recognition of income in the financial statements and have rebutted this risk.

19. 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 revenue recognition.

20. We have rebutted this risk as the main expenditure streams of Education Scotland can be readily forecast based on a predictable pattern of spend, or are controlled by contracts with other public sector entities that can be agreed to supporting evidence. We also consider there to be limited opportunity or incentive for the manipulation of expenditure recognition in the financial statements.

21. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Regularity

22. Auditors are required by the Public Finance and Accountability (Scotland) Act 2000 to report on whether expenditure and income were incurred or applied, in all material respects, in accordance with applicable enactments and guidance issued by the Scottish Ministers (generally referred to as the regularity opinion).

23. We will adopt an integrated audit approach to meeting this responsibility and use work on the audit of the financial statements supplemented by additional testing for any irregular transactions, where necessary.

Wider Scope and Best Value

Introduction

24. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit, and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

25. In summary, the four wider scope areas are:

- **Financial management** – this means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability** – we will look ahead to consider whether the body is planning effectively to continue to deliver services, also comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Vision, leadership, and governance** – we conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by Education Scotland. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how Education Scotland demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Wider scope risks

26. We have identified significant risks in the wider scope areas set out in [Exhibit 3](#). This exhibit sets out the risks, management's sources of assurance for the risks, and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 3**2023/24 wider scope risks**

Description of risk	Management's sources of assurance	Planned audit response
<p>1. Education reform – impact on Education Scotland</p> <p>An extensive education reform programme is underway in Scotland. As part of this reform, three new national bodies will be created replacing Education Scotland and the Scottish Qualifications Authority.</p> <p>The establishment of the new organisations has been delayed to 2025 and there is significant uncertainty about the new arrangements.</p> <p>Risk: There is a risk this may have an adverse impact on staff retention and morale, and operational planning.</p>	<p>Sources of assurance include regular staff engagement by the Chief Executive and the Leadership Team including all staff 'Leading Together' updates, a Staff Engagement Group, enhanced monitoring of finances, engagement with Scottish Government thematics and reform programme activity and establishment of a new 'people team' bringing together HR and internal communications. All risks, including those relating to reform, are reviewed on a monthly basis to ensure they remain fit for purpose and effectively mitigated. A monthly report is reviewed by the ES Leadership Team to support consideration of each of the risks and related activity. Risks are brought to the attention of Audit and Risk Committee on a quarterly basis. Two colleagues in ES continue to function as liaison leads for reform and transition.</p>	<ul style="list-style-type: none"> • We will assess the arrangements Education Scotland has in place to support transition to the new bodies. • We will review the Performance Report in the annual report and accounts to ensure appropriate disclosure is made.

Source: Audit Scotland

27. Our planned work on the wider scope area is risk based and proportionate. In addition to local risks, we may be asked by the Auditor General for Scotland to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years such as climate change.

Best Value

28. [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. We will be carrying out a high-level review to confirm that such arrangements are in place within the Education Scotland.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

29. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

30. 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
- Education Scotland and the Auditor General for Scotland with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

31. [Exhibit 4](#) outlines the target dates for our audit outputs. In determining the target reporting date, due regard is paid to meeting the target submission date for central government agencies and non-ministerial departments of 31 August 2024.

Exhibit 4 2023/24 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31 March 2024	21 March 2024 (Verbal update provided. Final version sent for circulation to members by target date.)
Independent Auditor's Report	27 June 2024	27 June 2024
Annual Audit Report	27 June 2024	27 June 2024

Source: Audit Scotland



32. All Annual Audit Plans and the outputs detailed in [Exhibit 4](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.

Timetable

33. 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 5](#) that has been discussed with management.

34. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 5 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.	6 May 2024
Latest date for final clearance meeting with the Director of Finance (or equivalent)	13 June 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	20 June 2024
Agreement of audited and unsigned annual report and accounts	20 June 2024
Issue of Annual Audit Report to those charged with governance.	20 June 2024
Signed Independent Auditor's Report	27 June 2024
Latest date for signing of SG Consolidation return	31 August 2024

Source: Audit Scotland

Audit fee

35. In determining the audit fee, we have taken account of the risk exposure of the Education Scotland and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The proposed audit fee for 2023/24 is £40,190 as set out in [Exhibit 6](#).

Exhibit 6**Audit fees (including VAT)**

Fee component	Fees (£)
External Auditor Remuneration	46,100
Pooled costs	4,650
Sectoral Cap Adjustment	-10,560
Total 2023/24 fee	40,190

Source: Audit Scotland

36. In setting the fee for 2023/24, we have assumed that Education Scotland has effective governance arrangements and will prepare a comprehensive and accurate set of annual report and accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

37. It is the responsibility of the Education Scotland to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work as part of our risk assessment procedures.

38. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

39. I am independent of Education Scotland in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

40. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

41. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. I am not aware of any such relationships pertaining to the audit of the Education Scotland.

Audit Quality

42. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

43. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring

arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

44. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

45. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

Appendix 1: Your audit team

46. The audit team involved in the audit of the Education Scotland have significant experience in public sector audit.

Tommy Yule

Senior Audit Manager

e-mail tyule@audit-scotland.gov.uk

Tommy has over 20 years of public sector auditing experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.

Zoe Headridge

Senior Auditor

e-mail

zheadridge@audit-scotland.gov.uk

Zoe has considerable experience in planning and delivering audits. Zoe will manage the team and work alongside the Senior Audit Manager to deliver the audit.

47. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

48. Where possible and appropriate we use our data analytics team to enable us to capture whole populations of your financial data. This analysis allows us to identify specific exceptions and anomalies within populations to enhance the focus of audit testing and support efficiency.

Education Scotland

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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



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