Education Scotland

Annual report on the 2011/12 audit

AUDIT SCOTLAND

Prepared for Education Scotland
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Contents

Key messages

2011/12

The financial challenges facing the Scottish public sector are well documented, with public bodies facing deep and prolonged cuts in funding. In 2011/12 we assessed the key strategic and financial risks being faced by Education Scotland. We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance.

Education Scotland was established as a non statutory Executive Agency of the Scottish Government on 1 July 2011; bringing together the work of Learning and Teaching Scotland (LTS), Her Majesty's Inspectorate of Education (HMIE) and some functions previously carried out by the Scottish Government. Only 8 months elapsed from the initial announcement by the Cabinet Secretary for Education and Lifelong Learning, to the formation of Education Scotland. Bringing together all the complexities and cultures of two established public sector organisations in such a short period of time is difficult. However, Education Scotland has made a good start to this process.

Financial Statements

We have given an unqualified opinion on the financial statements of Education Scotland for 2011/12. We have also concluded that in all material respects, the expenditure and income shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers. Prior year adjustments to account for the formation of Education Scotland and changes to accounting policies resulted in a reduction of £0.328m in the net asset position of the 2010/11 statement of financial position.

Financial Position and use of resources

Education Scotland achieved a net under spend of £1.5m. This is the difference between the net outturn of resource expenditure of £31.1m and resource budget of £32.6m. A total of 33 staff decided to leave under the voluntary early severance scheme with the costs to Education Scotland in 2011/12 being £1.34 million. The operation of the scheme in 2010/11 and in 2011/12 has resulted in recurrent savings of £1.48 million in staff costs.

Governance and accountability

In 2011/12 Education Scotland had sound interim corporate governance structures in place. We examined the organisation's key financial systems underpinning the organisation's control environment and concluded that they operated sufficiently well for us to place reliance on them.

Performance

Both LTS and HMIE agreed business plans for 2011/12 and these were integrated and delivered during the year. During the year a total of 502 inspections and reviews were performed and this was in line with the planned approach.

Outlook

Phase 2 of the organisational development review has recently commenced. Strong leadership, effective communication and engagement with staff will be required to ensure that this process is managed smoothly and fairly.

2012/13 is likely to be a challenging year with new structures being implemented in an environment of reducing resources. In addition, Education Scotland has a key role to play in supporting the implementation of Curriculum for Excellence, and this may add to resource pressures. Again, strong leadership will be required to ensure that all national partners are well coordinated and supported throughout this challenging process.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of Education Scotland. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.

2. Reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). Our interim audit work identified no material weaknesses in the accounting and internal control systems that would adversely affect the ability to record, process summarise and report financial and other relevant data so as to result in a material misstatement in the accounts. Some minor risks were identified, and have been addressed by the full integration with the Scottish Government financial and accounting systems in April 2012.

3. Appendix B is an action plan setting out the high level risk we have identified from the audit. Officers have considered the issue and agreed to take the specific step in the column headed "planned management action". We do not expect the risk to be eliminated or even minimised. What we expect is that Education Scotland understands its risks and has arrangements in place to manage these risks. The Audit and Risk Committee should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.

4. This report is addressed to Audit and Risk Committee and the Auditor General for Scotland, and should form a key part of discussions with audit committees. Reports should be available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.

5. This report will be published on our website after consideration by the Audit and Risk Committee.

6. The management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.

8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
   - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
   - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
   - the regularity of the expenditure and income.

9. We review and report on, as appropriate, other information published with the financial statements, including the management commentary, annual governance statement, and the remuneration report. We also review and report on the Scottish Government Consolidation pack. This section summarises the results of our audit on the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of Education Scotland give a true and fair view of the state of the body's affairs for the year to 31 March 2012.

11. Education Scotland was required to follow the 2011/12 Government Financial Reporting Manual (the FReM), and we confirmed that the financial statements have been properly prepared in accordance with the FReM. We also confirmed that relevant parts of the remuneration report had been properly prepared and that information given in the management commentary was consistent with the financial statements.

12. We also reviewed the Governance Statement and concluded that it complied with Scottish Government Guidance.

Regularity

13. In accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000, we have also provided an opinion, that in all material respects, the expenditure and receipts in the financial statements were incurred or applied in accordance with applicable enactments and guidance.

Going concern

14. As at 31 March 2012, Education Scotland had a net liability position of £1.078m (restated net surplus position of £3.330m as at 31 March 2011). This was largely due to a £5.944m swing in the net current liabilities position caused by the requirement to utilise the former Learning and Teaching Scotland's bank balance of £8.835m, brought in on the formation of Education Scotland, as part of the Scottish Government funding during the year.

15. Education Scotland is not asset rich, by its very nature, this combined with the cash funding basis to Scottish Government funding suggests that a net liability position is likely to remain for the foreseeable future.

16. The financial statements were prepared on a going concern basis as Education Scotland has no reason to believe that the support of the sponsor, the Education and Lifelong Learning Portfolio, will not be forthcoming. We are satisfied that the accounts have been prepared on a going concern basis.

Accounting issues

17. We were satisfied that the financial statements had been prepared in accordance with the accounts direction from Scottish Ministers, and the FReM.

Accounts submission

18. The financial statements were submitted for audit on 23 April, in accordance with a pre-agreed timetable. The on-site audit fieldwork was completed on 11 May and matters arising were discussed on a regular basis with the Education Scotland accountant. The final clearance meeting was held on 16 May, with our ISA 260 report being presented to the Audit and Risk Committee on 7 June. The revised financial statements were signed by the Chief Executive, as accountable officer, on 20 June 2012. The annual report and accounts were laid before Parliament on 26 June 2012.

19. Although all deadlines were met, the process was complicated this year by the fact that the Scottish Government did not post the full year balances from the former Learning and Teaching Scotland on to the Scottish Government accounting system (SEAS) until very late in the process, meaning that some of the routine year end checks were delayed. We were able to work with the accountant to alter our planned audit testing to ensure that we were still able to conclude our work on time.

Presentational and monetary adjustments to the unaudited accounts

20. A small number of presentational changes were required to the annual report and accounts as a result of our review of the disclosures required by the FReM.

21. During our audit we identified that income of £261,346 due from the Scottish Funding Council (SFC) in March 2012 had not been correctly accrued in 2011-12, and had instead been posted to 2012-13. The financial statements were adjusted for this error and we would recommend that controls are tightened to ensure this type of error does not occur in the future.

Refer action point 1

22. There was only one unadjusted error of £5,463 relating to the flexi-time accrual adjustment (IAS19 - Employee benefits). Information was received too late in the process for this adjustment to be made. We were content with this approach as there was no material impact on the accounts.

Merger accounting and prior year adjustments

23. The FReM requires that merger accounting is to be applied when there is a combination of 2 or more public sector bodies. This involves aligning accounting policies, combining the results for the whole financial year, and adjusting prior year comparatives.

24. We were satisfied that the financial statements were prepared in line with merger accounting principles as set out in the FReM and IFRS 3 Business combinations.

25. In addition to this, the main change in the FReM for 2011/12 was that grants and donated assets should be recognised immediately, unless there is a condition that the recipient has not satisfied that would lead to grant repayment. Most grants should now be recognised as income and the government grant reserve and donated asset reserve no longer exist. This change is identified in the accounting policies and appropriate adjustments were made in the prior year statements.

26. The combined impact of all prior year adjustments was to reduce the net asset position of the 2010/11 statement of financial position by £328,000.

Sustainability Report

27. All relevant bodies were encouraged to produce a sustainability report in accordance with the Scottish Government's Public Sector Sustainability Reporting Guidance (January 2012) in 2011/12. This guidance is non mandatory, however it represents good practice and central government bodies were encouraged to adhere to it. The sustainability report should contain:

- a simple overview commentary covering a body’s performance in the reported year along with an overview of forward plans
- a table of financial and non-financial information covering the body's emissions, waste, water and any other finite-resource consumption for the financial year to which it relates.

28. Public bodies in Scotland are bound by the Climate Change Public Bodies Duties set out in Part 4 of the Climate Change (Scotland) Act 2009. Whilst the Act does not require reporting on the duties, the Public Bodies Duties Guidance encourages a voluntary approach to reporting.

29. Education Scotland demonstrated good practice in producing a sustainability report for 2011/12.

Outlook

30. There have been no significant changes to the 2012/13 FReM that are expected to have an impact on Education Scotland's annual financial accounts.

31. All financial transactions (with the exception of stock control) are now processed on the Scottish Government financial systems. Going forward, this should make the preparation of the 2012/13 financial statements easier.

Financial position

32. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.

33. Auditors consider whether audited bodies have established adequate arrangements and examine:

- financial performance in the period under audit
- compliance with any statutory financial requirements and financial targets
- ability to meet known or contingent, statutory and other financial obligations
- responses to developments which may have an impact on the financial position
- financial plans for future periods.

34. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

35. The Scottish Government sets a resource budget for the year for Education Scotland which originates from the spending review settlement and is subsequently approved in the Budget Bill. During the year, revisions are approved in the autumn and spring budget revisions. Education Scotland is expected to manage its budget in accordance with its framework document and the Scottish Public Finance Manual (SPFM). It should be noted that Education Scotland's framework document has still to be formally approved by the Scottish Government.

36. On formation, Education Scotland's budget consisted of £17.7m transferred from Her Majesty's Inspectorate of Education (HMIE), £13.7m from Learning and Teaching Scotland (LTS), and around £1m of smaller budgets covering the transfer of functions from various Scottish Government teams. Education Scotland's budget was amended in the Spring Budget Revision to £32.6m.

37. Education Scotland reported a net outturn of £31.1m yielding a net underspend of £1.5m. This was funded by drawn down cash funding of £24.676m from the Scottish Government, and the utilisation of the former LTS's bank balance of £8.383m. Capital outturn reported a breakeven position against a budget of £0.004m.

38. Set up costs of around £9.78m were incurred during 2011-12, however, these were borne by the Scottish Government's Education and Lifelong Learning portfolio. Some of these costs relate to the pension liability, and associated costs, for the transfer of former LTS employees, most of whom were members of the Strathclyde Pension Fund, to the civil service pension scheme.

Budgetary control

39. Our review of Education Scotland's budget setting and monitoring arrangements was satisfactory. We found that senior management were receiving budget monitoring reports on a monthly basis. The Board and Audit and Risk Committee also received finance reports at each meeting (quarterly).

40. Education Scotland were forecasting an underspend of £1.344 million in January 2012. At that stage the Cabinet Secretary had just confirmed that former employees of LTS would be eligible to apply for the civil service compensation scheme (voluntary early release scheme). It was unclear how many employees might apply to this scheme, although a budget of around £0.5m had been set aside for this in Education Scotland's original budget.

41. In total thirty three employees successfully applied for the compensation scheme at a net cost to the statement of net expenditure of £1.282m. The additional costs were borne from projected underspends in other areas of the business, meaning that the overall net underspend was still achieved with no additional resource requirement from the Scottish Government.

Financial position

42. The Statement of Financial Position shows a net liability position of £1.078m at 31 March 2012. The comparative position as at 31 March 2011 was a net asset position of £3.330m, which was largely due to LTS having a large cash and cash equivalent balance of £8.835m, which was held with a commercial bank.

43. As an executive agency of the Scottish Government, Education Scotland should not hold onto any cumulative underspends, and should utilise the corporate bank account managed by the Scottish Government as their main banking service. Therefore, an agreement was made to utilise the commercial bank balance as part of the Scottish Government funding drawdown during 2011/12.

Financial planning to support priority setting and cost reductions

Workforce reduction

44. Education Scotland adopted a rigorous process for assessing applications for early retirement/voluntary severance. Affordability was assessed in relation to existing budgets and organisational impact was considered by senior management in relation to forward work plans and business objectives. It should be noted that not all employees who applied to the scheme were accepted.

45. Thirty three staff had chosen to accept offers of voluntary early severance at 31 March 2012, with a total cost of £1.340 m. This means that since April 2010 a total of ninety seven employees have chosen to leave through one of the voluntary early release schemes offered by Education Scotland or its predecessor organisations, at a total cost of £4.161m. The recurrent savings in staff costs were £1.48m.

46. This is a high number of staff to lose in an organisation the size of Education Scotland in such a short time, and is likely to put added pressure on the staff who remain. Going forward, effectively managing this reduction in capacity will be critical to ensure business continuity, and that Education Scotland is still able to meet its business objectives.

Organisational Development review

47. Education Scotland is in the process of implementing phase 2 of its organisational development review. The focus of this will be to implement a structure that delivers the same high level of service and support with the reduced numbers of staff.

48. Going forward, there will be four directors supported by eight assistant directors (three of whom have been appointed to date). This will see a reduction in the senior management team. Previously nine directors, or equivalent, directly supported the Chief Executive.

49. Internal Audit performed a review of phase 1 of the organisational development review during the year, and found it to be well managed with good governance structures in place to ensure that key milestones were met. Such structures will be important going forward through the implementation phase.

Partnership Working

50. Education Scotland works in partnership with other organisations to ensure the successful implementation of Government policy such as Curriculum for Excellence. Chief Executive, Bill Maxwell, is the Chair of the Curriculum for Excellence Implementation Group which consists of representatives from the Scottish Qualifications Authority (SQA), Association of Director Education in Scotland, Scotland's colleges, and the Scottish Government.

51. Education Scotland also works with other inspectorates, and Audit Scotland to deliver an Assurance Improvement Plan which is a coordinated approach by scrutiny bodies to reduce the burden of inspections and audit.

52. Such partnership working should help to reduce wider scrutiny costs across Scotland, and offer a coordinated approach that makes use of expertise in all fields in an appropriate manner.

Outlook

2012/13 budget

53. The Scottish Ministers have allocated £27.12m for the financial year 2012-13; this equates to a budget reduction of 17%. However, an additional budget for Scotland's national intranet for schools (GLOW) is still to be finalised.

54. Education Scotland's largest area of expenditure is staff costs, and it is this area where the organisation has been able to reduce its costs over the past year through voluntary early severance schemes. However, it will be difficult for the organisation to reduce these costs further without it having a significant impact on the delivery of its services. This presents a major challenge for the organisation.

55. In addition, Education Scotland faces the prospect of potential resource pressures in relation to the implementation of Curriculum for Excellence during 2012/13 and this will need to be effectively managed. It is not clear what additional support (if any) Education Scotland will be required to give during the year to partner organisations, and stakeholders as the programme is rolled out.

Governance and accountability

56. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.

57. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.

58. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:

- corporate governance and systems of internal control
- the prevention and detection of fraud and irregularity
- standards of conduct and arrangements for the prevention and detection of corruption

59. In this part of the report we comment on key areas of governance.

Corporate governance

60. We found that overall, the interim corporate governance arrangements operated effectively during 2011/12.

Processes and committees

61. The *Role of boards* report was published by the Auditor General in September 2010. This report examined the system of accountability of Scottish public bodies and the performance of boards in the central government sector. During the 2011/12 audit, we undertook follow-up work to assess progress made by Education Scotland against key recommendations in the report.

62. Our follow-up study found that Education Scotland had used the findings from the original report to inform the design and development of its governance structure, and how the Board operates and interacts with its stakeholders.

63. The report also identified some examples of good practice, for example, creating a person specification (skill matrix) which has been put to use in the recent recruitment of non-executive members.

64. The report recommends that the Board continues to engage with all its stakeholders going forward and throughout this period of change.

65. The Management Board is an advisory Board and supports the Chief Executive in his role as accountable officer. They are responsible for ensuring that Education Scotland fulfils the aims and objectives set by Scottish Ministers. The role of the Board includes establishing the overall strategic direction, monitoring performance against agreed objectives and ensuring that statutory requirements for the use of public funds are complied with.

66. The Board is supported in its function by the Corporate Management Group (CMG) and Audit and Risk Committee (ARC); these are considered to be the three core governance committees of Education Scotland. The ARC monitors and reviews risk, control and corporate governance, reporting to the Management Board. These arrangements ensure that there is a sufficient level of scrutiny within Education Scotland.

67. Interim governance committees were put in place from 1 July 2011. A recruitment process for new non-executive directors commenced in June 2012, and a new Management Board, CMG, and ARC will take shape from July 2012.

Internal control

68. While we concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.

69. Overall the systems of internal control were operating effectively during 2011/12. This enabled us to take the planned assurance on these systems for the audit of the financial statements. However, we did identify some weaknesses which have been addressed by management. Many of these weaknesses have been addressed by the full integration into the Scottish Government financial systems.

70. As part of our risk assessment and planning process we assessed the Scottish Government Internal Audit Division, Education Scotland's internal auditors, and concluded that they operate in accordance with the Government Internal Audit Manual. We were therefore able to place reliance on their work in a number of areas as detailed within our annual audit plan.

71. In their annual report for 2011/12, Scottish Government Internal Audit Division provided their opinion that, based on the internal audit work undertaken during the year, there was substantial assurance in respect of the Agency's risk management, control, and governance arrangements; their assessment included reviewing the adequacy and effectiveness of internal controls.

72. In the interests of an efficient audit approach we also rely on assurances received from the auditor of the Scottish Government on work performed on the Scottish Government Central systems that are used by Education Scotland. This approach ensures we are delivering an efficient co-ordinated audit that avoids unnecessary duplication and expense.

73. The central systems assurance letter provided by the auditor of the Scottish Government provided unqualified audit opinions on both the payroll and financial services assurance reports. However the key findings section highlighted that the payroll assurance report drew attention to weaknesses in segregation of duties where staff had access rights to both the HR and Payroll systems. Management had introduced mitigating controls which continued to operate in 2011/12.

Governance statement

74. In 2011/12 Education Scotland included a governance statement in its annual accounts for the first time. In accordance with Scottish Government guidance, this included a description and assessment of the essential components of corporate governance and details of any significant risk-related matters arising during the period.

75. However the Governance Statement could be further strengthened by providing a fuller evaluation of the risks that the organisation faces, whilst also identifying its risk profile, and actions taken to mitigate these risks.

76. We would also expect that the work of Internal Audit throughout the year would feed directly into this statement at an earlier stage in the process going forward.

ICT data handling and security

77. ICT security and services are provided by the Scottish Government ISIS team. However, the former LTS ICT systems were supported by an external contractor during 2011/12. As Education Scotland moves forward, this contract is likely to be phased out once all ICT systems are fully integrated.

Risk Management

78. Education Scotland reviewed its risk management strategies and policies during 2011-12, including its risk register. The risk registers from the predecessor organisations operated in parallel, and were gradually merged together into one finalised document. There is still some fine tuning to be performed but the Audit and Risk Committee, and Management Board have been able to feed into this process, and their comments taken on board.

79. As at the end of the year 2011/12 there were eight corporate level risks with one of these being identified as a high medium risk. The higher level risk was due to increased press and media attention around Curriculum for Excellence.

Prevention and detection of fraud and irregularities

80. Education Scotland is responsible for establishing arrangements to prevent and detect fraud and other irregularity. We review and report on these arrangements.

81. Education Scotland has robust arrangements in place (based on Scottish Government guidance) to help prevent and detect instances of fraud and corruption.

82. There were no instances of fraud or corruption reported by Education Scotland in 2011-12.

Standards of conduct and arrangements for the prevention/ detection of bribery and corruption

83. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. We consider whether bodies have adequate arrangements in place. We have concluded that the arrangements in Education Scotland are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Outlook

84. Education Scotland's framework document has still not been formally approved. Given that the organisation has been in existence for one year now it is important that this is formalised as soon as possible, and that all staff are aware of its content.

85. Three new non executive directors were appointed on 1 July 2012, and it is important that they are provided with good induction training to assist them in their role in supporting the Chief Executive in this critical year.

Best Value, use of resources and performance

86. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.

87. The Auditor General may require that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where no requirements are specified for auditors in a period they may, in conjunction with their audited bodies, agree to undertake local work in this area.

88. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:

- a performance audit which may result in the publication of a national report
- an examination of the implications of a particular topic or performance audit for an audited body at local level
- a review of a body's response to national recommendations.

89. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments

90. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.

91. This section includes a commentary on the Best Value/ performance management arrangements within Education Scotland. We also note any headline performance outcomes/ measures used by the Agency and any comment on any relevant national reports and the body's response to these.

Management arrangements

Best Value

92. The Scottish Government guidance for accountable officers on Best Value in Public Services requires a systematic approach to self-evaluation and continuous improvement. The guidance identifies the themes which an organisation needs to focus on in order to deliver the duty of best value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's

business. We understand that best value principles were key considerations at each stage of the new agency's organisational development review and this should help embed best value in all policies, strategies and operational processes.

Performance management

93. Both LTS and HMIE agreed business plans for 2011/12 and these were successfully integrated and delivered during this transitional year. We note that Education Scotland carried out 502 inspections and reviews during 2011-12. This was in line with a planned revision to inspection frequency and the redistribution of resources across other priorities.

94. Internal monitoring against corporate objectives continued to operate throughout the year. Education Scotland uses a business planning toolkit to monitor its performance against corporate objectives.

95. Monitoring and reporting of performance against corporate targets has been developed and refined during the year.

96. All the core governance committees now receive the refined corporate performance report which highlights the organisation's position against key measures for six programme areas, and five directorates using a traffic light system (RAG system). The report also summarises actual and remaining spend for each area.

97. The corporate performance report, together with the risk register, will be a key tool for the organisation going forward. Education Scotland will report its performance against key performance indicators in its 2012-13 annual report.

98. The Corporate Plan for 2012-15 will go out for external consultation in September this year, and this will highlight Education Scotland's strategic priorities and performance targets, including contribution to national outcomes. A more detailed breakdown of the performance targets will be expressed in the annual business plan.

99. Education Scotland published the findings of its Curriculum for Excellence (CfE) Audit in May 2012. This reported that delivery of CfE was still achievable within the agreed timescale. The audit identified that some secondary schools and education authorities would require additional support for some specific topic areas from the national bodies involved.

Community/user engagement

100. Education Scotland held two "all staff" conferences during 2011/12 which provided the opportunity for staff to interact with the senior team and contribute to organisational development.

101. In addition, Education Scotland staff took part in the UK-wide civil service staff survey. The results from this have helped to identify strengths and weaknesses in the way the organisation is run, and this will help inform the organisation's development going forward.

102. Education Scotland, and its predecessor organisations, have held events to engage with its stakeholders; one example being the Scottish Learning Festival which is held annually. This event includes an open forum with Board members where key stakeholders have the opportunity to ask them questions.

103. Engaging with stakeholders is vitally important during times of organisational change, so it is important that Education Scotland continues to engage, not only with its staff, but with other stakeholders. This will be particularly important in the coming year as Education Scotland supports the roll out of Curriculum for Excellence.

National performance reports

104. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are detailed in Exhibit 1:

Exhibit 1: A selection of National performance reports 2011/12, and 2012/13

- Scotland's public finances - Addressing the challenges (Aug 2011)
- Learning the lessons of public body mergers (June 2012)

Source: www.audit-scotland.gov.uk

Scotland's public finances - addressing the challenges

105. The report highlights that all parts of the public sector have less to spend in 2011/12 than in 2010/11, although the level of budget reduction varies significantly with central government funding experiencing the biggest reduction of 12 per cent. Although most bodies were able to agree a balanced budget for 2011/12, the report highlights the risk that savings may not be realised and that unforeseen pressures may emerge which reduce the ability to generate future savings. The report also notes that public bodies are finding it difficult to plan beyond 2011/12 as they do not have a clear view of their future budgets. It highlights the importance of long-term financial sustainability when looking to reduce costs including consideration of key areas such as reducing workforce levels and identifying opportunities to share services.

106. This report was brought to the attention of the Audit and Risk Committee at its December 2011 meeting.

Learning the lessons of public body mergers- review of recent mergers

107. The report looked at nine mergers that took place between 2008 and 2011 under the Scottish Government's programme to reduce the number of national public sector bodies by 25 per cent.

108. The report examined how well these mergers were planned and implemented, and assessed available information on estimated and actual costs and savings. The report found that most recent mergers happened on time, but that permanent leaders were not always in place early enough. Some organisations were operating for too long without a clear vision and plan, and other important decisions were delayed.

109. The key messages included:

- mergers need strong, strategic leadership from the outset,
- appoint a permanent chair and chief executive at the earliest possible opportunity,
- benefits planning should be stronger from the outset- identify what improvements the merged body will deliver and how it will be assessed,
- lack of baseline information will make it difficult to demonstrate the impact of mergers

110. The key recommendations for merging bodies included:

- ensuring merger plans extend beyond the start date of the new body
- scheduling a post implementation review within six months of the start date of the new body to identify lessons learnt
- developing and adopting a corporate plan within 12 months of the start date of the new body
- developing performance reporting systems and performance indicators that measure the benefits expected from the merged body
- collecting views from users, staff and stakeholders on performance

111. A good practise guide was published in addition to this report. It is intended to provide practical advice to those carrying out mergers on aspects such as the timing of leadership appointments, planning, measuring benefits and performance improvements, and reviewing mergers to ensure that lessons are learned.

112. A document review was carried out on the Education Scotland merger, and Neil McKechnie (Chief Inspector) was part of the Advisory Board. The Audit and Risk Committee will be considering this report in November 2012 and in particular, reviewing their performance against the specific recommendations in the report for merging bodies. We will follow up their progress as part of the 2012/13 audit.

Outlook

113. Ensuring that Education Scotland performs well, and meets its key business objectives during this period of change, and financial constraints will be the main challenge going forward. The Board needs to ensure that its management and governance structures are operating effectively to monitor and scrutinise performance effectively.

114. In April 2011, the Equality Act 2010 introduced a new public sector ‘General Duty’ which encourages equality to be mainstreamed into public bodies’ core work so that it is not a marginal activity but part and parcel of how public bodies operate. Following on from this the Scottish Government consulted on a set of ‘Specific Duties’ which came into force in May 2012. There are nine specific duties listed which aim to support public bodies to better perform against the ‘General Duty,’ including the duty to assess the impact of equalities in all policies and decisions as well as the requirement to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013.

Appendix A: audit reports

External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan	9 February 2012	24 March 2012
Key financial controls assurance report	18 April 2012	7 June 2012
Report on financial statements to those charged with governance	7 June 2012	7 June 2012
Role of Boards Follow up report	3 July 2012	22 August 2012
Audit opinion on the 2011/12 financial statements	7 June 2012	7 June 2012

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	21	Income of £261,346 due from the Scottish Funding Council (SFC) in March 2012 had not been correctly accrued in 2011-12, and had instead been posted to 2012-13. The financial statements were adjusted for this error. ***Risk. In the future the financial statements could be mis-stated due to weaknesses in accounting for transactions around the year end.***	The chart of accounts has been updated to allow easier reconciliation and checking of the income accounts.	G Howells	30 June 2012