



**Learning and Teaching Scotland
Annual Report to the Board and the
Auditor General for Scotland
For the year ended 31 March 2012**

September 2012



Learning and Teaching Scotland

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Summary

Financial Statements

In October 2010, Scottish Ministers announced that Learning and Teaching Scotland and Her Majesty's Inspectorate of Education (HMiE) would be brought together into a new executive agency (Education Scotland). The agency became operational from 1 July 2011.

The original intention was that the creation of Education Scotland would lead to the 'winding up' of Learning and Teaching Scotland and all assets, liabilities and operations would transfer to Education Scotland. Learning and Teaching Scotland however received notification from the Scottish Government that virtually all assets, liabilities and operations would transfer to Education Scotland with the exception of those associated with Learning and Teaching Scotland's contract with the Hanban (The Office of Chinese Language Council International) which would remain with Learning and Teaching Scotland for the time being.

The assets, liabilities and operations associated with the Hanban contract remained with Learning and Teaching Scotland at 31 March 2012. A set of financial statements for the year (1 April 2011 to 31 March 2012) have therefore been prepared.

This audit management report concludes the audit of Learning and Teaching Scotland for the year ended 31 March 2012. On the basis of our audit work performed to date we anticipate issuing an unqualified audit report.

We have also concluded that in all material respects, the expenditure and income shown in the financial statements was incurred or applied in accordance with applicable enactments and relevant guidance issued by Scottish Ministers.

Fraud and irregularity

We did not identify any issues of concern in relation to fraud and irregularity.

Accounting and internal control systems

We did not identify any major errors or system weaknesses during our review.

Conclusion

This report concludes our audit of Learning and Teaching Scotland for 2011/12. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards. This report has been discussed and agreed with the staff from Education Scotland and we would like to thank all management and staff for their co-operation and assistance during our audit.

Scott-Moncrieff
September 2012

Introduction

1. This report summarises the findings from our 2011/12 audit of Learning and Teaching Scotland. The scope of our audit was set out in our Audit Planning Letter (5 April 2012).
2. The main elements of our audit work in 2011/12 have been:
 - An audit of the financial statements, including a review of the governance statement
 - An interim audit to evaluate Learning and Teaching Scotland's key financial systems and internal financial controls.

The key findings from our audit are summarised in this annual report.

3. This report is addressed to both the Board and to the Auditor General for Scotland and will be published on Audit Scotland's website, www.audit-scotland.gov.uk.

Financial statements

Introduction

4. In October 2010, Scottish Ministers announced that Learning and Teaching Scotland and Her Majesty's Inspectorate of Education (HMIE) would be brought together into a new executive agency (Education Scotland). The agency became operational on 1 July 2011. Virtually all assets, liabilities and operations of Learning and Teaching Scotland transferred to Education Scotland, with the exception of those associated with Learning and Teaching Scotland's contract with the Hanban (The Office of Chinese Language Council International) which remain with Learning and Teaching Scotland for the time being.
5. Merger accounting has been adopted by Education Scotland and one set of statutory financial statements has been prepared for the period 1 April 2011 – 31 March 2012. Education Scotland's financial statements for the year ended 31 March 2012 include Learning and Teaching Scotland transactions for the period 1 April 2011 – 30 June 2011. The Auditor General for Scotland has appointed Audit Scotland as external auditor of Education Scotland for the five year period commencing 2011/12.
6. As the assets, liabilities and operations associated with the Hanban contract remain with Learning and Teaching Scotland (LTS), a set of financial statements for LTS for the year ended 1 April 2011 to 31 March 2012 are also required. The Auditor General for Scotland has appointed Scott-Moncrieff as external auditor of Learning and Teaching Scotland for 2011/12.
7. The annual financial statements are the principal means of accounting for the stewardship of the resources made available to Learning and Teaching Scotland. In this section we summarise the issues arising from our audit of Learning and Teaching Scotland's 2011/12 financial statements.

Responsibilities of the directors

8. It is the responsibility of the Board and the Accountable Officer, to prepare the financial statements in accordance with the relevant Act and directions made thereunder. This means:
 - acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
 - maintaining proper accounting records;
 - preparing financial statements timeously which give a true and fair view of the financial position of Learning and Teaching Scotland and its expenditure and income for the year ended 31 March 2012; and
 - preparing a Directors' Report, a Corporate Governance Statement and a Remuneration Report.

Auditor responsibilities

9. We audit the financial statements and the part of the Remuneration Report to be audited and give an opinion on:
 - whether they give a true and fair view of the financial position of Learning and Teaching Scotland and its expenditure and income for the year then ended;
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
 - whether the part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006 and directions made by the Scottish Ministers;
 - whether the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
 - whether expenditure and income has been incurred and applied in accordance with guidance from Scottish Ministers (the regularity opinion).

10. We also report by exception as to whether the governance statement does not comply with guidance from Scottish Ministers. In arriving at our opinion we:
 - consider the adequacy of the process put in place by the Accountable Officer to obtain assurances on systems of internal control; and
 - assess whether disclosures in the statement are consistent with our knowledge of Learning and Teaching Scotland.

Confirmation of auditor independence

11. Ethical Standard 1 – *Integrity, objectivity and independence*, issued by the Auditing Practices Board (APB), requires that external auditors ensure that the Audit Committee is appropriately informed on a timely basis of all significant facts and matters that bear upon the auditors' objectivity and independence.

12. We confirm that we have complied with APB Ethical Standards throughout our audit and that, in our professional judgement, we have remained independent and our objectivity has not been compromised.

Overall conclusion

An unqualified audit opinion on the financial statements

13. We expect to report, within our independent auditors' report, an unqualified opinion on the financial statements for the year ended 31 March 2012.

14. We are satisfied that the governance statement complies with the Scottish Ministers' guidance and that the contents are not inconsistent with information gathered during the course of our normal audit work.

15. We have also concluded that the part of the Remuneration Report to be audited has been properly prepared in accordance with guidance issued by Scottish Ministers and the information given in the Directors Report is consistent with the financial statements.

An unqualified audit opinion on the regularity of transactions

16. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors to certify that, in all material respects, the expenditure and income shown in the financial statements was incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We expect to issue an unqualified opinion on the regularity of transactions in Learning and Teaching Scotland's financial statements.

Good administrative processes were in place

17. We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. We are pleased to report that the audit process ran smoothly, and our thanks go to the finance team for their assistance with our work.

Accounts Direction

18. Learning and Teaching Scotland is required, in preparing its financial statements, to comply with directions given by the Scottish Ministers. The direction by the Scottish Ministers requires Learning and Teaching Scotland to comply with the accounting principles and disclosure requirements of the Government Financial Reporting Manual (FReM).
19. The 2011/12 FReM notes that non-departmental public bodies (NDPBs) that are incorporated as companies and have charitable status, should comply with, respectively, the Companies Act 2006, regulations issued under charities legislation and, where applicable, the Statement of Recommended Practice (SORP) *Accounting by Charities*. They should also follow the principles in the FReM and provide the additional disclosures (for example, on salary and pension entitlements) where these go beyond the Companies Act 2006 or the SORP.
20. We are pleased to report that the 2011/12 financial statements of Learning and Teaching Scotland comply with the 2011/12 edition of the FReM which was in force for the year when the statement of accounts were prepared and the Charities Statement of Recommended Practice (Charities SORP).

Audit and accounting adjustments

21. We have set out below the adjustments to the financial statements processed during the audit.

Table 1 – Audit and accounting adjustments

	£
Net outgoing resources per draft accounts	(2,294,942)
Accounting entries made during the audit process:	
Re-classification of amounts recognised as deferred income	1,796,457
Re-classification of amounts transferred to Education Scotland	(7,832,234)
Inclusion of audit fee in financial statements	(6,000)
Net outgoing resources per the final accounts	(8,336,719)

22. Charities are normally entitled to incoming resources when they are receivable. Recognition of a grant or donation without pre-conditions should not be deferred even if the resources are received in advance of the expenditure on the activity funded by the grant or donation. In such cases the charity has entitlement to the resource with the timing of the expenditure being within the discretion of the charity. Such incoming resources cannot be deferred simply because the related expenditure has not been incurred. Similarly, a condition that allows for the recovery by the donor of any unexpended part of a grant does not prevent recognition. A liability for any repayment is recognised when repayment becomes probable. (*extract from the Charities Statement of Recommended Practice (SORP)*). During our audit, two adjustments were made to the financial statements to recognise incoming resources from the Scottish Government and the Confucious Institute in accordance with the requirements of the Charities SORP.
23. The transfer of Learning and Teaching Scotland's assets and liabilities to Education Scotland was initially disclosed within the Statement of Financial Activities under the 'net movement of funds'. This has been reclassified as resources expended to comply with the requirements of the Charities SORP.
24. We also identified some disclosure and presentational adjustments and are pleased to report that these are reflected in the updated financial statements.
25. We have also identified a couple of potential adjustments which are not considered material to the financial statements, either individually or in aggregate. These potential adjustments have been reported to Learning and Teaching Scotland and are included as an appendix to the letter of representation.

Key areas of audit focus and significant findings

26. We are required by international auditing standards to report to Learning and Teaching Scotland the main issues arising from our audit of the financial statements. The most significant issues we identified during our planning stage have been considered in detail during our audit and our findings and conclusions are noted below:

Pensions

27. The majority of employees of Learning and Teaching Scotland participated in the Strathclyde Pension Fund, part of the Local Government Pension Scheme, a defined benefit statutory scheme. It was anticipated that Education Scotland would, on 1 July 2011, take over substantially all of the company's activities including Learning and Teaching Scotland's pension deficit.
28. On 1 July 2011, staff from Learning and Teaching Scotland were automatically transferred to the Principal Civil Service Pension Scheme (PCSPS) but were given the opportunity to opt out if they wished. The value of the pension liability as at 31 March 2011 was £1.9million and responsibility for any outstanding liabilities resulting from the scheme have reverted to the Scottish Government. As a result, Education Scotland's financial statements do not show a pension liability as at 31 March 2012 as responsibility for this liability has transferred to the Scottish Government.
29. Learning and Teaching Scotland's actuaries have provided a provisional transfer payment value (cessation liability) attributable to Learning and Teaching Scotland as at 1 July 2011. The cessation liability as at 1 July is £4.266million. This liability has been provided for in Learning and Teaching Scotland's financial statements. Overall we concluded that Learning and Teaching Scotland had correctly reflected the cessation liability in the 2011/12 financial statements.
30. Looking forward, however, the value of this liability will be adjusted for the period from the date of calculation to the date of payment. The final actuarial cessation liability is not yet available.

Approval of the financial statements

31. In 2010/11 the Board of Directors comprised eight directors (including the Chief Executive). For three of the directors their term of appointment expired in July/August 2011. The Chief Executive left the organisation, and the Board, in June 2011. The Board of Directors now comprises the remaining four directors (whose term of appointment expires in 2014).
32. Since Education Scotland become operational in July 2011, the board of directors for Learning and Teaching Scotland has not formally met. Learning and Teaching Scotland's Articles of Association requires the Board of Directors to hold at least three meetings in each calendar year. In addition, Learning and Teaching Scotland shall hold a general meeting in each calendar year as its Annual General Meeting (AGM). The Articles of Association require, at each AGM, the income and expenditure accounts and balance sheet to be laid before members (accompanied by proper reports of the Board of Directors and of the Auditors).
33. We can confirm that the income and expenditure account and balance sheet is due to be laid before members at its AGM on 11 September 2012. The Accountable Officer is responsible, in preparing the financial statements, to comply with the requirements of the Government Financial Reporting Manual. The Accountable Officer is also responsible for signing various pages of the

financial statements including for example the statement of accountable officer's responsibilities, governance statement and directors report. The Chief Executive of Learning and Teaching Scotland was the appointed Accountable Officer. As noted above however the Chief Executive left the organisation in June 2011. A new Accountable Officer has yet to be appointed and as such the financial statements for the year ended 31 March 2012 will not be authorised for issue until such time as an Accountable Officer is appointed.

Governance Statement

34. From 2011/12, the FReM requires a governance statement to be published with the financial statements. This replaces the previous requirement for a statement of internal control.
35. The completion of the governance statement should be informed and supported by an assurance framework (as outlined in the Scottish Public Finance Manual). The governance statement should be signed by the Accountable Officer. This will cover the three month period where internal controls were in operation at Learning and Teaching Scotland. The former Chief Executive of Learning and Teaching Scotland has provided the next appointed Accountable Officer of Learning and Teaching Scotland with an assurance statement for the period 1 April 2011 to 30 June 2012.

Remuneration Report

36. The financial statements for 2011/12 should include an annual report that comprises a Trustees Annual Report (in accordance with the requirements set out in the Charities SORP), a remuneration report and a governance statement.
37. In respect of the remuneration report, from 2011/12, there is a new requirement to disclose:
 - The total remuneration of the body's highest paid director expressed as a £5,000 banding
 - The median total remuneration of all staff. This is the total remuneration of the staff member lying in the middle of the linear distribution of staff, based on annualised, full-time equivalent remuneration at the end of the reporting period (i.e. the mid-point of all staff's annual salary, performance pay, benefits in kind and severance payments)
 - The pay multiple between the mid point of the highest paid directors banding and the median total remuneration of all staff
 - Additional narrative explaining the calculation, including the causes for any significant variances
38. We have audited the relevant part of the Remuneration Report to be audited and concluded that this has been prepared in accordance with the Companies Act 2006 and directions made by Scottish Ministers and does include the new requirements.

Significant judgements made in preparing the financial statements

39. We identified the following areas where significant judgement is exercised in preparing the financial statements. We agree with the treatment adopted and draw them to your attention:

- expenditure allocation – Classification between different resources expended headings in accordance with the SORP;
- deferred income – SORP criteria met and deferral agreed appropriate.

Fraud and irregularity

40. Responsibility for preventing and detecting fraud and other irregularities lies with the directors of the charitable company.
41. We are not required to search specifically for such matters and our audit should not be relied upon to disclose them. However, we planned and conducted our audit so as to give a reasonable expectation of detecting any material misstatements in the financial statements resulting from improprieties or breach of regulations.
42. We are pleased to report that we did not identify any issues of concern in relation to fraud and irregularity.

Review of financial performance

43. Learning and Teaching Scotland has reported net outgoing resources in its Statement of Financial Activities of £8.3m in year. The table below provides a summary of Learning and Teaching Scotland's financial results for the year.

Statement of Financial Activities (SOFA)	2011/12 £
Total Incoming Resources	5,854,154
	5,854,154
Resources Expended	
Cost of sales	(137,866)
Charitable activities	(14,028,997)
Governance costs	(24,010)
	(14,190,873)
Net incoming/(outgoing) resources	(8,336,719)
Fund balances brought forward	4,143,825
Fund balances at 31 March 2012	(4,192,894)
Source: Learning and Teaching Scotland's Report and Financial Statements 2011/12	

44. Included within charitable activities is the transfer of Learning and Teaching Scotland's balances as at 30 June 2011 to Education Scotland (£7.832million) and pension cessation costs (£2.267million). The fund balances as at 31 March 2012 comprise the balance associated with the Learning and Teaching Scotland's role in developing the Confucius Institute (£73,106) and the cessation liability associated with Learning and Teaching Scotland's participation in the Strathclyde Pension Fund (paragraph 27) (£4.266million).
45. In 2011/12, Learning and Teaching Scotland was awarded cash grant in aid funding of up to £17.3million. Learning and Teaching Scotland drew down £4.449million for the three month period to 30 June 2011. The remaining funding was transferred to Education Scotland on 1 July 2011. In accordance with the requirements of the FReM, grant-in-aid income received from Scottish Government is recognised through the general reserve rather than the income and expenditure account. It has however been disclosed within the Statement of Financial Activities.

Income and Expenditure Account	2011/12 £
Income	795,786
	795,786
Cost of sales	(137,866)
Charitable activities	(14,166,863)
Governance costs	(24,010)
	(14,190,873)
Other income/(expenditure)	11,360
Net operating costs	(13,383,727)
Grant-in-aid	4,449,000
Other government funding	656,383
Source: Learning and Teaching Scotland's Report and Financial Statements 2011/12	

Accounting Systems and Internal Controls

46. One of our audit objectives was to determine whether adequate accounting systems and internal controls were in place and operating during the year. During our audit we considered the internal controls in place over the following accounting systems:
- Financial ledger
 - Income
 - Non-pay expenditure
 - Payroll
 - Cash and bank
 - Fixed Assets
47. We are pleased to report that we found the internal controls over these accounting systems to be generally well designed and operating adequately. We did however identify two areas with scope for improvement that may further strengthen the control environment (in relation to the financial ledger and payroll, table 2 below). As virtually all balances of Learning and Teaching Scotland have transferred to Education Scotland we have not included an action plan to this report.
48. We also carried out audit testing on the balances reported by Learning and Teaching Scotland as at 30 June 2011 (as reported in the trial balance as at 30 June 2011). Overall we concluded that the balances as at 30 June 2011 are free from material misstatement. We did however note that no accruals had been calculated at this date. We also noted that no accruals had been made at the balance sheet date. These however were considered to be immaterial.
49. It should be noted that our audit was planned and performed in order to allow us to provide an opinion on the financial statements and it should not be relied upon to reveal all errors and weaknesses that may exist.

Table 2 – summary of areas with scope for improvement

Audit Area	Commentary
Financial Ledger	Based on our sample testing we concluded that journals raised were reasonable and accurately input into the ledger. We did however note that, for the journals reviewed, no supporting documentation has been retained and there is no authorisation of journals raised.
Payroll	<p>We noted during our review that new start and leaver forms are created, however, from our sample testing performed we identified that these forms are not authorised by officers independent of the person adding or removing the employee from the payroll system.</p> <p>We also performed testing on the PAYE and National Insurance deductions. We identified no errors in our sample testing.</p>



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