



Education Scotland

Annual audit report 2014/15

June 2015

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This report has been prepared for the use of Education Scotland and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the audit committee. The information in this report may be used by Audit Scotland in any reporting to the Scottish Parliament.

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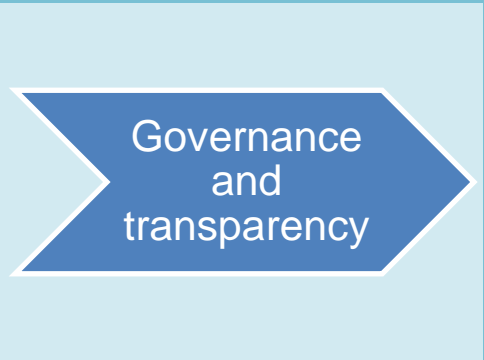
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Key Messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none">• Unqualified independent auditor's report on the 2014/15 financial statements.
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none">• Education Scotland reported an overspend of £3.8 million, against a budget of £ 35.4million.• A net liability position of £5.3 million was recorded in 2014/15 compared to £2 million in 2013/14.• Education Scotland has received assurance from the Scottish Government that future liabilities will be met as they arise.• Baseline budget for 2015/16 has increased by £1.2 million to fund increased responsibility in issuing grants.
 <p>Governance and transparency</p>	<ul style="list-style-type: none">• Overall we found that Education Scotland had sound governance arrangements.• During 2014/15 Education Scotland introduced a new supporting board, the change board to offer support along side the strategic impact, people and resource boards which were introduced in 2013/14.• Systems of internal control operated effectively during 2014/15.• The 2014/15 Annual Accounts included severance costs of £0.513 million and these payments met with Scottish Government's approval process for voluntary severances.

Key Messages



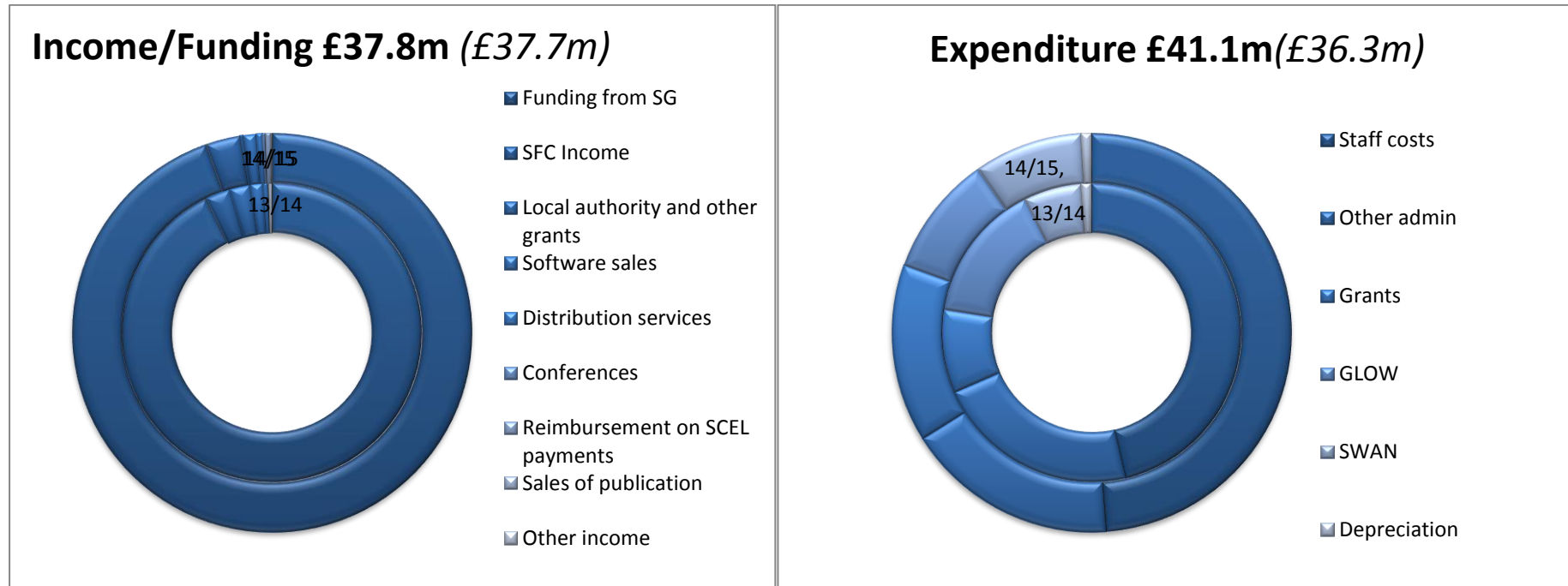
Outlook

- Work will continue in 2015/16 on delivering the areas that Education Scotland are responsible for as part of the ICT in Learning Programme including GLOW and SWAN (Scottish Wide Area Network).
- To ensure service delivery is appropriately supported Education Scotland should have an organisational ICT strategy.
- Education Scotland should continue to develop how they generate and report on publically available performance measurements in order to demonstrate best value in the delivery of outcomes.
- Education Scotland intend to implement a new corporate approach to risk management in 2015/16, the three line of defence model.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of Education Scotland.
2. The management of Education Scotland is responsible for:
 - preparing financial statements which give a true and fair view, in accordance with the relevant financial reporting framework
 - ensuring the regularity of transactions, by putting in place systems of internal control
 - maintaining proper accounting records
 - preparing and publishing with their financial statements an annual governance statement and a remuneration report
 - preparing a Scottish Government consolidation pack.
3. Our responsibility, as the external auditor of Education Scotland, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; that have been prepared by management with the oversight of those charged with governance. This does not relieve management of their responsibility for the preparation of financial statements.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports are summarised at **appendices II and III**, and include recommendations for improvements where appropriate.
6. **Appendix IV** is an action plan setting out our recommendations to address the high level risks we have identified from the audit. We recognise that not all risks can be eliminated or even minimised. What is important 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 proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

2014/15 financial statements



Cash funding from the Scottish Government makes up the majority of Education Scotland funding 93%. Funding in 2014/15 was £35.73 million, an increase of £0.77 million (2013/14 £34.96 million). This increase represents additional responsibility transferred from the Scottish Government relating to SWAN.

Expenditure in 2014/15 was £41.1 million, an increase of £4.8 million (2013/14 £36.3 million). The main increases were in grants (£2.6 million) and SWAN/ICT infrastructure costs (£1.3 million). Spend on grants increased due to specific grants being awarded on health and well-being initiative, community learning and development and strategic partnership work. Expenditure on ICT infrastructure has increased due to work on transitioning to the SWAN.

The financial statements show that income of £2.01 million this year is £0.7 million (26%) less than last year. Income decreased mainly due to a fall in grants.

Audit of the 2014/15 financial statements

Audit opinions

Financial Statements

- The financial statements of Education Scotland for 2014/15 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.
- We confirm that the financial statements have been properly prepared in accordance with the 2014/15 FReM.

Regularity

- In all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.

Other prescribed matters

- The remuneration report to be audited has been properly prepared in accordance with the requirements of FReM.
- The information in the strategic report and directors' report is consistent with the financial statements.

Audit of the 2014/15 financial statements

Submission of financial statements for audit

9. We received the unaudited financial statements on 20 April 2015 in accordance with the agreed timetable. The working papers were of a satisfactory standard and the staff provided good support to the audit team and we completed our on-site fieldwork on 15 May 2015.

Overview of the scope of the audit of the financial statements

10. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit and Risk Committee on 5 March 2015.
11. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed notional fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
12. 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 had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance.

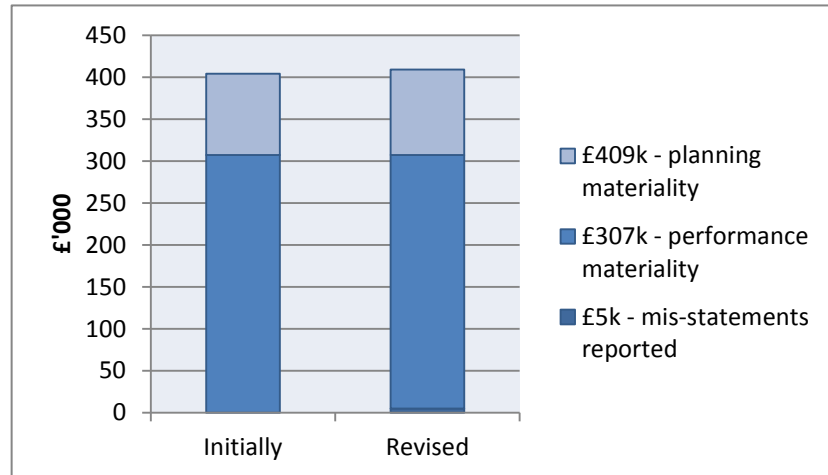
13. **Appendix I** sets out the significant audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.
14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

15. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other qualitative reasons (for example an item contrary to law).
16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
17. We summarised our approach to materiality in our Annual Audit Plan. Based on the financial statements, we revised our planning materiality for 2014/15 to £0.409 million (1% of gross expenditure). Performance materiality of £0.307 million is

Audit of the 2014/15 financial statements

determined to ensure that uncorrected and undetected audit differences do not exceed our planning materiality level. We report all misstatements greater than £5,000.



Evaluation of misstatements

18. All misstatements identified during the audit, which exceeded our misstatement threshold, have been amended in the financial statements.

Significant findings from the audit

19. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit:
 - the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting

policies, accounting estimates and disclosures

- significant difficulties encountered during the audit
 - significant matters arising from the audit that were discussed, or subject to correspondence with management
 - written representations requested by the auditor
 - other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
20. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. The overall effect of the adjustments made to the financial statements is to increase total comprehensive net expenditure by £0.153 million. Net liabilities as recorded in the statement of financial position have increased by £0.153 million.
 21. The gross adjusted error was £0.732 million. This included an increase in accruals of £0.349 million and deferred income of £89,000, and a decrease in accruals of £0.274 million and provisions of £20,000. As the total adjustments breached the performance materiality we undertook additional audit testing of accruals and deferred income. A summary of the main adjustments are contained in the following table together with significant issues that, in our view, require to be communicated to you in accordance with ISA 260.

Significant findings from the audit in accordance with ISA260

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22. Going concern: The balance of taxpayers' equity at 31 March 2015 is reported as £ 5.3million (31 March 2014 £ (2 million)). The financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations. This may be called into doubt if there are significant net liabilities in the statement of financial position. The current net liability has increased from the prior year and as such, Education Scotland will wish to consider any consequences should the balance of taxpayers' equity reduce in future years.

Resolution: Education Scotland has received assurances from the Education and Lifelong Learning portfolio of the Scottish Government that future net current liabilities will be funded as they arise. We have had discussions with finance staff and undertaken a review of management's assessment and the assurances provided to them by the Scottish Government. We are content that Education Scotland will continue to operate on a going concern basis. An explanation of the adoption of the going concern basis is included in the annual accounts and assurance is to be provided in the letter of representation that the negative balance on taxpayers' equity will not impact on the continuing operation of Education Scotland.

23. VAT for secondees' liability: Following challenge regarding the payment of VAT for secondees by HMRC, Education Scotland has created a provision of £1 million in the financial statements. This provision is based on the VAT that is eligible to be paid to local authorities on secondees from 2012/13 to 2014/15. Additionally an accrual of £0.3 million relating to the payment of VAT for several local authorities has been processed through the financial statements. The need for this adjustment arose due to an additional review of the amounts included in the VAT provision by Education Scotland finance staff. As part of our review we identified an error in the calculation of the provision for Glasgow City Council. An adjustment was made to the unaudited financial statements which reduced the provision by £19,000.

Resolution: We have reviewed the basis of the calculation of the provision and accrual amounts and reviewed documentation relating to the ongoing challenge from HMRC. We are satisfied that the criteria for accounting for this has been met.

Significant findings from the audit in accordance with ISA260

24. Service charge accruals (significant adjustment to the unaudited financial statements): The unaudited financial statements included an accrual for the service charges related to the Optima building which Education Scotland lease part of. After further investigation it was determined that service charges were met by the Scottish Government and Education Scotland had recognised them in error, therefore the accruals balance was reduced. A similar accrual had been included in the 2013/14 accounts. In addition the service charge for the MITIE contract should have been recharged by the Scottish Government for 2014/15 however this has not been done and as such the service charge expenditure was understated by £49,000.

Resolution: The net impact of these adjustments is that the accruals balance has decreased by £0.164 million and additional disclosures have been added to the financial statements to explain that service charges for the Optima building are met by the Scottish Government and that the 2013/14 accruals balance had been overstated by £86,000.

25. Accruals testing (significant adjustment to the unaudited financial statements): From our testing of the accruals balance we noted two invoices which had been fully accrued in error. One related fully to 2015/16 expenditure and one related to an annual subscription that only part related to 2014/15.

Resolution: An adjustment has been made which reduces the accruals balance by £59,000. Education Scotland should ensure they are fully reviewing all accruals to ensure that they are valid transactions.

26. SWAN: The unaudited financial statements included income and accruals relating to SWAN. Due to delays in the transition from the previous contract to the new infrastructure supplier the new supplier contract is currently in dispute. Education Scotland are negotiating the payments due to the new supplier. There is therefore an accrual of £1.4 million relating to SWAN and previous infrastructure supplier costs included in the financial statements.

Resolution: We have reviewed the SWAN contract and accrual and are satisfied that the accrual included in the financial statements is a reasonable estimate of the amounts due. Education Scotland should work with the SWAN supplier to resolve the ongoing dispute.

Significant findings from the audit in accordance with ISA260

27. SWAN deferred income (significant adjustment to the unaudited financial statements): The unaudited financial statements included income relating to additional SWAN connectivity provided to local authorities where the invoice should not have been raised as the payment to the SWAN provider had not been made.

Resolution: Total adjustments of £89,000 to reduce the income and increase the deferred income for 2014/15 has been made to the financial statements.

28. Stewardship of non-current assets: Audit testing identified a fully depreciated asset with a gross replacement cost of £10,029 been include in the non current asset register, but could not be located when we carried out a verification exercise. We have been advised that the asset has been disposed and should not have been included in the NCAR.

Resolution: This issue was previously reported in 2013/14 and Education Scotland had agreed to review all assets in the NCAR and ensure that they could be physically verified. Education Scotland has agreed to undertake a further review in the current year.

Scottish Government accounts consolidation pack and Whole of Government accounts information.

29. Education Scotland is required to complete a Scottish Government Consolidation pack which we are required to audit. This pack includes a section to provide information for the whole of government accounts (WGA), which are the consolidated financial statements for all branches of

government in the UK. We are not required to audit this section of the pack as Education Scotland falls below the de-minimis level for audit of £350 million of gross expenditure.

30. Education Scotland is required to submit an audited consolidation pack to the Scottish Government prior to the deadline of 30 June 2015. The consolidation pack has not yet been submitted for audit, however we expect to meet the Scottish Government timetable.

Future accounting and auditing developments

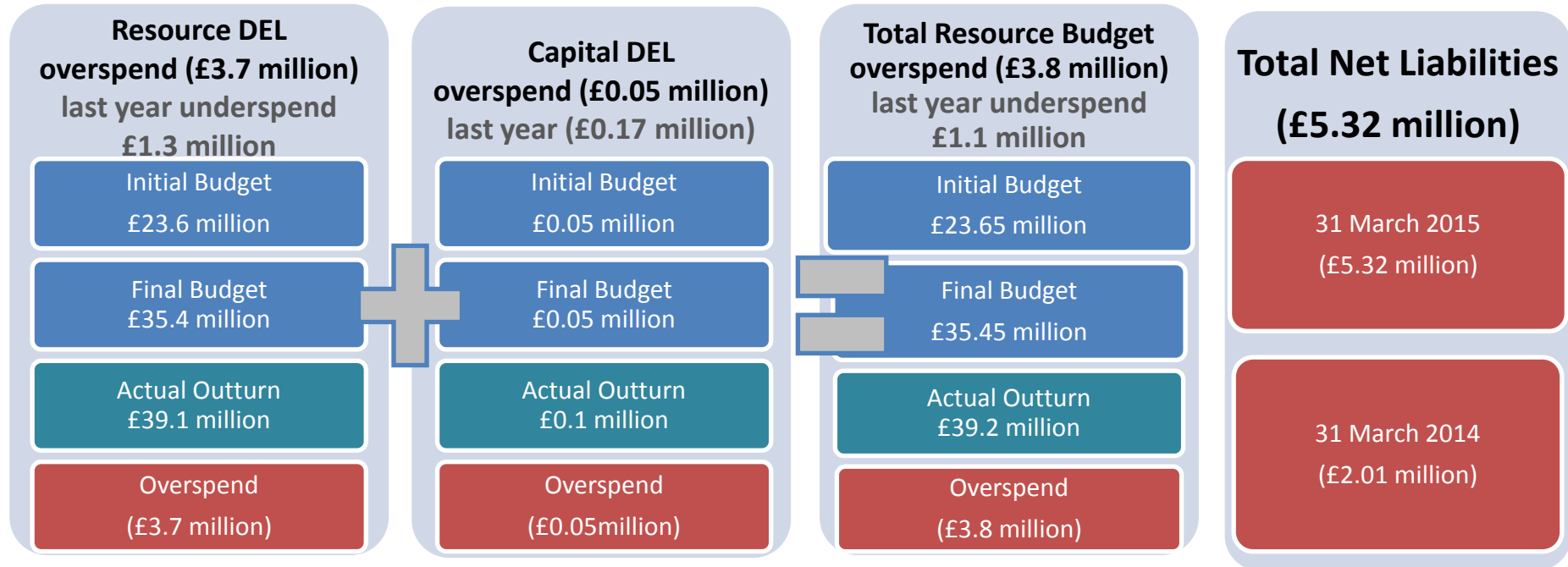
Revisions to the Financial Reporting Manual (FReM)

31. The financial statements are prepared in accordance with the Government financial reporting manual (FReM). Two significant revisions will apply from 2015/16:
 - adoption of IFRS13 *Fair value measurement* for the first time – this also includes IAS 16 and IAS 38 adaptations
 - simplification and Streamlining Project – changes to the form and content of the annual report and accounts.
32. **International Financial Reporting Standards (IFRS)13 Fair value measurement:** sets out the requirements for assets to be valued at fair value and is applied in full by the FReM only to assets that are not held for their service potential (i.e. investment properties and assets held for sale). It also applies to operational assets which are surplus to requirements where there are no restrictions on disposal which would prevent access to the market.
33. IFRS 13 does not apply to operational assets which are in use delivering front line services or back office functions, and surplus assets with restrictions on their disposal. These will be valued in accordance with the adaptations to IAS (*International Accounting Standard*) 16 *property, plant and equipment*.
34. **Restructuring of the annual report and accounts:** the

2015/16 FReM has been extensively re-written to require the annual report and accounts to include:

- a performance report which will give a fair, balanced and understandable analysis of performance and will include an overview section and a performance analysis section
 - an accountability report incorporating the following three main sections:
 - corporate governance report consisting of a directors' report, a statement of the Accountable Officer's responsibilities and a governance statement
 - remuneration and staff report which will cover a number of prescribed disclosures including remuneration policy, payments to directors, staff numbers and sickness absence rates
 - parliamentary and accountability report which will include information on the regularity of expenditure and the independent auditor's report.
35. Education Scotland should ensure that they fully consider the amendments to FReM when preparing their 2015/16 annual report and accounts.

Financial management and sustainability



36. The main financial objective for Education Scotland is to ensure that the financial outturn for the year is within the resource budget allocated by Scottish Ministers. The Scottish Government sets a resource budget for the year 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). ES overspent on the resource budget for 2014/15 as detailed above.

2014/15 financial position

37. As shown in the table above Education Scotland reported a resource overspend of £3.8 million. The total outturn of £39.2 million was financed by cash funding from the SG.
38. Capital outturn was £0.1 million against a budget of £0.05 million. This overspend was funded by utilising resource budget to purchase new laptops and software licenses. Spending resource budget for capital expenditure is acceptable under the FReM and SPFM.
39. This overspend is due largely to three significant revenue budget pressures:
- ICT in Learning, Education Scotland's expenditure was £7.6 million and £5 million funding was received from the Scottish Government
 - Schools Improvement Partnership Project (SIPP) £0.6 million expenditure and no funding was received
 - VAT liability for seconded and supply staff of £1.3 million which included a £1 million provision and a £0.3 million accrual.
40. These budget pressures had been formally logged with Education Scotland sponsor department the Education and Lifelong Learning (ELL) portfolio of the Scottish Government during 2014/15 and were captured in the budget monitoring report prepared by Education Scotland and also the ELL maintained a log of budget pressures across the portfolio.
- Education Scotland were in communication with ELL portfolio regarding the overspend position throughout 2014/15. The ELL portfolio has agreed to fund these additional costs from the underspend in other areas of the portfolio.
41. At 31 March 2015 Education Scotland's statement of financial position shows an increase in the total liability of £3.3 million. Education Scotland historically report a net liability position as there is a small asset base and the requirement for funding from the Scottish Government is recorded on a cash basis. The increase in the liability in 2014/15 is as a result of an increase in accruals and deferred income.
42. The financial statements were prepared on a going concern basis as Education Scotland has no reason to believe that the support of their sponsor department, the Education and Lifelong Learning Portfolio of the SG will not be forthcoming. We are satisfied that the financial statements have been prepared on a going concern basis and that the appropriate disclosures have been made in the financial statements.
43. The 2015/16 Budget was approved by the Scottish Parliament in February 2015 and it shows an increase of £1.2m (5%). This additional funding is to cover grant expenditure to youth projects which the Scottish Government has transferred responsibility for to Education Scotland. There is no increase to the administrative budget.
44. During 2014/15 Education Scotland began a strategic project to improve project management processes across each of the

Financial position

four directorates. As part of this project the newly established planning and performance team now work across the directorates to improve consistency and understanding in both budgeting and wider performance management.

Financial management

45. As auditors we need to consider whether bodies have established adequate financial management arrangements.
46. We do this by considering a number of factors, including whether:
 - the Corporate Services Director has sufficient status to be able to deliver good financial management
 - standing financial instructions and standing orders are comprehensive, current and promoted within the body
 - reports monitoring performance against budgets are accurate and provided regularly to budget holders
 - monitoring reports do not just contain financial data but are linked to information about performance.
47. Based on our accumulated knowledge, our review of board papers and through our attendance at the audit and risk committee we conclude that Education Scotland has strong financial management arrangements in place.

SWAN

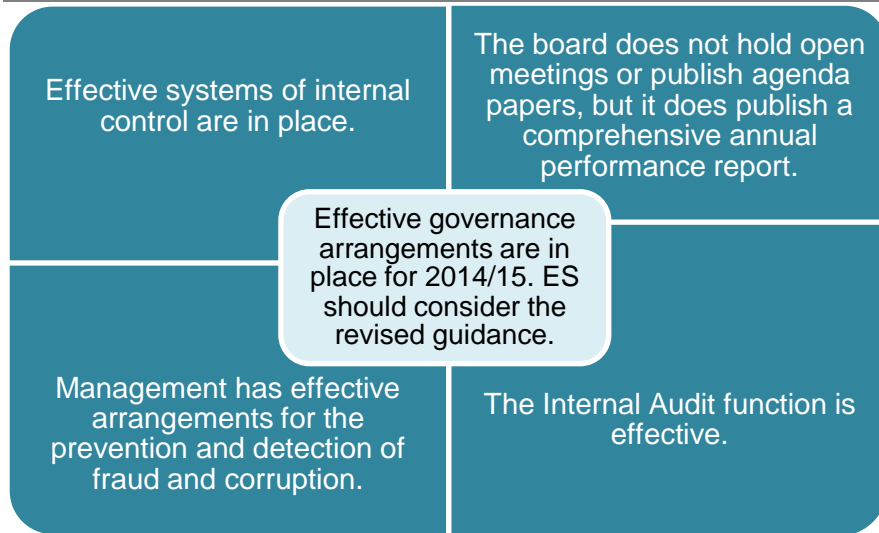
48. Education Scotland is a pathfinder body for the introduction of

the Scottish Wide Area Network (SWAN) as part of the wider ICT in Learning Programme. As of 1 January 2015 Education Scotland has entered in to a call off contract with the infrastructure provider for SWAN. The SWAN programme is a complex arrangement which includes a number of public service bodies. Education Scotland are responsible for providing a SWAN connection to each local authority after which the individual local authorities have the responsibility for how they distribute the connection to schools.

49. In 2014/15 the total expenditure on the SWAN contract was £1.4 million including £0.4 million in transition costs from the previous infrastructure supplier. The annual changes from 2015/16 to 2021/22 are estimated to be at least £0.7 million. Education Scotland receives income from local authorities for additional SWAN connections above the baseline service which they can request. This income is matched with additional SWAN expenditure. This increases the complexity of the contract and financial management. During our audit there were several adjustments to the financial statements required relating to SWAN expenditure and income.
50. Given the complexity and high profile of the SWAN programme Education Scotland need to ensure they have effective financial and contract management arrangements in place.

Refer Action Plan no. 1

Governance and transparency



by the Management Board (MB). The Chief Executive chairs the MB, which comprises three Strategic Directors and the Chief Operating Officer who form the Corporate Management Group (CMG), and 4 Non-Executive Directors appointed by the Chief Executive.

- 53. The management board is supported in its role by a number of standing committees as illustrated below:



Corporate governance

- 51. Education Scotland is headed by a Chief Executive who is responsible to Scottish Ministers, within the terms of the framework document, for its management, performance and future development. The Chief Executive has responsibility for all operational matters as delegated by the Director-General Learning and Justice.
- 52. The Chief Executive has a responsibility to ensure the Agency effectively delivers ministerial policies and is supported in this

Governance and transparency

54. The MB and the Audit and Risk Committee (ARC) meet on a regular basis throughout the year to consider relevant matters. Both met on four occasions during the year. The Corporate Management Group held monthly meetings in 2014/15. The four Strategic Boards met frequently throughout the year. We concluded that Education Scotland has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

Transparency

55. The Scottish Government's On Board guidance (<http://www.gov.scot/Publications/2015/04/9736/0>), for board members of public bodies was updated and reissued in April 2015. On Board states that boards should demonstrate high standards of corporate governance at all times including openness and transparency in decision making. It recommends boards should consider:

- holding an annual open meeting
- holding board meetings in public unless there is a good reason not to
- publishing summary reports and/or minutes of meetings
- inviting evidence from members of the public in relation to matters of public concern
- consulting stakeholders / users on a wide range of issues
- making corporate plans and the annual report widely

available.

56. Within ES all board and committee meetings are held in private. MB and ARC minutes are available on the Education Scotland website. Minutes for the four Strategic Boards are to be made available to all staff on the agency's intranet. No registers of interests are available online; however Non-Executive Directors are required to declare interests at the start of each MB and ARC meeting. These are disclosed as part of the minutes which are publicly available.

57. The financial statements include reconciliations between expenditure and the outturn against the budget allocated by the Scottish Government. The accounts also identify and explain significant movements in budget during the year.

58. Overall we concluded that Education Scotland is transparent in terms of making minutes available to the public. All committees are held in private because of the confidential and sensitive nature of their business. Education Scotland should consider how it can apply the On Board guidance.

Internal control

59. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain sufficient audit evidence to support our opinion on the financial statements.

Governance and transparency

60. In the interests of an efficient audit approach we 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.
61. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the organisation's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
62. Our audit work identified that during 2014/15 Education Scotland was not able to review which members of staff had access to the SEAS system. This issue has been discussed with the Scottish Government SEAS user team throughout 2014/15 and we now understand a report is available which will allow Education Scotland to undertake this review.

Refer Action Plan no. 2.

63. The financial statements include expenditure of £0.513 million for voluntary severances of staff in the "wider re-deployment pool". Education Scotland sought, and received, approval from Scottish Government for these severances.

Internal audit

64. Internal audit provides the audit and risk committee and

accountable officer with independent assurance on the overall risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.

65. Our review of internal audit concluded that the internal audit service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.
66. We planned to place formal reliance on aspects of the work of internal audit in the following areas, to support our audit opinion on the financial statements:
- controls over the awarding, monitoring and assessing of outcomes for grants
 - governance, risk and financial management.
67. There have been delays in internal audit undertaking their work and issuing draft reports in line with the timetable set out in their annual plan issued in June 2014.
68. **Controls over the awarding, monitoring and assessing of outcomes for grants:** the work was originally due to be undertaken in July/August 2014. The audit and risk committee was advised in September this was delayed as a wider review of Grants was being undertaken within SG which would result

Governance and transparency

in updated guidance and best practice notes being issued. It was advised that the revised completion date would be December 2014.

69. The December 2014 and March 2015 Internal Audit progress reports advised that the draft report would be issued in mid December and early March respectively. The draft report was issued to management on 01 April 2015.
70. **Governance, risk and financial management:** the work was originally due to be undertaken in February 2015. The March Internal Audit progress report advised the draft report was due to be issued in mid-March. At the time of writing our report the draft report has not yet been issued to management for comment.
71. In our 2013/14 annual audit report we stated '*there were significant delays in issuing reports to Education Scotland. The delays hindered the completion of the governance statement and the external audit process.*' These delays have continued during 2014/15.
72. Late delivery of the internal audit reports creates additional risk for Education Scotland in preparing the governance statement as the reports and recommendations of internal audit forms a key element of the system of internal control.

Refer Action Plan no. 3

Performance Management:

73. During 2014/15 a planning and performance team was established which works across directorates to improve consistency and understanding in both budgeting and wider performance management. The internal performance management information generated is published on a monthly basis and can be interrogated at different levels and is summarised at directorate level for the management board and Audit and Risk Committee. From our review of the performance management information presented to the Audit and Risk Committee, improvements have been made in reporting internal project and performance management.
74. As part of audit we review the key performance targets included within the strategic report. The information provided focusses more on outputs rather than outcomes.
75. There are also limited references to actual performance against targets. Education Scotland needs to continue to develop how they generate and report on publically available performance measurements in order to demonstrate best value in the delivery of outcomes.

Refer Action Plan no. 4

Risk Management

76. Education Scotland has continued to develop its corporate risk register during 2014/15. We have previously reported that it was unclear how operational risks aligned to the corporate objectives, and that this may hinder the non-executive director's ability to fully scrutinise the corporate risk register.
77. Progress has continued to be made by Education Scotland on improving Risk Management processes throughout 2014/15. However based on our review of the risk registers and our attendance at the Audit and Risk Committees during 2014/15 this needs to be further developed to allow the Non Executive Directors the opportunity to fully scrutinise and provide appropriate challenge. We understand that Education Scotland plan to move to a new model of risk management in 2015/16, the three line of defence model which should further develop the risk management process.

Refer action plan no 5

ICT

78. **Edscot Platform:** During 2013/14 Education Scotland began development of an internal ICT platform. However, following the publication of revised Cabinet Office guidance on security classifications a decision was taken in 2014/15 to implement the SCOTS platform, which is operated by the SG, in place of the EdScot platform.

79. This project appears to be progressing well and all ES staff have moved to the SCOTS platform. There are a few local functionality issues such as access to online streamed material that are still being developed by the ES ICT team and the SG IT team.
80. **ICT Strategy:** ICT plays a critical role in both the day to day running of Education Scotland and the projects and policies that it helps to deliver, such as Curriculum for Excellence and the ICT in Learning programme. Whilst the strategic view of how ICT supports Scottish Education is the responsibility of the Scottish Government, there remains a need for Education Scotland to have in place an organisational ICT strategy to ensure service delivery is appropriately supported.
81. The recruitment of a new head of ICT is ongoing however there has yet to be an appointment made. This vacancy has existed for most of 2014/15 when the previous head of ICT went on secondment to the Scottish Government. Until this position is filled there is a risk that without sufficient ICT leadership and direction there will be further delays in creating and implementing an ICT strategy.

Refer action plan no 6

Arrangements for the prevention and detection of fraud

82. We assessed the arrangements for the prevention and detection of fraud during the planning phase of our audit. This

Governance and transparency

involved reviewing whistle blowing policies and reviewing high value journals.

83. We conclude that there are effective arrangements for the prevention and detection of fraud.

National Fraud Initiative in Scotland

84. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.
85. Auditors are required to assess the arrangements that bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.
86. As Education Scotland uses Scottish Government financial systems, any matches identified would be sent to Scottish Government Human Resources Shared Services to investigate in the first instance. We are not aware of any matches relating to Education Scotland in 2014/15.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

87. Education Scotland has in place a range of activities designed to maintain standards of conduct including Codes of Conduct for officers and members. Also, there are established procedures for preventing and detecting corruption including annual reviews of Standing Financial Instructions and Standing Orders.
88. An area of good practice undertaken by Education Scotland relates to senior staff and board members completing Register of Interests forms which highlight where there may be a potential conflict of interest. All staff record interests in the relevant section of the HR database. A record of any interest is recorded at each Audit and Risk Committee and Management Board meeting. Details for the Corporate Management Group are included in the Financial Statements.
89. Based on our review of the evidence we concluded that there are appropriate arrangements in place for the prevention and detection of corruption and we are not aware of any specific issues that we need to record in this report.

Best Value

Arrangements for securing Best Value

90. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.
91. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of best value. Where such requirements are not specified we may, in conjunction with Education Scotland agree to undertake local work in this area.
92. We did not undertake any specific work in this area during 2014/15.

National performance audit reports

93. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which are of direct interest. These are outlined in **appendix III**.
94. Education Scotland has processes in place to ensure that all

relevant national performance reports are considered by the Audit and Risk Committee.

95. **School Education.** The national performance audit on Schools Education was published in June 2014. This report focused on local authority spend on education. The key messages included in that report are:
 - performance has improved against all ten of the attainment measures over the last decade
 - there is significant variation in attainment between individual councils, schools, and groups of pupils; and there is a considerable gap between Scotland and the top performing countries
 - closing the gap in performance between schools is likely to be critical to improving overall attainment levels.
96. The report recommendations are aimed predominately at local authorities although there is references to working with Education Scotland:
 - continue to work with the Scottish Government and Education Scotland to develop a suite of agreed performance measures which would provide an overall picture of education attainment and achievement across Scotland.

Best value

97. This national report was presented by performance audit and best value colleagues to Education Scotland senior management at the leadership away day in December 2014. There has since been engagement with Education Scotland senior staff in relation to developing performance for 3-18 years olds.
98. **Scotland's public finances - a follow-up audit: Progress in meeting the challenges.** This report was published in June 2014 and commented that, in setting budgets, public bodies need to focus more on their priorities, making clearer connections between planned spending and the delivery and measurement of outcomes.
99. **Update on developing financial reporting:** This update report published in March 2015 reviewed the principles of public financial management and provided an update on the actions the Scottish Government is taking to further develop financial reporting.
100. The report concludes that the Scottish Government and the public sector generally, have a good record of financial management and reporting. The Scottish Government has continued to improve and develop its financial reporting framework since we last reported. The report highlights that consolidated accounts for the whole of the Scottish public sector would help provide an overall picture of its financial position to strengthen understanding and transparency.

Appendix I – Significant audit risks

The table below sets out the financial statement audit risks, how we addressed each risk and our judgement in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
<p>Management override of controls (Statement of Comprehensive Net Expenditure, Statement of Accounting Policies)</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> ➤ Detailed testing of journal entries. ➤ Review of accounting estimates for bias. ➤ Evaluating significant transactions that are outside the normal course of business. ➤ Focused testing of accruals and prepayments. 	<p>Substantive testing covered assurance procedures. No outstanding issues. The overspend was formally logged with the sponsor portfolio the education and lifelong learning portfolio of the Scottish Government during 2014/15. We have concluded that despite the overspend Education Scotland have sound budgetary control procedures in place.</p>

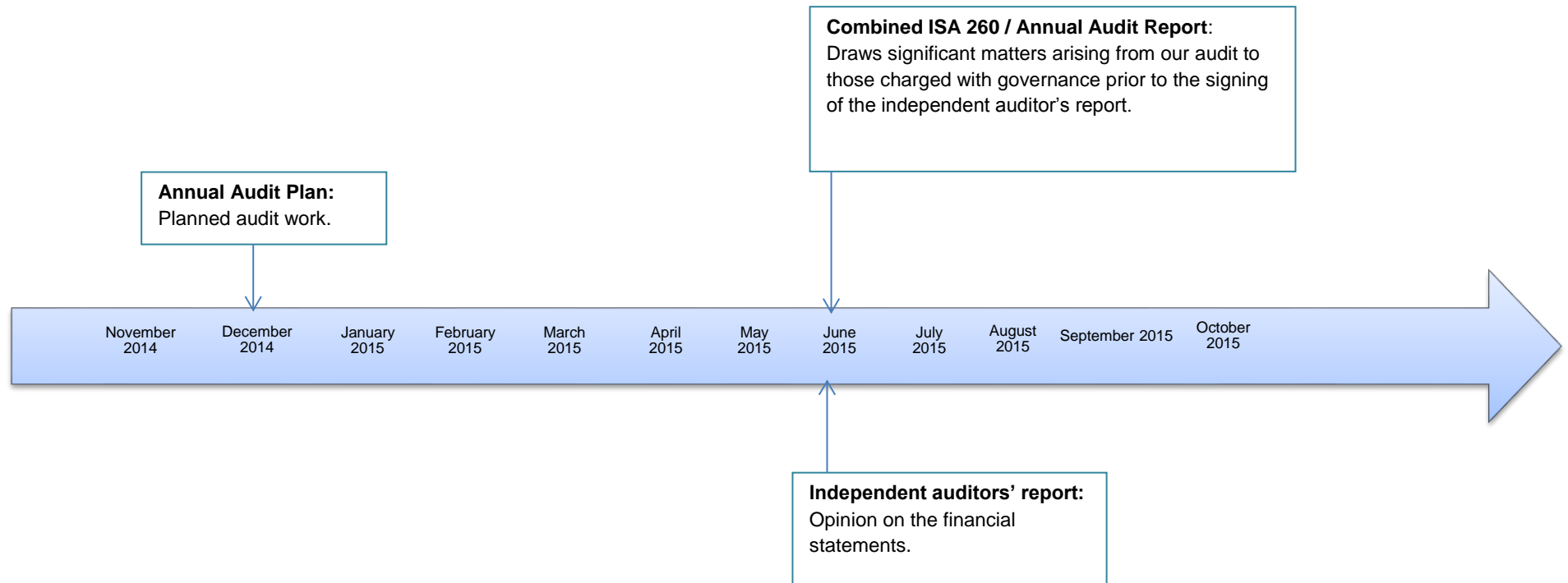
Appendix I – Significant audit risks

Audit Risk	Assurance procedure	Results and conclusions
<p>Financial sustainability: (Statement of Comprehensive Net Expenditure)</p> <p>In line with other public bodies, ES is operating within a challenging economic environment. Pressure is on the body to deliver a quality service whilst staying within a budget which has decreased in real terms.</p> <p>As at December 2014 a projected budget overspend of £3.1 million has been reported.</p>	<ul style="list-style-type: none"> ➤ Review of ARC and CMG papers ➤ Discussions with officers regarding budgeting ➤ Financial statements work and pre year end expenditure testing 	<p>Overspend of £3.8 million reported in financial statements. Net liabilities have increased due to VAT provision and increased accruals.</p>
<p>Income (Statement of Comprehensive Net Expenditure)</p> <p>ES receive a material amount of income in addition to SG funding.</p> <p>The extent and complexity of income means there is an inherent risk of fraud in accordance with ISA240.</p>	<ul style="list-style-type: none"> ➤ Detailed testing of revenue transactions focusing on the all material income streams. 	<p>Substantive testing of all material income streams was undertaken; issues identified were adjusted for in the unaudited financial statements.</p>

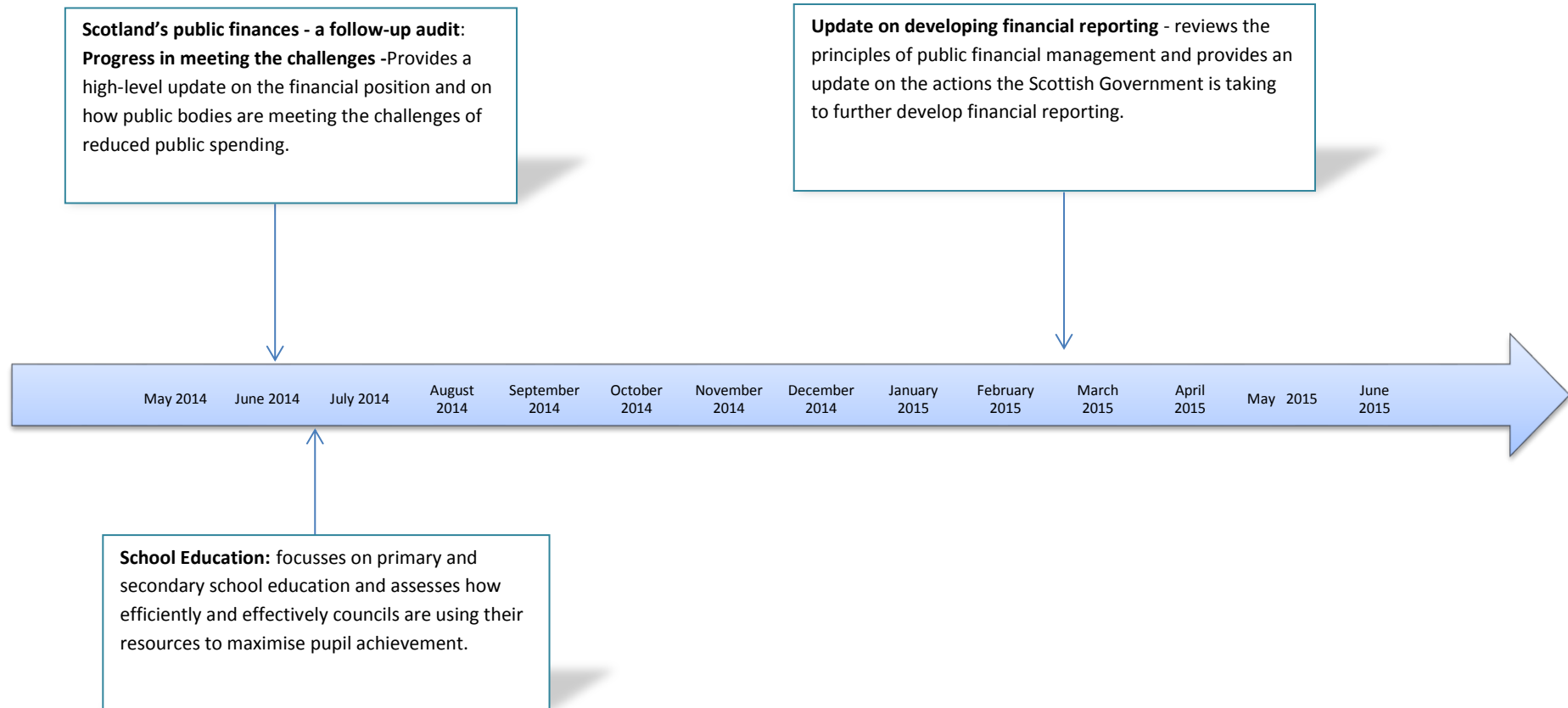
Appendix I – Significant audit risks

Audit Risk	Assurance procedure	Results and conclusions
<p>Performance management: (Governance)</p> <p>During 2014/15 ES began a strategic project to improve their project management processes across all of the directorates. We had previously raised concerns regarding the quality and discrepancies in the project management processes.</p>	<ul style="list-style-type: none"> ➤ Review of ARC and CMG papers ➤ Discussions with officers regarding performance management ➤ Review of annual report and annual review performance information 	<p>Performance targets included in the strategic report focus on the output rather than outcomes and in some cases do not report a specific target.</p>
<p>ICT strategy: (Governance)</p> <p>The use of ICT underpins the successful delivery of business and strategic objectives. As we have reported in our 2013/14 Annual Audit Report ES do not have a formalised ICT strategy in place.</p>	<ul style="list-style-type: none"> ➤ Review of ARC and Corporate Management Group (CMG) papers ➤ Discussions with internal audit and ICT staff ➤ Review outcome of recruitment for head of IT 	<p>Head of ICT recruitment ongoing, no appointment made yet. ICT strategy is still outstanding.</p>

Appendix II – Summary of local audit reports 2014/15



Appendix III – Summary of national reports 2014/15



Appendix IV – Action plan

Para/Action plan point	Issue/Risk/Recommendation	Management action/response	Responsible officer	Target date
Financial audit Issues				
50/1	<p>SWAN</p> <p>Education Scotland have a leading role in the successful delivery of the SWAN programme. The SWAN contract is a highly complex arrangement with a large number of variables, including surrounding the service delivered and agreeing that to invoices received and payments made.</p> <p>Risk</p> <p>There is a risk that Education Scotland are unable to match the expenditure and income associated with the SWAN to the charges in the SWAN contract.</p> <p>Recommendation</p> <p>Education Scotland should have sound contract and financial management arrangements in place to ensure the SWAN contract is effectively monitored.</p>	A contract manager has been assigned to the SWAN project	Corporate Services Director	1 April 2015

Appendix IV – Action plan

Para/Action plan point	Issue/Risk/Recommendation	Management action/response	Responsible officer	Target date
62/2	<p>SEAS access list</p> <p>There has been no formal review of Education Scotland employees who have access to the SEAS system in 2014/15. This is due to not having a report available that provides useable information.</p> <p>Risk</p> <p>There is a risk that employees who no longer require access to SEAS have access and can therefore make changes either due to error or fraudulent activity.</p> <p>Recommendation</p> <p>Education Scotland should carry out regular reviews of SEAS access to ensure that the access list is current is accurate.</p>	<p>Access to SEAS is controlled by the Head of Finance and Procurement. Only finance staff are able to make changes. Access to other staff is on a “read only” basis. We are working with SG ensure that we have access to an up to date list of SEAS users.</p>	<p>Head of Finance and Procurement</p>	<p>30 May 2015</p>

Appendix IV – Action plan

Para/Action plan point	Issue/Risk/Recommendation	Management action/response	Responsible officer	Target date
Wider audit issues				
72/3	<p>Internal Audit</p> <p>Internal audit is provided by the Scottish Government internal audit division. There have been delays in internal audit issuing and clearing reports with Education Scotland management during 2014/15, including reports on:</p> <ul style="list-style-type: none"> • governance, risk and financial management • overall opinion on the adequacy and effectiveness of the systems of internal control. <p>These reports form part of the assurances that the accountable officer requires in order to produce the governance statement, although verbal assurances of their overall opinion has been provided by internal audit to allow Education Scotland to prepare this statement. Delays in issuing and clearing reports by internal audit was raised as an issue in our 2013/14 annual audit report and continues to be an issue.</p> <p>Risk</p> <p>There is a risk that the delays in issuing and finalising reports reduce the effectiveness of internal audit and the usefulness of the reports to Education Scotland.</p> <p>Recommendation</p> <p>Internal audit should agree a clear timetable and process to allow the timely issue and finalisation of reports.</p>	Delays have been discussed with Internal Audit and we are working together to plan the 2015-16 audits to ensure that work is completed and reported as per the agreed timetable	Head of Finance and Procurement	31 March 2016

Appendix IV – Action plan

Para/Action plan point	Issue/Risk/Recommendation	Management action/response	Responsible officer	Target date
75/4	<p>Performance Management</p> <p>We reviewed the key performance targets included within the strategic report. The information included in this section focussed on outputs rather than outcomes with limited reference to performance against targets or comparisons with prior years. There are published targets included in the 2014/15 business plan which should be reflected fully in this section of the financial statements.</p> <p>Risk</p> <p>There is the risk that Education Scotland are not able to demonstrate best value in the delivery of its outcomes.</p> <p>Recommendation</p> <p>Education Scotland should ensure that it is reporting performance against published targets that will allow performance to be measured on an ongoing basis.</p>	<p>A great deal of work has already been taken forward in this area through the Strategic Impact Board and the review of business planning. Further efforts to make performance management both clearer and more transparent will form part of work to develop Education Scotland's next Corporate Plan.</p>	Chief Operating Officer	April 2016

Appendix IV – Action plan

Para/Action plan point	Issue/Risk/Recommendation	Management action/response	Responsible officer	Target date
77/5	<p>Risk Management</p> <p>Risk management processes continued to be developed throughout 2014/15. From our review of the risk registers and our attendance at the Audit and Risk Committees this needs to be further developed.</p> <p>Risk</p> <p>There is a risk that Non Executive Directors are unable to effectively challenge the risks contained in the corporate risk register in its current form.</p> <p>Recommendation</p> <p>Education Scotland should use the process of moving to a new model of risk management to thoroughly review all of their existing risk management procedures and reporting.</p>	A significant amount of progress has already been achieved and further work will be undertaken in 2015-16.	Head of Performance and Planning	March 2016

Appendix IV – Action plan

Para/Action plan point	Issue/Risk/Recommendation	Management action/response	Responsible officer	Target date
81/6	<p>ICT Strategy</p> <p>The use of ICT is key to the delivery of the strategic objectives of Education Scotland. While we acknowledged the progress made in moving all staff to SCOTS, and the recruitment process for a new head of ICT there is still no internal ICT strategy in place.</p> <p>Risk</p> <p>Without a clearly documented strategy, there is a risk the ICT resources may not be properly aligned to supporting delivery of key business and strategic objectives.</p> <p>Recommendation</p> <p>Education Scotland should ensure that developing an internal ICT strategy is a priority for the head of ICT when an appointment is made.</p>	<p>A Head of Digital has now been appointed. Initial work on a digital strategy has already begun and the new appointee will make this development a priority.</p>	<p>Corporate Services Director</p>	<p>March 2016</p>