

Education Scotland

2016/17 Annual Audit Report



 AUDIT SCOTLAND

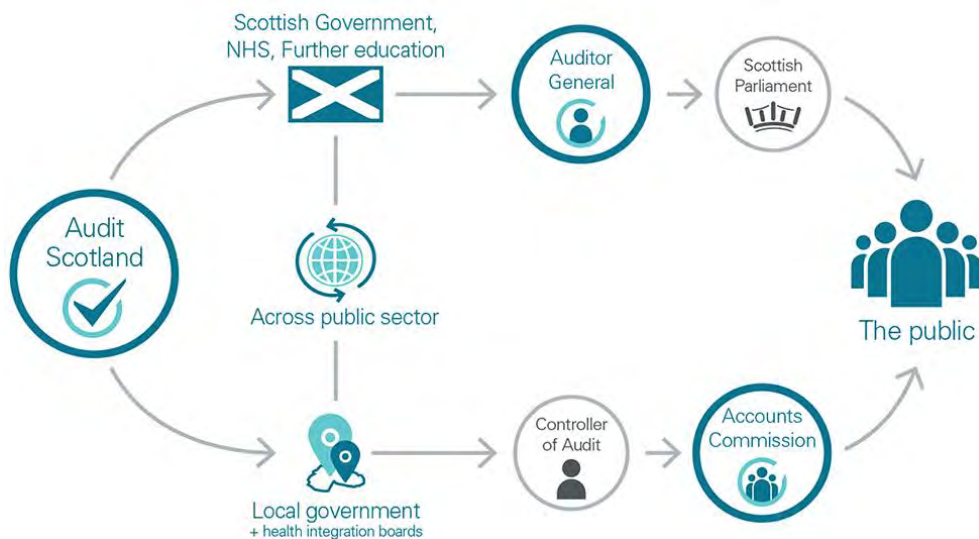
Prepared for Members and the Auditor General for Scotland

05 June 2017

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

Audit of the 2016/17 financial statements

- 1** The financial statements of Education Scotland give a true and fair view of the state of the affairs of the agency as at 31 March 2017 and of its net expenditure for the year then ended.
- 2** Education Scotland reported a revenue underspend of £0.466 million and a capital overspend of £0.085 million, resulting in a net underspend for the year of £0.381 million.
- 3** The Statement of Financial Position discloses net liabilities of £4.922 million.
- 4** During the course of the audit 11 misstatements were identified totalling £0.447 million. Management elected to correct nine of these with a gross value of £0.360 million.
- 5** We have issued an unqualified independent auditor's report on the agency's annual report and accounts for 2016/17.

Financial management

- 6** Education Scotland had effective top level management of the 2016/17 budget, however, there is scope for improved control at programme/project level.
- 7** Systems of internal control operated effectively in 2016/17 with scope for improvement in some areas.

Financial sustainability

- 8** Efficiency savings and reductions have been agreed by the Board to address the financial pressures.
- 9** Education Scotland has been proactive in adopting technological solutions to reduce costs.

Governance and transparency

- 10** We concluded that Education Scotland has adequate governance arrangements in place but there is scope for improvement to current arrangements.
- 11** The Framework Document should be updated to reflect any changes to the governance arrangements.
- 12** Education Scotland does not have adequate non-executive director succession planning arrangements in place. In respect of the non-executive directors, the composition of the Board and Audit and Risk Committee being the same, has the potential to diminish effective scrutiny.

- 13** Education Scotland should accelerate current work to finalise some important policy and procedural plans, including; the corporate plan (following the outcome of the *Governance Review*), digital strategy, business continuity plan and risk management strategy.
- 14** Education Scotland conducts its business in an open and transparent manner, but we consider that there are some areas where the board could improve current arrangements.

Introduction

1. This report is a summary of our findings arising from the 2016/17 audit of Education Scotland.

2. The scope of our audit was set out in our annual audit plan presented to the March 2017 meeting of the Audit and Risk Committee. This report sets out our findings from:

- the audit of the annual report and accounts
- our consideration of the wider dimensions of public sector audit [exhibit 1](#), as set out in Audit Scotland's [Code of Audit Practice](#).

Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2016/17 were:

- a review of the Education Scotland's main financial systems and governance arrangements
- a follow up review of the role of boards
- an audit of the Education Scotland's 2016/17 annual report and accounts
- a review of Education Scotland's arrangements to manage performance, regularity and use of resources.

4. The management of Education Scotland is responsible for, inter alia:

- preparing financial statements which give a true and fair view in accordance with the HM Treasury Financial Reporting Manual and the Scottish Public Finance Manual (FReM)
- ensuring the regularity of transactions by putting in place systems of internal control
- maintaining proper accounting records
- preparing a Scottish Government consolidation pack.

5. Our responsibility is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice, and guided by the auditing profession's ethical guidance. At the conclusion of our audit we provide an independent auditor's report, for inclusion within the annual report and accounts. The independent auditor's report sets out our opinions on:

- whether the financial statements give a true and fair view of the state of the affairs of Education Scotland and of the net expenditure for the year
- whether the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union as interpreted and adapted by the FReM
- whether the financial statements have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers
- the regularity of the expenditure and income.

6. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice.

7. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. 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. It is the auditor's responsibility to express an opinion on the financial statements prepared by management, with the oversight of those charged with governance. This does not relieve management of their responsibility for the preparation of the annual report and accounts.

8. An action plan is included at [appendix 1 \(page 25\)](#) setting out our recommendations to address the risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that the Education Scotland understands its risks and has arrangements in place to manage them. 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.

9. 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 any non-audit related services. The 2016/17 agreed notional fee for the audit was £34,040 and, as we did not carry out any work additional to our planned audit activity, the notional fee remains unchanged.

10. This report is addressed to both the board and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

11. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Part 1

Audit of 2016/17 financial statements



Main judgements

The financial statements of Education Scotland give a true and fair view of the state of the affairs of the agency as at 31 March 2017 and of its net expenditure for the year then ended.

We have issued an unqualified independent auditor's report on the agency's annual report and accounts for 2016/17.

During the course of the audit 11 misstatements were identified totalling £0.447 million. Management elected to correct nine of these with a gross value of £0.360 million.

Unqualified audit opinions

12. We reported, in our independent auditor's report:

- an unqualified opinion on the financial statements;
- an unqualified opinion on regularity of expenditure and income; and
- an unqualified audit opinion on the auditable part of the remuneration and staff report, performance report and governance statement.

13. Additionally, we are satisfied that there are no matters which we are required by the Auditor General to report by exception.

Submission of annual report and accounts for audit

14. We received the unaudited annual report and accounts on 21 April, in line with the agreed audit timetable. The provision of a comprehensive annual report and accounts package 21 days after the year end is a commendable achievement. However, whilst the narrative part of the annual report and accounts was prepared to a good standard the accounts had a number of significant errors which had to be corrected prior to issue of the independent auditor's report.

15. The working papers provided in support of the unaudited annual report and accounts were of variable quality and some supporting documentation was not delivered within a reasonable timeframe. However, our planned work was most affected by the absence of readily available documentation to support the calculation of significant accruals. After completion of the audit, we would welcome a discussion with management on how we can improve the process in future years.

Risk of material misstatement

16. 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 involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and activity. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. [Appendix 2 \(page 29\)](#) sets out the significant audit risks identified and how we addressed each risk in arriving at our opinion on the financial statements.

Materiality

17. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

18. Our initial assessment of materiality for the annual report and accounts was undertaken during the planning phase of the audit and is summarised in [exhibit 2](#). Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

19. On receipt of the annual report and accounts we reviewed our original materiality calculations and concluded that they remained appropriate.

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£0.374 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 70% of overall materiality.	£0.262 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 2% of overall materiality.	£8,000

Source: Audit Scotland

Evaluation of misstatements

20. We identified 11 misstatements in the unaudited financial statements totalling £0.447million. Nine, with a gross value of £0.360 million were adjusted for in the revised financial statements.

21. Two of these with a gross value of £0.087 million were not adjusted for. If these errors had been corrected then the overall effect on the financial statements would have been to decrease net comprehensive expenditure by £0.045 million and decrease net liabilities by £ 0.003 million - appendix 3 (page 33).

22. In addition, £0.518 million incorrectly classified as goods and services in the unaudited financial statements, was reclassified as staff costs.

23. The total value of misstatements exceeded our overall materiality of £0.374 million. Further audit procedures were performed to provide assurance that the errors identified were isolated in nature and not pervasive to either the account area or the financial statements.

24. It is our responsibility to request that all misstatements are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officers and materiality levels. Management do not propose to adjust for the items above as the amounts are not considered material in the context of the financial statements. We concur with this judgement.

ISA 260 significant findings from the audit of the annual report and accounts

25. International Standard on Auditing (UK and Ireland) 260 requires us to communicate significant findings from the audit to you. These are summarised in [exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan at [appendix 1 \(page 25\)](#) has been included.

Exhibit 3

ISA 260 significant findings from the audit of the annual report and accounts

Issue	Resolution
<p>1. Classification of staff costs</p> <p>The FReM requires that expenditure be split between staff costs and non-staff costs in the Statement of Comprehensive Net Expenditure. During the audit we identified £0.518 million of expenditure relating to short term contract staff, agency/temporary staff or inward secondments that had been incorrectly classified as non-staff costs and included within goods and services expenditure.</p>	<p>Amount agreed with management and reclassified in the accounts. Further testing provided assurance that there were no similar misclassifications within Purchase of Goods and Services expenditure.</p> <p>Action Plan (Appendix 1, point 1)</p>
<p>2. Revaluation of leasehold improvements</p> <p>In 2015/16 we reported that indexation had been incorrectly applied to a number of improvements to leasehold assets. Education Scotland no longer applies indexation to these assets. However, as a result of previous years indexation, non-current assets are overstated by £0.042 million.</p>	<p>Management has decided not to adjust for this amount. The leases are due to end in 2019 and therefore any non-current assets relating to the leases will be fully depreciated and revaluation reserves fully amortised during that year. This does not breach our materiality threshold.</p>
<p>3. VAT provision adjustment</p> <p>In 2014/15 a provision of £0.970 million was created in anticipation of a potential liability arising from HMRC consideration of whether VAT was properly chargeable by local authorities for staff seconded to Education Scotland. In 2015/16 HMRC agreed that seconded staff engaged in school inspections would be VAT exempt. Some £0.045 million relating to seconded inspection staff remains in the provision.</p>	<p>Management has decided not to adjust for this in the accounts. This does not breach our materiality threshold.</p>

Issue	Resolution
<p>4. Payroll overpayment</p> <p>Following a review of staff cost transactions we identified that a member of staff who left Education Scotland in December 2016 remained on the payroll and was paid until March 2017. Scottish Government payroll staff are responsible for the removal of leavers from the payroll. Education Scotland staff are responsible for reviewing monthly payroll data, however, this anomaly was not detected by the control in place.</p>	<p>The correction was agreed with finance staff and an adjustment has been made in the accounts. No further payroll errors were identified from our extended substantive testing of staff. A second officer review will be put in place to ensure an appropriate review of payroll costs is undertaken each month</p> <p>Action Plan (Appendix 1, point 2)</p>
<p>5. Depreciation journal</p> <p>A journal in respect of depreciation of some leasehold improvements, IT systems and intangible assets totalling £0.022 million had not been posted to the ledger prior to the preparation of the unaudited accounts. As a consequence, depreciation was understated by that amount, in the accounts submitted for audit.</p>	<p>These were agreed with finance staff and appropriate adjustments made to the accounts. Testing of depreciation identified no further errors.</p>
<p>6. Deferred income</p> <p>Scottish Funding Council (SFC) provide funding to Education Scotland. Because £0.131 million of SFC funding had not been fully used by year end the amount was included in the financial statements as deferred income. The amount deferred was based on an estimate at year end as no record of spend against funding was maintained throughout the year.</p>	<p>Education Scotland staff will maintain records of spend and make use of sub-analysis codes within the ledger to allow accurate position at year end to be established.</p> <p>Action Plan (Appendix 1, point 3)</p>
<p>7. IT expenditure</p> <p>The Purchase of Goods and Services lines ‘SWAN’, ‘Glow’ and ‘IT Support’ could not be agreed to the ledger. Total expenditure for the three lines was agreed; however expenditure for these areas has not been coded to the correct sub-analysis codes within the ledger by project staff. Consequently, the split of costs is not accurately recorded within the ledger.</p>	<p>It was agreed with management that no changes to the expenditure split would be made. Non-finance staff will be reminded to use the correct sub-analysis codes to ensure costs are coded to the correct IT project going forward.</p>
<p>8. Accruals</p> <p>In general, there was a lack of readily available evidence to support accruals posted to the ledger at the year end. A number of accruals for amounts due to employing councils in respect of seconded staff were found to be inconsistently calculated with a high error rate. The recalculation and evidencing of secondees accruals resulted in delays to audit completion and diverted audit and Education Scotland staff resources. In addition, several accruals were posted to the ledger after the initial version of the financial statements had been prepared.</p>	<p>In future, evidence supporting accruals will be readily available. Finance staff will supervise the year end calculation of accruals.</p> <p>Action Plan (Appendix 1, point 3)</p>

Other findings

26. In addition to the issues set out above and in accordance with normal audit practice, a number of presentational and disclosure amendments were discussed and agreed with management.

Part 2

Financial management



Main judgements

Education Scotland had effective top level management of the 2016/17 budget, however, there is scope for improved control at programme/project level.

Systems of internal control operated effectively in 2016/17 with scope for improvements in some areas.

Financial performance in 2016/17

27. Education Scotland, as an executive agency of the Scottish Government, receives most of its funding directly from the Scottish Government. Its main financial objective is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

28. The initial budget, £23.303 million, was set out in the Scottish Government's Draft Budget 2016/17 published in December 2015. The agency received additional allocations totalling £12.765 million during the course of the year. The additional funding was provided to deliver several specific programmes of work.

29. Education Scotland has reported an outturn of £35.687 million: a net underspend of £0.381 million. The financial performance against Departmental Expenditure Limits (DEL) is set out at [exhibit 4](#).

Exhibit 4

Performance against DEL in 2016/17

Performance	Initial budget £m	Final budget £m	Actual outturn £m	Overspend/ (underspend) £m
Resource DEL	23.303	35.918	35.462	(0.456)
Capital DEL	-	0.050	0.135	0.085
Total DEL	23.303	35.968	35.597	(0.371)
AME	-	0.100	0.090	(0.010)
Total	23.303	36.068	35.687	(0.381)

Source: Education Scotland audited annual report and accounts 2016/17

Internal controls

30. As part of our 2016/17 audit we identified and tested key controls operating in the main accounting systems. Our objective was to gain assurance that Education Scotland has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

31. We concluded that, generally, controls were operating effectively. However, we have suggested enhancements to controls and processes in the management letter and in this report.

Budgetary processes

32. We also reviewed Education Scotland's budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at committees we confirmed that senior management and members receive regular, timely and up to date financial information on the financial position.

33. We concluded that Education Scotland has reasonable budgetary monitoring and control arrangements that allow both non-executive directors and senior management to carry out effective scrutiny of financial performance. However, although the organisation's capital budget is modest in the context of total expenditure, we consider it best practice to report progress against the capital budget separately from the revenue budget.

34. During the course of the financial statements audit we had some difficulty in reconciling individual project spend, although total project spend reconciled exactly. In addition, secondee costs did not have an allocated budget making the process of monitoring expenditure expectations problematic. The issues are set out in more detail at points 6, 7 and 8 at exhibit 3.

Prevention and detection of fraud and irregularity

35. We assessed arrangements for the prevention and detection of fraud. We concluded that Education Scotland is proactive in promoting fraud awareness and had appropriate arrangements in place for fraud detection and prevention during 2016/17.

National Fraud Initiative

36. The National Fraud Initiative (NFI) in Scotland brings together data from local government, health boards and other public sector bodies, to help identify and prevent a wide range of frauds against public funds. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.

37. Education Scotland participates in the NFI through the Scottish Government Payroll and Financial Services Division. As the Scottish Government does not hold a separate record of data matches relating specifically to Education Scotland we have not been able to establish the number of data matches identified or investigated. However, the agency has not been advised of any issues by the Scottish Government in relation to NFI matches.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

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

38. The arrangements for the prevention and detection of corruption are satisfactory and we are not aware of any specific issues that we need to record in this report.

Part 3

Financial sustainability



Main judgements

Education Scotland's initial 2017/18 budget allocation has reduced by £2 million. Efficiency savings and reductions have been agreed by the Board to address the financial pressures.

Education Scotland has been proactive in adopting technological solutions to reduce costs.

Financial position

39. The Statement of Financial Position (balance sheet) summarises the assets and liabilities of Education Scotland. As at 31 March 2017 the agency had net liabilities of £4.922 million (£5.529 million) a decrease of £0.607 million. The net liabilities position is as a result of the requirement to account for activities on an accruals basis, whilst recording funding from the Scottish Government on a cash basis.

40. Capital expenditure in year was £0.135 million, however, the charge for depreciation of £0.404 million, resulted in a net reduction of non-current assets of £0.269 million.

Financial planning

41. The Scottish Government's Draft Budget 2017/18 was published in December 2016. Education Scotland's core budget has been reduced by £2 million to £21.3 million for 2017/18, a reduction of 8% from the 2016/17 core budget allocation.

42. Efficiency savings and reductions have been agreed by the Board to address the financial pressures, including:

- reductions in staff through a voluntary early release scheme
- the closure of the Clydebank office and the distribution centre in Dundee
- prioritisation of work programmes to ensure that sufficient funds are available to deliver key tasks.

43. The agency has also been proactive in adopting technological solutions to reduce costs, for example, through:

- Reducing publication and postage costs using digital publication and delivery
- Reducing travel and subsistence costs using video conferencing facilities
- Reduced expenditure on events organised and run by Education Scotland: more targeted at particular groups in order to maximise impact.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Medium to long term financial planning

44. Education Scotland is mainly (95%) funded by Scottish Government budget allocation and this is set on a year-on-year basis. Education Scotland has agreed a three year financial plan with the Scottish Government.

Part 4

Governance and transparency



Main judgements

The Framework Document should be updated to reflect any changes to the governance arrangements.

The organisation does not have adequate non-executive director succession planning arrangements in place. In respect of the non-executive directors, the composition of the Board and Audit and Risk committee being the same, has the potential to diminish effective scrutiny.

Education Scotland has been slow in preparing or refreshing some important policy and procedural plans, including the corporate plan, digital strategy, business continuity plan and risk management strategy.

Education Scotland conducts its business in an open and transparent manner but we believe that there are some areas where the Board could improve current arrangements.

Governance arrangements

45. Education Scotland's current Chief Executive, Dr Bill Maxwell, is due to retire in June 2017. The appointment of a new Chief Executive and the outcome of the Governance Review will present an opportunity to review the current governance arrangements. For example, the Framework Document which sets out how Education Scotland will operate, its relationship with Scottish Ministers and the Scottish Government and how it is expected to fulfil its remit and purpose is due for review. The opportunity should also be taken to establish the level of compliance with the current Framework Document and make adjustments as necessary.

[Action Plan \(Appendix 1, point 4\)](#)

46. The Chief Executive has a responsibility to ensure the agency effectively delivers ministerial policies and is supported in this by the Management Advisory Board. The Chief Executive chairs the Management Advisory Board, which comprises three strategic directors and the Chief Operating Officer who form the Corporate Management Group (CMG), and four non-executive directors appointed by the Chief Executive.

47. The Management Advisory Board is supported in its role by a number of standing committees, exhibit 5:

48. Non-executive director succession planning is essential to good governance, as it contributes to effective scrutiny and leadership through refreshed approaches and new perspectives. The Corporate Governance Code states that any term beyond six years for a non-executive director should be subject to particularly rigorous review, and should take into account the need for progressive refreshing of the Board. All four NEDs have been in office for over four years and have been reappointed until 2020. This situation has arisen from an absence of succession

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

planning. While continuity of membership provides stability, this could be better effected through periodic retiral of members. Education Scotland has a stated intention of increasing the complement of NEDs during the current year. Nevertheless, the organisation should, using the Corporate Governance Code as a guide, ensure that an agreed succession plan is prepared and agreed.

Action Plan (Appendix 1, point 5)

Exhibit 5 Education Scotland governance structure



Source: Education Scotland

49. The Audit and Risk Committee's (ARC) function is to provide assurance to the Board on risk management, governance and internal control. All four NEDs are members of the ARC. In our view, to ensure a measure of independent challenge, it is important that there is some difference in the constitution of the Board and ARC.

Action Plan (Appendix 1, point 6)

50. The Terms of Reference of the ARC requires a quorum of a minimum of three members. At the April 2016 meeting only two members were present; the meeting was, therefore, inquorate. We acknowledge that the meeting opened with an acknowledgement that it wasn't quorate and agreed that any decisions reached would be subject to ratification by the full membership in correspondence, which is what subsequently happened. Education Scotland is taking steps to increase the NED complement to ensure that ARC membership is sufficient to allow for absences.

Annual governance statement

51. HM Treasury Financial Reporting Manual 2016/17 (FReM), specifies the preparation of an annual governance statement as part of the annual financial statements. The Scottish Public Finance Manual (SPFM) sets out guidance on the content and minimum requirements of the statement but does not prescribe a format. We concluded that the annual governance statement 2016/17 complies with the guidance issued by the Scottish Ministers and presents a comprehensive assessment of Education Scotland's governance arrangements for the year under review.

Internal audit

52. Internal audit provides the Board, ARC and Accountable Officer with independent assurance on risk management, internal control and corporate governance processes.

53. The internal audit function is carried out by the Scottish Government Internal Audit Division (SGIAD). As part of our risk assessment process our Scottish Government audit team assessed the SGIAD and concluded that it operates accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

Corporate plan

54. A corporate plan sets out the actions required, and identifies the resources needed, to deliver the aims and objectives of the organisation. The planning process provides the information the Board and Executive Team need to make effective decisions about how to allocate resources in a way that will enable the agency to deliver its strategic objectives. Education Scotland's Corporate Plan 2013-16 has now expired. Education Scotland has agreed with the Scottish Government that an updated Corporate Plan will be developed once the outcomes of the Governance Review are known.

ICT risks

55. Digital services play a critical role in both the day to day running of Education Scotland and the projects and policies that it helps to deliver. In our 2014/15 and our 2015/16 annual audit reports we expressed concerns that Education Scotland did not have a Digital Strategy. The Digital Strategy is not yet in place. A strategy has now been drafted but remains to be formally agreed and fully implemented.

[Action Plan \(Appendix 1, point 7\)](#)

Risk management and business continuity

56. A review of risk management arrangements was due to take place in 2016. However this has been delayed and is currently on-going. In addition it was noted at the December 2016 Audit and Risk Committee that a new risk register was to be compiled to better reflect the risks currently facing Education Scotland. Management advise that "significant detailed work to underpin this has already been completed".

[Action Plan \(Appendix 1, point 8\)](#)

57. Business continuity is the capability of an organisation to continue to deliver its core business to set levels following a disruptive event like: cyber attack; IT systems failure; telecommunications failure; premises unavailable; utility services unavailable; staff unavailability. Education Scotland does not have an approved business continuity plan in place

[Action Plan \(Appendix 1, point 9\)](#)

Transparency

58. The public (and their representatives) should be able to hold the Board to account for the services it provides. Transparency means that the public has access to understandable, relevant and timely information about how the Board is taking decisions and how it is using its resources.

59. Education Scotland's website is the principal means by which information is made available to the public. The website has links from the home page to all public facing services (for example Parentzone) as well as corporate information, including: the corporate plan, framework document and various policy documents. The website is in our view accessible and informative.

60. Minutes of the Board and Audit and Risk Committee (ARC) are available on the website, however, neither agendas nor papers are published. The Board should consider enhancing transparency by publishing papers on its website. Where papers include confidential information these can be withdrawn or redacted as appropriate.

Action Plan (Appendix 1, point 10)

61. Overall, we concluded that Education Scotland conducts its business in an open and transparent manner but we believe that there are some areas where the Board could improve current arrangements.

Part 5

Value for money



Main judgements

Performance management information is routinely shared with the Board and Audit and Risk Committee.

Value for Money

62. Education Scotland's Framework Document specifies that the Chief Executive, as Accountable Officer, has a duty to secure Best Value, which includes the concepts of good corporate governance, performance management and continuous improvement.

Performance management

63. We noted in our 20215/16 annual audit report that Education Scotland was to move to a new performance management approach in 2016/17. A dashboard report from the Education Scotland Portfolio Board, which sets out performance against outcomes/KPIs as well as resources and risks, is routinely shared with the Board and ARC.

National performance audit reports

64. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, we published a number of reports which are of direct interest to the Board. These are outlined in [Appendix 4](#) accompanying this report.

Value for money is concerned with using resources effectively and continually improving services.

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement



Page
no.

Issue/risk

Recommendation

Agreed management
action/timing

11

1. Classification of staff costs

We identified a number of transactions relating to temporary staff costs that had been classified as non-staff costs in the unaudited financial statements.

Risk - That staff costs are understated and are not accounted for in accordance with the FReM.

Education Scotland should ensure that all staff costs, including short term contract staff, agency/temporary staff and inward secondments are coded as such in the financial ledger in accordance with the FReM.

The costs are already coded correctly within the ledger . However, the end of year report had not been updated. This has already been actioned

12

2. Payroll overpayment

Our testing of staff costs identified a salary overpayment. This was as a result of a failure of a key control to review monthly payroll data. A similar issue was reported in 2015/16.

Risk – That leavers will continue to be paid.

Education Scotland should review the payroll key controls and ensure that there is regular supervisory review of performance.

The process has already been updated to ensure that there is a regular supervisory review.

12

3. Deferred income

SFC expenditure at year end could not be calculated due to lack of records of spend resulting in deferred income being based on estimates.

Risk – That deferred income is under or overstated at year end.

Detailed records of spend against each project should be maintained and sub-analysis codes within the ledger used to allow accurate analysis of spend at year end to be calculated.

The finance team have already engaged with programme managers to highlight the issue and to offer assistance in accessing relevant financial information.



Page no.	Issue/risk	Recommendation	Agreed management action/timing
19	<p>4. Governance arrangements</p> <p>Education Scotland's Framework Document is due for review.</p> <p>Risk - That the Framework document does not reflect current arrangements or that governance arrangements are no longer appropriate.</p>	<p>Education Scotland's Framework Document should be reviewed and updated.</p> <p>The opportunity should also be taken to establish the level of compliance with the current Framework Document and make adjustments as necessary.</p>	<p>This has been a conscious decision, agreed with SG. The FD will not be updated until after the outcomes of the Governance Review are known.</p>
20	<p>5. Non-executive directors (NEDs)</p> <p>Absence of succession planning has resulted in an unchanged NED cohort for a number of years.</p> <p>Risk – That static Board composition reduces the effectiveness of scrutiny and challenge to management.</p>	<p>Education Scotland should formulate and implement a plan of succession to ensure that Board membership is refreshed over a reasonable time period.</p>	<p>We have formed a plan and details were shared with Audit Scotland and included in the draft accounts.</p>
20	<p>6. Audit and Risk Committee (ARC)</p> <p>All four NEDs are members of the ARC. To ensure a measure of independent challenge it is important that there is some difference in the constitution of the Board and ARC.</p> <p>Risk – That the Board lacks independent perspective on the work and conclusions of the ARC.</p>	<p>Education Scotland should follow Scottish Government guidance on audit committees. ARC members should be either NEDs or, if there are insufficient NEDs, independent external members. The ARC should be chaired by a non-executive director and at least one of the committee members should have recent and relevant financial experience.</p>	<p>Recruitment during 2017-18 will address this.</p>
21	<p>7. Digital strategy</p> <p>A digital strategy has been prepared in draft form but has not yet been reviewed and approved by the Board.</p> <p>Risk – That the agency's investment in digital delivery of services is not efficient.</p>	<p>The draft digital strategy should be reviewed by the Board and approved as appropriate.</p>	<p>This should be completed shortly.</p>



Page
no.

Issue/risk

Recommendation

Agreed management
action/timing

22

8. Risk Management

Delays in the review of risk management means there is no up to date risk management strategy. This has also resulted in delays in implementing a new corporate risk register.

Risk – That key risks facing Education Scotland may not be identified due to a lack of effective risk management procedures.

Management should ensure improvements to their risk management processes are developed and implemented.

The Head of Governance should return from sick leave shortly and this work will be taken forward as a priority.

22

9. Business continuity

Education Scotland does not have a business continuity plan in place.

Risk – That the agency is slow to react and counter service disruption.

Management should ensure that a comprehensive business continuity plan is prepared and publicised to all staff.

An all-encompassing business continuity plan is currently under development. There are separate plans in place to cover the risks associated with cyber attack, IT systems failure, telecoms failure and loss of utilities. Education Scotland also uses a detailed staff planning tool to ensure business critical tasks are covered.

22

10. Transparency

Board/ARC agendas and papers are not made public.

Risk – That the agency is perceived as not transparent in its reporting to the public.

The Board should consider enhancing transparency by publishing papers on its website.

ES will consider this over the course of 2017-18.

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</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>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>Our audit procedures did not uncover evidence of management override of controls.</p>
<p>2 Accounting practices</p> <p>In 2015/16 the external auditor reported issues with Education Scotland's accounting practices in the following areas:</p> <ul style="list-style-type: none"> – leasehold improvement indexation – temporary staff cost classification <p>There is a risk that the financial statements are misstated due to incorrect accounting practices being applied.</p>	<p>Detailed testing of leases and staff costs.</p>	<p>Education Scotland no longer apply indexation to leasehold improvements. However, a balance (£0.042 million) remains on the revaluation reserve which has been accounted for as an unadjusted error – exhibit 3, point 2.</p> <p>From review of 2016/17 expenditure it was established that staff costs of £518,416 had been misclassified as goods and services expenditure. This was adjusted for in the final financial statements - exhibit 3, point 1.</p>
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>3 Financial management</p> <p>The main financial target for Education Scotland is to achieve a break even position at year-end. At October 2016 a projected overspend of £394k was anticipated which is based on the assumption that the Scottish Government would</p>	<p>Review of correspondence with Scottish Government regarding 2016/17 funding</p> <p>Review financial monitoring papers presented to committee.</p>	<p>Education Scotland received their anticipated budget transfer at the Spring Budget Revision and reported an underspend of £0.381 million in 2016/17.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>provide further budget transfers at the Spring Budget Revision.</p> <p>Education Scotland continues to face a risk over its financial sustainability due to budget pressures and uncertainty over future funding allocations.</p>		
<p>4 ICT</p> <p>In 2015/16 the external auditor reported a lack of senior ICT capability. There are currently four vacancies within the department. There remains a risk that lack of leadership could adversely affect delivery of Digital Services.</p>	<p>Discussion with management to establish timing of appointment of new posts</p> <p>Review progress of planned digital services outputs.</p>	<p>The Head of Digital Services has confirmed that there are now no vacancies within the digital services team.</p>
<p>5 Digital strategy</p> <p>The Scottish Government's programme, 'Scotland's Digital Future – A Strategy for Scotland' aims to accelerate the pace of digital transformation to deliver improved, user-focused digital public services and drive innovation and efficiency in the Scottish public sector. As yet Education Scotland has no formal digital strategy in place. There is a risk that the Education Scotland is not obtaining the advantages of greater integration across the public sector and improving services to stakeholders.</p>	<p>Monitor progress of implementation in year</p>	<p>A corporate digital strategy has been drafted. Provisional acceptance of the digital strategy was obtained from Education Scotland's Strategic Development Board in April 2017.</p>
<p>6 Business continuity plan (BCP)</p> <p>Education Scotland is currently drafting a BCP.</p> <p>There is a risk that, without adequate Business Continuity arrangements in place, Education Scotland will be unable to respond to or recover from threats to its ability to deliver services.</p>	<p>Monitor progress of implementation</p>	<p>It remains the case that there is no approved BCP in place.</p>
<p>7 Role of the Board</p> <p>Three of the four non-executive director appointments expire in 2017. There is a risk of a loss of skills and experience amongst members. Adequate succession planning, training</p>	<p>Completion of 'Role of Boards' follow up</p> <p>Review of Board minutes and papers</p>	<p>Current non-executive Board members appointments have been extended until 2020.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>and committee support is required to ensure that levels of governance and scrutiny are maintained.</p>		
<p>8 Workforce planning</p> <p>Education Scotland does not have a comprehensive workforce plan setting out the size and constitution of workforce required to deliver future services and objectives. In the absence of a workforce plan there is a risk that the appropriate number of staff, skills and competencies are not available in future years, adversely affecting the capacity to deliver services.</p>	<p>Review workforce projections</p>	<p>There is no comprehensive workforce plan in place. Education Scotland has planned out details of its complement for the next three years, however, more work is required on staff modelling.</p>
<p>9 Internal audit</p> <p>In 2015/16 the external auditor reported that internal audit did not complete their planned audit work until the final quarter of the year. There is a risk that planned internal audit work may not be able to support the preparation of the annual report or feed into the annual assurance statement.</p>	<p>Review progress against the 2016/17 Internal Audit Plan</p> <p>Discussions with Internal Audit</p>	<p>Internal Audit are to provide its annual corporate governance review at the meeting of the ARC on 5 June 2017.</p>
<p>10 Corporate Plan</p> <p>Education Scotland's Corporate plan sets out the strategic management priorities for the agency over a three-year period. The latest Corporate plan covers the period 2013 to 2016. There is no up to date Corporate Plan. In addition, no 2016-17 Business Plan was published. There is a risk that the absence of a Corporate and Business plan could result in a lack of strategic focus with no clear priorities or targets for the year.</p>	<p>Discussion with officers to establish a timeline for publication of the new 2016-2019 Corporate Plan.</p>	<p>An updated Corporate Plan is to be developed once the outcomes of the Governance Review are known.</p>
<p>11 Risk Management</p> <p>A review of Education Scotland's risk management procedures planned for 2015/16 has yet to be completed. There is a risk that the risk management arrangements in place are not in line with the Education</p>	<p>Monitor developments in this throughout the year</p> <p>Review of Risk Registers</p>	<p>The review of Risk Management is still ongoing. A new Corporate Risk Register is to be implemented as part of this review and will result in the development of a new Risk Strategy.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Scotland's current operational activities and do not address the material risks within its business operations.</p>		
<p>12 Performance Management</p> <p>A new performance approach was due to be implemented in 2016/17. This has not happened. There is a risk that Education Scotland is unable to demonstrate the impact of its work without relevant performance measures.</p>	<p>Review of performance reporting to the Board.</p>	<p>A dashboard report from the Education Scotland Portfolio Board, which sets out performance against outcomes/KPIs as well as resources and risks, is routinely shared with the Board and ARC.</p>
<p>13 Long term financial planning</p> <p>One of the challenges for Education Scotland is the absence of long term funding and policy information from the Scottish Government and the resulting difficulty in preparing medium to long term funding strategies. While this is an obstacle to precise financial planning the Board should take steps to prepare a 3-5 year rolling budget using what information is available and incorporating sensitivity analysis and scenario planning.</p> <p>In the absence of medium to long term financial planning the future financial risks facing Education Scotland may not be clearly understood.</p>	<p>Review of Board papers and minutes</p> <p>Review of correspondence with Scottish Government regarding funding.</p>	<p>Education Scotland has agreed a three year financial plan with DG and DFM.</p>

Appendix 3

Summary of unadjusted errors

We report all uncorrected misstatements that are individually greater than our reporting threshold of £8,000.





















Misstatements identified from our audit which were not corrected in the financial statements are set out in the table below. Cumulatively these errors are below our materiality levels; we are, therefore, satisfied that there is no material effect on the financial statements.

No.	Account area	Comprehensive income and expenditure statement		Statement of financial position		Statement of changes in taxpayers equity	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Vat Expenditure		(45)				
	Provision			45			
2	Non-Current Assets				(42)		
	Revaluation Reserve						42
	Net impact		(45)	45	(42)		42

Appendix 4

Summary of national performance reports 2016/17



Apr			
May		Common Agricultural Policy Futures programme: an update	
Jun		South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland
Jul		Audit of higher education in Scottish universities	 Supporting Scotland's economic growth
Aug		Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update
			 Scotland's colleges 2016
Sept		Social work in Scotland	 Scotland's new financial powers
Oct		Angus Council: Best Value audit report	 NHS in Scotland 2016
Nov		How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16
Dec		Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report
Jan			
Feb		Scotland's NHS workforce	
Mar		Local government in Scotland: Performance and challenges 2017	 i6: a review
			 Managing new financial powers: an update

Central Government relevant reports

[Common Agricultural Policy Futures programme: an update](#) – May 2016

[The National Fraud Initiative in Scotland](#) – June 2016

[Audit of higher education in Scottish universities](#) – July 2016

[Supporting Scotland's economic growth](#) – July 2016

[Maintaining Scotland's roads: a follow-up report](#) – August 2016

[Superfast broadband for Scotland: a progress update](#) – August 2016

[Scotland's colleges 2016](#) – August 2016

[Social work in Scotland](#) – September 2016

[Scotland's new financial powers](#) – September 2016

[i6: a review](#) – March 2017

[Managing new financial powers: an update](#) – March 2017

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2016/17 Annual Audit Report

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