

Education Scotland

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for Education Scotland
February 2018

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

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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Risks and planned work

1. This audit plan provides an overview of the planned scope and timing of our audit of Education Scotland for 2017/18. Our audit is carried out in accordance with International Standards on Auditing (ISAs) and the [Code of Audit Practice](#) issued by Audit Scotland.

2. The plan sets out the audit work necessary to allow us to provide an independent auditor's report and meet the wider code requirements of public sector audit. The wider scope of public sector audit includes assessing arrangements for financial sustainability, governance and transparency, and value for money. We make a public report of conclusions on these matters in our Annual Audit Report to the Board and Auditor General.

Audit risks

3. Based on our experience of the Agency, discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Education Scotland. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are set out at [exhibit 1](#).

Exhibit 1

2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
Financial statement issues and risks		
<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.</p>	<ul style="list-style-type: none"> <i>In view of the nature of this risk, assurances from management are not appropriate.</i> 	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business.
<p>2 Risk of fraud over expenditure</p> <p>Education Scotland make a number of significant contractual payments each year. There is a risk that these payments do not accurately reflect the timing of the provision of the related goods or services.</p>	<ul style="list-style-type: none"> Payments to suppliers are only made after the related goods or services have been received. 	<ul style="list-style-type: none"> Detailed testing of year-end prepayments and accruals. Written assurances from senior officers that they have complied with Scottish Public Finance Manual and that advance payments have not been made.

Audit Risk	Source of assurance	Planned audit work
<p>3 Estimation and judgements</p> <p>The statement of financial position as at 31 March 2017 included a material provision in relation to VAT and early departures costs. As there is a substantial degree of subjectivity in the measurement and calculation of provisions this represents a risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> VAT provision is supported by a detailed calculation linking back to specific invoices. Early departures provision is supported by a detailed calculation linking back to approved business cases for relevant staff. 	<ul style="list-style-type: none"> Review supporting calculation and underlying audit trail for VAT and early departures provision balances as part of the 2017/18 audit of the annual accounts.
<p>4 Accounting practices</p> <p>During the 2016/17 audit we reported issues with Education Scotland's accounting practices in the following areas:</p> <ul style="list-style-type: none"> supervisory checks of monthly payroll data temporary staff cost classification calculation of deferred income <p>In addition, the interim Chief Executive informed us of a payment in advance of some £0.5 million, made in March 2017, contrary to the provisions of the Scottish Public Finance Manual.</p> <p>There is a risk that the financial statements are misstated.</p>	<ul style="list-style-type: none"> A supervisory review has been introduced of the monthly payroll data which involves significant variances being investigated to ensure there are valid reasons for the movements. The year-end ledger report used to prepare the accounts has been updated to ensure that the ledger codes used for agency/temporary staff costs and inward secondments are picked up for the staff costs figure in the 2017/18 accounts. Finance have explained to project managers the importance of maintaining clear records of the receipt of income and timing of payments to ensure there is a robust audit trail for any unspent element at 31 March. 	<ul style="list-style-type: none"> Supervisory checks of payroll data will be reviewed during our interim visit. We will also carry out detailed testing of staff costs as part of the 2017/18 audit. The classification and treatment of staff costs will be reviewed as part of the 2017/18 annual accounts audit. The classification and treatment of deferred income will be tested as part of the 2017/18 annual accounts audit. Detailed testing of year-end prepayments and accruals.
<p>5 Finance capacity</p> <p>Education Scotland continues to place great reliance on the Head of Finance for the production of the annual accounts and the day-to-day operation of the finance section. The Agency should ensure it has sufficient capacity to support the Head of Finance and provide adequate cover during periods of holiday and other absence.</p> <p>In the absence of adequate capacity there is a risk of adverse impact on the ongoing operation of the finance function and the preparation and quality of the statutory annual accounts.</p>	<ul style="list-style-type: none"> A secondee is to be employed to support the Head of Finance with day-to-day duties and the preparation of the 2017/18 annual accounts. 	<ul style="list-style-type: none"> Review quality of 2017/18 annual accounts and working papers presented for audit.

Audit Risk	Source of assurance	Planned audit work
Wider dimension risks		
<p>6 Financial sustainability</p> <p>The main financial target for Education Scotland is to achieve a break even position at year-end. At October 2017 a projected underspend of £0.921 million was anticipated based on the assumption that the Scottish Government would provide further budget transfers of around £5 million at the Spring Budget Revision.</p> <p>Education Scotland continues to face a risk to its financial sustainability due to budget pressures and uncertainty over future funding allocations.</p>	<p>Risks are managed through the following:</p> <ul style="list-style-type: none"> • Budgets are allocated to budget holders at the start of the year. Budget holders responsibilities are set out in a letter which they are asked to sign up to. • Monthly monitoring of forecast spend against budget. Forecasts are completed by budget holders and summarised financial information is issued to portfolio board, and quarterly to the Audit and Risk Committee and Management Board. • Monthly returns to Scottish Government highlighting variance of expenditure against budget. Education Scotland attends monthly meeting with colleagues in the Education and Lifelong Learning portfolio where we have an opportunity to highlight any existing pressures. • Engagement with SG colleagues during spending review, ABR and SBR to ensure that core budget and budget transfers are agreed. 	<ul style="list-style-type: none"> • Review of arrangements to secure efficiencies. • Review of correspondence with Scottish Government regarding 2017/18 funding. • Review financial monitoring papers presented to committee.
<p>7 Executive Team</p> <p>A new permanent Chief Executive was appointed in December 2017 but permanent appointments have yet to be made to three other Executive Team posts.</p> <p>There is a risk that the lack of certainty around the Executive Team posts impacts upon the strategic direction and operation of the Agency.</p>	<ul style="list-style-type: none"> • The new Chief Executive will review the composition of the Executive Team to ensure this reflects the requirements of the organisation going forward. 	<ul style="list-style-type: none"> • Review any further changes to Executive Team during 2017/18.
<p>8 Governance arrangements</p> <p>In view of the audit risks set out in this table and governance issues referred to in previous Annual Audit Reports, governance arrangements need</p>	<ul style="list-style-type: none"> • Updating the framework document was delayed pending the outcome of the governance review. Now this has been concluded, and there is greater clarity about the Agency's role 	<ul style="list-style-type: none"> • Monitor progress of implementation.

Audit Risk	Source of assurance	Planned audit work
<p>to be reviewed and updated.</p> <p>There is a risk that the existing arrangements and culture do not reflect good practice or that governance arrangements are no longer appropriate.</p>	<p>going forward, the new framework document is in the process of being drafted.</p>	
<p>9 Plans and policies</p> <p>A number of corporate plans and policies require to be updated, finalised or approved, including:</p> <ul style="list-style-type: none"> • 2016-2019 corporate plan • workforce plan • risk management strategy • business continuity plan <p>There is a risk that this lack of strategic and operational guidance impacts upon the ability of the Agency to plan and operate effectively.</p>	<ul style="list-style-type: none"> • All plans and policies are in the process of being updated. • In the absence of the updated guidance staff continue to operate in line with existing guidance where available. 	<ul style="list-style-type: none"> • Monitor progress of implementation.
<p>10 Information Technology</p> <p>During the 2016/17 audit it was identified and reported that Education Scotland has not yet developed a digital strategy in response to the Scottish Government's programme 'Scotland's Digital Future - A Strategy for Scotland'. The Agency has also yet to agree and approve its approach to digitising the inspection and review process.</p> <p>There is a risk that this will impact on the ability of the Agency to deliver digital services effectively and in accordance with the Scottish Government's programme.</p>	<ul style="list-style-type: none"> • The Agency are in the process of finalising their corporate digital strategy. • A number of options are being considered for digitising the inspection and review process and a preferred option will be selected during 2018. 	<ul style="list-style-type: none"> • Our specialist ICT auditor will review the approved digital strategy and the approach to digitising the inspection and review process.
<p>11 Organisation of audit and risk committee (ARC) meetings and support to Non-executive Directors</p> <p>The ARC's role is to support the Board by overseeing audit, risk and governance arrangements. The support extended to the ARC could be improved. During 2017 there were only 3 meetings of the ARC. We noted issues with the scheduling of meetings</p>	<ul style="list-style-type: none"> • A timetable of meetings is being developed for 2018 to ensure the committee meet at least quarterly. • Papers for future meetings will be issued at least one week before the meeting. 	<ul style="list-style-type: none"> • Review operation of the audit and risk committee during 2017/18.

Audit Risk	Source of assurance	Planned audit work
<p>and the timely issue and quality of papers.</p> <p>There is a risk that this impacts upon the ability of Non-Executive Members to provide appropriate scrutiny over the Agency's activities.</p>		

Reporting arrangements

4. This annual audit plan and the outputs set out in [exhibit 2](#), and any other outputs on matters of public interest, will be published on Audit Scotland's website: www.audit-scotland.gov.uk.

5. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officer(s) to confirm factual accuracy prior to the issue and publication of final reports.

6. We will provide an independent auditor's report to the Board, the Auditor General for Scotland, and the Scottish Parliament setting out our opinions on the annual accounts. We will provide the Board and Auditor General with an Annual Audit Report containing observations and recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2

2017/18 Audit outputs

Audit Output	Target date	Audit and Risk Committee
Annual Audit Plan	16 February 2018	28 February 2018
Annual Audit Report	25 May 2018	27 June 2018
Independent Auditor's Report	27 June 2018*	27 June 2018

* The independent auditor's report will be signed by the certifying auditor after the annual accounts are approved by the audit and risk committee.

Audit fee

7. The agreed audit fee for the 2017/18 audit of Education Scotland is £37,840. In determining the audit fee we have taken account of the risk exposure of Education Scotland, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. In view of the concerns over IT issues we have also allocated specialist IT auditor input as part of the 2017/18 audit plan. The fee for this work is included in the above agreed amount.

8. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

Accountable Officer

9. The Accountable Officer has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

10. The audit of the annual accounts does not relieve the Accountable Officer of their responsibilities.

Appointed auditor

11. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice and guided by the auditing profession's ethical guidance.

12. Auditors in the public sector give an independent opinion on the financial statements. We aim to support improvement and accountability by reviewing and reporting on arrangements to manage performance, regularity and use of resources.

Audit scope and timing

Financial statements

13. The statutory annual accounts audit will be the foundation and source of much of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Education Scotland and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Education Scotland will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

14. We will give an opinion on:

- whether the financial statement give a true and fair view of the state of affairs of Education Scotland and its income and expenditure for the year
- whether the annual accounts have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union as interpreted and adapted by the 2017/18 Government Financial Reporting Manual (FReM)
- whether the annual accounts 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.

Materiality

15. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any potential audit adjustments on the financial statements. Our calculated materiality levels are set out at [exhibit 3](#).



Exhibit 3

Materiality levels

Materiality level	Amount
Planning materiality – This is the figure we use in assessing the overall impact of potential adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2017.	£376,000
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 planning materiality.	£263,000
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 3% of planning materiality.	£10,000

Source: Education Scotland 2016/17 audited annual accounts



16. Items can be material by nature, rather than value; for example, a failure to comply with legislation. We review other information published with the annual accounts including the management commentary, annual governance report and the remuneration report. We will report to the Board as necessary.

Timetable

17. An agreed timetable is included at [exhibit 4](#) which takes account of submission requirements and planned Audit and Risk Committee dates.

Exhibit 4

Annual accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts with complete working papers package	20 April 2018
Latest date for final clearance meeting with Head of Finance and Procurement Manager and Assistant Director of Corporate Services	18 May 2018
Agreement of audited unsigned financial statements; Issue of Annual Audit Report	25 May 2018
Issue of Independent auditor's report	27 June 2018*

* The independent auditor's report will be signed by the certifying auditor after the annual accounts are approved by the audit and risk committee.

Internal audit

18. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the

work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by the Scottish Government Internal Audit Division.

Adequacy of Internal Audit

19. Internal audit is provided by the Scottish Government Internal Audit Service. The annual assessment of the adequacy of the internal audit will be performed centrally by Audit Scotland. We will obtain confirmation that the Scottish Government Internal Audit Service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. Subject to that confirmation, we plan to place reliance on internal audit work in respect of our wider Code of Audit Practice responsibilities.

Audit dimensions

20. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements, [exhibit 5](#).

Exhibit 5

Audit dimensions



Source: Code of Audit Practice

Financial sustainability

21. As external auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit of the financial statements. We also comment on the Agency's financial sustainability in the medium and longer term. We will carry out work and conclude on the following in 2017/18:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term; including the potential impact of the end of the public sector pay cap, new financial powers and EU withdrawal.
- arrangements in place to address any funding gaps.

Financial management

22. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether the Agency has arrangements in place to ensure systems of internal control are operating effectively
- effectiveness of budgetary control system in communicating accurate and timely financial performance
- how the Agency has assured itself that its financial capacity and skills are appropriate
- whether the Agency has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

23. 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. We will review, conclude and report on:

- whether the Agency can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny and challenge
- the quality and timeliness of financial and performance reporting.

Value for money

24. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the Agency can provide evidence that it is demonstrating value for money in the use of its resources.

Independence and objectivity

25. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

26. The engagement lead for Education Scotland is Dave Richardson, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Education Scotland.

Quality control

27. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

28. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal and external quality reviews. External quality reviews are conducted by the Institute of Chartered Accountants of Scotland.

29. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

Education Scotland

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk