

Education Scotland

Annual Audit Plan 2020/21



 **AUDIT SCOTLAND**

Prepared for Education Scotland
February 2021



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 2020/21. Our audit is carried out in accordance with International Standards on Auditing (ISAs) and the [Code of Audit Practice](#), issued by Audit Scotland.

2. This plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope 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 agency's advisory board and Auditor General.

Impact of Covid-19

3. The Auditor General and Audit Scotland are responding to the risks to public services and finances from Covid-19 across the full range of audit work, including annual accounts audits and the programme of performance audits. Audit Scotland views 2020/21 as a transitional year, leading in future to audit timetables which were possible before Covid-19. The safety of audit teams and client staff and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

Adding value


4. We seek to add value to the agency by identifying areas of improvement and recommending and encouraging good practice on financial sustainability, governance, risk management and performance. In so doing, we aim to help the agency promote improved standards, better management and decision making, and more effective use of resources.


Audit risks

5. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the key audit risks for Education Scotland, [exhibit 1](#). We have categorised these risks into financial statements risks and wider dimension risks.

Exhibit 1

2020/21 Significant audit risks

 Audit Risk	Source of management assurance	Planned audit work
Overarching financial statements and wider dimension risk		
<p>1 Impact of Covid-19</p> <p>The Covid-19 disruption has had a fundamental impact on what and how services are delivered by the agency.</p> <p>Risk: The impact of Covid-19 will have a pervasive effect on all aspects of the agency's operations and presents a wide range of risks for the 2020/21 audit.</p>	<ul style="list-style-type: none"> Revised Corporate Plan in place for 2021/22, reinforcing priorities to ensure a focus for support for the education system Revised governance arrangements in place to support this work, including a newly established Oversight Board. 	<ul style="list-style-type: none"> We will continue to monitor the governance arrangements, including any temporary measures put in place as a result of the pandemic. We will review the agency's ongoing budget monitoring and medium to longer term financial planning in the context of the challenges and uncertainties it is facing because of Covid-19. We will continue to discuss our audit approach, and timetable, with management during the year to agree how we can work together to adapt and respond to the changing circumstances.
Annual accounts risks		
<p>2 Risk of management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p>	<ul style="list-style-type: none"> In view of the nature of this risk, assurances from management are not appropriate. 	<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>3 Risk of expenditure fraud</p> <p>Audit Scotland's Code of Audit Practice requires that auditors should plan to address the risk that the financial statements may be materially misstated as a result of fraud.</p>	<ul style="list-style-type: none"> Internal controls in operation in the finance team and segregation controls across finance systems. 	<ul style="list-style-type: none"> Payroll expenditure (2019/20 68% of expenditure) is well forecast and will be reconciled to the payroll system, the risk of material misstatement is not significant. Similarly, for major ongoing IT

 Audit Risk	Source of management assurance	Planned audit work
		<p>contracts (2019/20 9% of expenditure).</p> <ul style="list-style-type: none"> We will focus on other non-pay expenditure. We consider the risk to be particularly prevalent around the year end and therefore focus our testing on cut-off of non-pay expenditure.

Source: Audit Scotland planning files

6. International auditing standards require that auditors plan for a presumed risk of fraud over income. We have considered this risk in respect of Education Scotland. As an executive agency of the Scottish Government, most of its funding is from central government, residual income comes mainly from other public sector organisations. Taking account of controls in place, the nature of the agency's income and the limited scope for the manipulation and extraction of income we assess that the risk of material misstatement arising from fraud over income is limited. This limitation is of such an extent that we have excluded the risk of fraud over income from our significant audit risks.

Reporting arrangements

7. This audit plan and the outputs at [exhibit 2](#) will be published on our website: www.audit-scotland.gov.uk in due course.

8. 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 officers to confirm factual accuracy prior to the issue and publication of final reports.

9. We will provide an independent auditor's report to the agency's advisory board, the Auditor General for Scotland and the Scottish Parliament setting out our opinions on the annual accounts. We will provide the advisory board and Auditor General for Scotland with a report on the 2020/21 audit, containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2 2020/21 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Interim Management Letter	30 June	30 June
Independent Auditor's Report	31 August	30 June
Annual Audit Report	31 August	30 June

Source: The target dates included are those specified in Audit Scotland's Planning Guidance 2020/21.

Audit fee

10. The agreed audit fee for the 2020/21 audit of Education Scotland is £37,040 (2019/20 fee £37,840). In determining the audit fee, we have taken account of the risk exposure of the agency, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

11. Where our audit cannot proceed as planned through, for example, late receipt of the unaudited annual report and accounts package or inadequate working papers, 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

12. 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. The audit of the annual report and accounts does not relieve the Accountable Officer of her responsibilities.

Appointed auditor

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

Audit scope and timing

Annual reports and accounts

14. The audit of the annual report and accounts will be the foundation and source for much of the 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.

15. We will give an opinion on:

- whether the financial statements give a true and fair view of the state of affairs of the Education Scotland as at 31 March 2021 and of the income and expenditure for the year.
- whether the annual report and accounts has been properly prepared in accordance with the 2020/21 Government Financial Reporting Manual (FRoM).
- whether the annual report and accounts has been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000.
- the regularity of the expenditure and income.



Statutory other information in the annual report and accounts

16. We also review and report on the performance report, governance statement and the remuneration and staff report. We give an opinion on whether they have been prepared in accordance with the appropriate regulations and guidance.

Materiality

17. We apply the concept of materiality in planning and performing the audit. Materiality defines the maximum error that we are prepared to accept and still conclude that the financial statements give a true and fair view. 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	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 based on the audited accounts for the year ended 31 March 2020.	£393,000
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 65% of planning materiality.	£255,000
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£20,000


Source: Audit Scotland

Timetable

18. An agreed timetable is included at [exhibit 4](#) which takes into account submission requirements and planned Audit and Risk Committee dates. While we will do our best to meet the target dates below, the dates will be subject to change if further issues arise from Covid-19 that impact on the agency or the audit team

Exhibit 4

Annual report and accounts timetable

 Key stage	 Date
Submission of unaudited annual report and accounts and working papers for audit	10 May
Latest date for final clearance meeting with Strategic Director of Corporate Services and Governance	11 June
Issue of proposed Annual Audit Report	18 June
Issue of independent auditor's report	30 June*

* The independent's auditor's report will be signed by the certifying auditor after the annual report and accounts are approved by the Audit and Risk Committee.

Internal audit

19. Internal audit is provided by the Scottish Government Internal Audit Directorate (SGIAD). The annual assessment of the adequacy of internal audit will be performed centrally by Audit Scotland. We will obtain confirmation that the Scottish Government Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. Subject to that confirmation, we may consider aspects of internal audit's work in respect of our wider scope of public audit responsibilities.

Audit dimensions

20. Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit. These are: financial sustainability, financial management, governance and transparency and value for money.

21. The Code of Audit Practice includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. In light of the volume and lack of complexity of the financial transactions, we plan to apply the small body provisions of the Code to the 2020/21 audit of Education Scotland.

Independence and objectivity

22. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. 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 robust arrangements in place 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.

23. 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

24. International Standard on Quality Control 1 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.

25. 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 and internal quality reviews. External quality reviews are conducted by the Institute of Chartered Accountants of Scotland.

26. 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 or directly to Audit Scotland’s Audit Quality and Appointments team.

Education Scotland

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