

# Education Scotland

2023/24 Annual Audit Report



Prepared for Education Scotland and the Auditor General for Scotland

June 2024

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# Contents

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|                                                |    |
|------------------------------------------------|----|
| Key messages                                   | 3  |
| Introduction                                   | 4  |
| 1. Audit of 2023/24 annual report and accounts | 6  |
| 2. Financial management                        | 12 |
| 3. Financial sustainability                    | 15 |
| 4. Vision, leadership and governance           | 17 |
| 5. Use of resources to improve outcomes        | 20 |
| Appendix 1. Action plan 2023/24                | 22 |

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# Key messages

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## 2023/24 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified.
- 2 No material adjustments were made to the annual report and accounts as a result of the audit process.

## Financial management

- 3 Effective and appropriate arrangements are in place to secure sound financial management, with Education Scotland operating within its revised fiscal resources in 2023/24.
- 4 Key controls within the main financial systems were operating effectively, while standards for the prevention and detection of fraud remain appropriate.

## Financial sustainability

- 5 Education Scotland's resource budget for 2024/25 remains at the same level as the previous two years, representing a reduction in real terms.
- 6 Effective and appropriate arrangements are in place to deliver services up to and beyond the planned reform in Autumn 2025.
- 7 A financial strategy for 2024/25 is in place, but this has not been approved by Leadership Team or the Advisory Board.

## Vision, leadership, and governance

- 8 Clear plans are in place to implement the agency's vision, strategy and priorities and to support the planned reform.
- 9 Governance arrangements, including those implemented to support transition arrangements, are effective and appropriate.

## Use of resources to improve outcomes

- 10 Education Scotland continues to develop its approach to demonstrating Best Value.
- 11 Work remains ongoing to facilitate appropriate benchmarking aligned to strategic priorities.

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# Introduction

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**1.** This report summarises the findings from the 2023/24 audit of Education Scotland. The scope of the audit was set out in an Annual Audit Plan circulated to members of the Audit and Risk Committee in March 2024. This Annual Audit Report comprises:

- significant matters arising from an audit of Education Scotland’s annual report and accounts
- conclusions on the following wider scope areas that frame public audit as set out in the [\*Code of Audit Practice 2021\*](#):
  - Financial Management
  - Financial Sustainability
  - Vision, Leadership, and Governance
  - Use of Resources to Improve Outcomes.

**2.** This report is addressed to Education Scotland and the Auditor General for Scotland and will be published on Audit Scotland’s website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

## Responsibilities and reporting

**3.** Education Scotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers. Education Scotland is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

**4.** The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000, the Code of Audit Practice 2021, supplementary guidance and International Standards on Auditing in the UK (ISAs).

**5.** Weaknesses or risks identified are only those that have come to the attention of the audit team during our normal audit work and may not be all that exist. Communicating these does not absolve management of Education Scotland from its responsibility to address the issues we raise and to maintain adequate systems of control.

6. This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

## Auditor Independence

7. We can confirm that the audit team comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2023/24 audit fee of £40,190 as set out in our 2023/24 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

8. The annual audit adds value to Education Scotland by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability
- sharing intelligence and good practice identified.

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# 1. Audit of 2023/24 annual report and accounts

Public bodies are required to prepare annual reports and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

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## Main judgements

Audit opinions on the annual report and accounts are unmodified.

No material adjustments were made to the annual report and accounts as a result of the audit process.

Education Scotland has continued to make progress against prior year recommendations.

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## Audit opinions on the annual report and accounts are unmodified

9. The annual report and accounts for Education Scotland for the year ended 31 March 2024 were approved for issue by the Accountable Officer, following the meeting of the Audit and Risk Committee on 27 June 2024. As reported in the independent auditor's report, in our opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were in accordance with applicable enactments and guidance
- the audited part of the Remuneration and Staff Report was prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers
- the Performance Report and Governance Statement were consistent with the financial statements and properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

## Overall materiality was assessed as £935,000

**10.** Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

**11.** Our initial assessment of materiality was carried out during the risk assessment phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

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### Exhibit 1 Materiality values

| Materiality level       | Amount   |
|-------------------------|----------|
| Overall materiality     | £935,000 |
| Performance materiality | £700,000 |
| Reporting threshold     | £45,000  |

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**12.** The overall materiality threshold was set with reference to gross expenditure which we judged as the figure most relevant to the users of the financial statements.

**13.** Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 75% of overall materiality, reflecting a history of minimal errors and no significant issues noted during planning or the previous audit year.

**14.** It is our responsibility to request that all misstatements are corrected other than those below the reporting threshold. The final decision on making the correction lies with those charged with governance.

### Significant findings and key audit matters

**15.** Under ISA (UK) 260, we communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices.

16. The Code of Audit Practice also requires us to highlight key audit matters which are defined in ISA (UK) 701 as those matter judged to be of most significance.

17. The significant findings are summarised in [Exhibit 2](#).

## Exhibit 2

### Significant findings and key audit matters from the audit of the annual report and accounts

| Issue                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Resolution                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>1. Consideration of going concern</b></p> <p>The annual report and accounts have been prepared on a going concern basis.</p> <p>On 22 June 2021, the Cabinet Secretary for Education and Skills announced the intention to replace the Scottish Qualifications Authority (SQA) and to take forward reform of Education Scotland, including removing the function of inspection from the agency. Professor Ken Muir was appointed to act as an independent advisor on the reform proposals.</p> <p>He published his report on 9 March 2022. Later that same day, the Cabinet Secretary confirmed that there will be a new qualifications body, a new national agency for Scottish Education and an independent inspectorate body. These will replace the SQA and Education Scotland. Following publication of the Hayward Review on 22 June 2023, the Cabinet Secretary announced that reform would be delayed until 2025.</p> <p>In June 2024, the Education (Scotland) Bill was introduced. The Bill includes provisions to create the office of His Majesty's Chief Inspector of Education in Scotland. This will replace the inspection function currently within Education Scotland.</p> <p>The Cabinet Secretary has announced Education Scotland's remit will be refocused. The agency will lead curriculum design, delivery and improvement, including the provision of resources to support high quality learning and teaching.</p> | <p><b>For information only</b></p> <p>We considered applicable guidance and the Government Financial Reporting Manual (FReM) to ensure that the use of the going concern basis of accounting remains appropriate for the 2023/24 annual report and accounts.</p> <p>The current functions of Education Scotland will continue to be delivered by the agency until the reform is complete. At that time, the inspection function will transfer to a new inspectorate and Education Scotland's remit will be refocused.</p> <p>Appropriate disclosure on this matter has been made in the 2023/24 annual report and accounts.</p> |



| Issue                                                                                                                                                                                                                                                                                                                                                                     | Resolution                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>2. Pension information</b></p> <p>MyCSP is the agency which administers the Civil Service pension schemes. For 2023/24 there has been an exceptional delay in MyCSP providing remuneration information relating to civil service pensions needed for the Remuneration and Staff Report.</p> <p>The issue has impacted across the public sector.</p>                 | <p>On 18 June 2024 Education Scotland received confirmation from the Scottish Government that 2023/24 Pension Disclosure figures would be provided by 31 August 2024.</p> <p>The Scottish Government advised that His Majesty's Treasury had agreed that departments who planned to publish their accounts before this date should not include 2023/24 pensions information in them.</p> <p>On 12 June 2024 the FReM was republished. The updated sections removed the requirement to disclose pension information where waiting for it could cause a delay in the planned laying of the accounts.</p> <p>The 2023/24 planning guidance notes that the target date for Education Scotland's accounts to be submitted is 31 August 2024. There is consequently a risk that waiting for the pension information would cause a delay.</p> <p>We are satisfied that pension disclosures included in Education Scotland's Remuneration and Staff Report are consistent with updated guidance and comply with the FReM.</p> |
| <p><b>3. Journal authorisation</b></p> <p>Our evaluation of general ledger controls identified weaknesses in the authorisation of journals.</p> <p>All journals should be authorised before being posted to the ledger. Our testing identified 17 journals that had not been authorised. We also identified that there was no documented list of journal authorisers.</p> | <p>We substantively tested a sample of the unauthorised journals and are satisfied these were appropriate.</p> <p>Per the ISA 580 Letter of Representation, assurances were sought from the Accountable Officer that the unauthorised journals have been reviewed retrospectively to confirm they were valid.</p> <p>Management should prepare a written journal authorisation procedure, which should include a list of authorisers. The procedure should be shared with journal posters to ensure clarity over the control.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |

| Issue | Resolution                                                                                          |
|-------|-----------------------------------------------------------------------------------------------------|
|       | <b style="color: #00728f;">Recommendation 1</b><br>(Refer <a href="#">Appendix 1</a> , action plan) |

## Audit work responded to the risks of material misstatement we identified in the annual report and accounts

**18.** We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements identified in our 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

### Exhibit 3

#### Identified Significant risks of material misstatement in the annual report and accounts

| Audit risk                                                                                                                                                                                                                                                                                          | Assurance procedure                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Results and conclusions                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p> | <p>Assessed the design and implementation of controls over journal entry processing.</p> <p>Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Tested journals at the year-end including post-closing entries and focussed on significant risk areas.</p> <p>Considered the need to test journal entries and other adjustments throughout the year.</p> <p>Evaluated significant transactions outside the normal course of business.</p> <p>Assessed the adequacy of controls in place for identifying and disclosing</p> | <p><b>Results:</b> Work undertaken included detailed testing of journal entries, accruals, prepayments and invoices. We also reviewed accounting estimates and transactions for appropriateness. Specific enquiries were made of individual staff as to whether they had knowledge or awareness of manipulation of financial recording or processing of fraudulent journals.</p> <p><b>Conclusion:</b> No incidents of management override of controls were identified.</p> |

| Audit risk | Assurance procedure                                                                                                                                                                                                                                                                                                                                                                                                                          | Results and conclusions |
|------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
|            | <p>related party relationship and transactions in the financial statements.</p> <p>Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</p> <p>Substantively tested income and expenditure transactions around the year-end to confirm they were accounted for in the correct financial year.</p> <p>Focussed testing of accounting accruals and prepayments.</p> |                         |

## No material adjustments were made to the annual report and accounts as a result of the audit process

19. While the audit process identified some minor inconsistencies in the annual report and accounts, there were no misstatements above the reporting threshold.

## The unaudited annual report and accounts were received in line with the agreed audit timetable

20. The unaudited annual report and accounts were received in line with the agreed audit timetable on 3 May 2024.

## Education Scotland has continued to make progress against prior year recommendations

21. Education Scotland has made reasonable progress in implementing the agreed prior year audit recommendations. For actions not yet implemented or ongoing, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

## 2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

### Conclusion

Education Scotland operated within its revised fiscal resources, reporting an underspend of £174,000.

Education Scotland has appropriate and effective financial management in place, with regular budget monitoring reports provided to the Advisory Board.

Key controls within the main financial systems were operating effectively, while standards for the prevention and detection of fraud remain appropriate.

### Education Scotland operated within its revised budget in 2023/24

**22.** The main financial objective for Education Scotland is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

**23.** Education Scotland has reported an outturn of £45.264 million against its overall budget for 2023/24 with an underspend of £174,000. The financial performance against fiscal resources is shown in [Exhibit 4](#).

#### Exhibit 4

##### Performance against fiscal resource in 2023/24

| Performance  | Initial budget<br>£m | Final budget<br>£m | Outturn<br>£m | Over/(under)<br>spend<br>£m |
|--------------|----------------------|--------------------|---------------|-----------------------------|
| Resource     | 28.742               | 45.338             | 45.164        | (0.174)                     |
| Capital      | 0                    | 0.100              | 0.100         | 0                           |
| <b>Total</b> | <b>28.742</b>        | <b>45.438</b>      | <b>45.264</b> | <b>(0.174)</b>              |

Source: Education Scotland audited annual report and accounts 2023/24

**24.** Education Scotland's budget was increased as part of the Scottish Government's autumn and spring budget revisions during the year. Education Scotland has reported that this was to carry out work that was out-with the agency's core remit. The main areas of budget transfer included:

- additional grant funding of £1.8 million to support the National e-Learning Offer;
- additional funding of £5.6 million to cover the costs of the Glow contract and of the permanent and temporary staff who support work on Glow;
- a total of £1.0 million to fund Education Scotland's work on the Scottish Attainment Challenge;
- additional funding for accommodation costs of £1.0 million; and
- increased support totalling over £1.5 million for areas including Education Reform; Excellence into Headship; Science, Technology, Engineering and Maths (STEM); and Speech and Language Therapists.

### **Education Scotland has appropriate financial control arrangements in place**

**25.** Education Scotland monitors its budget position through the budget monitoring reports presented to each meeting of the Audit and Risk Committee. The budget monitoring reports provide an overall picture of spend against budget and include a good level of detail in the narrative to explain the main budget variances.

**26.** Education Scotland has in place detailed and timeous budget reporting that allows non-executive board members and the management team to carry out effective scrutiny of the agency's finances.

**27.** From our review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach, we identified weaknesses in journal authorisation as reported in [Exhibit 2](#). We did not identify any other internal control weaknesses which could affect the agency's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

### **Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate**

**28.** In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

**29.** Education Scotland has adequate arrangements in place to prevent and detect fraud or other irregularities.

### **National Fraud Initiative**

**30.** The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector that aims to prevent and detect fraud. Education Scotland participates in NFI through the Scottish Government Payroll and Financial Services Division.

**31.** The 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. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

**32.** 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 Scottish Government did not advise Education Scotland of any matches in relation to the NFI exercise.

**33.** The 2022/23 NFI exercise concluded during the 2023/24 financial year and the final report is due to be published in Summer 2024.

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## 3. Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

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### Conclusion

Education Scotland's resource budget for 2024/25 remains at the same level as the previous two years representing a reduction in real terms.

Education Scotland has effective and appropriate arrangements in place to deliver services up to and beyond the planned reform in Autumn 2025.

Education Scotland has a financial strategy for 2024/25, but this has not been approved by Leadership Team or the Advisory Board.

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### Education Scotland's resource budget for 2024/25 remains at the same level as the previous two years representing a reduction in real terms.

**34.** The Scottish Government's 2024/25 budget confirms that Education Scotland's resource budget remains at £26.5 million, the same 'flat cash' level as the previous two years. This represents a reduction in funding in real terms. Overall, including the non-cash allocation covering costs such as depreciation and accounting for IFRS 16, the budget has increased from £28.7 million in 2023/24 to £29.2 million in 2024/25.

**35.** The Scottish Government does not allocate the full amount of resource budget needed by Education Scotland at the start of the financial year. Further tranches of funding will be allocated during the year as part of the Spring and Autumn budget revisions. [Paragraph 24](#) of this report details the additional funding allocated during 2023/24.

**36.** Education Scotland's risk register identifies financial sustainability and the need for sufficient funding in the lead up to Education Reform as a risk. Failure to obtain adequate funding will impact Education Scotland's ability to fulfil its corporate plan. It will also impact on the agency's ability to effectively plan for the planned reform set out at [paragraph 43](#).

**37.** The funding model in place makes short-term budget planning and monitoring challenging. Effective budget monitoring arrangements, together with ongoing dialogue with the Scottish Government, is important to ensure Education Scotland delivers its strategic priorities within its allocated budget in 2024/25.

### **Education Scotland has effective and appropriate arrangements in place to deliver services up to and beyond the planned reform in Autumn 2025**

**38.** The Cabinet Secretary has confirmed that there will be a new qualifications body and an independent inspectorate body. The qualifications body will replace the Scottish Qualifications Authority, while the independent inspectorate will take on the inspection function currently within Education Scotland. In June 2024 the Cabinet Secretary confirmed that the new organisations would become operational in Autumn 2025.

**39.** Education Scotland has effective and appropriate arrangements in place to continue to deliver services up to and beyond the planned reform. Further details on progress against the transformation programme, and the governance arrangements being developed, are included at [paragraph 43](#) of this report.

### **Education Scotland has developed a financial strategy for 2024/25, but this has not been approved by Leadership Team or the Advisory Board**

**40.** In our 2022/23 annual audit report we documented that Education Scotland's finance strategy did not go beyond 2023/24 as the new organisations were expected to be established in 2024. We also reported that a medium-term financial plan had been developed in previous years covering the period to the 2026/27 financial year. Due to the reform timeline the agency does not intend to update this document.

**41.** Management has advised that the financial strategy is normally prepared to cover a three-year period, however with the planned reform the strategy was updated for 2023/24. In June 2023 the Scottish Government announced that the planned transition date was being postponed from Summer 2024 to 2025. The financial strategy has since been updated for 2024/25, but this update has not been formally approved by Leadership Team or the Advisory Board. Good practice would require the financial strategy to be approved at this level.

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## **Recommendation 2**

**Management should ensure that the updated financial strategy covering the 2024/25 financial year is approved by Leadership Team and the Advisory Board.**

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# 4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

## Conclusion

Clear plans are in place to implement the agency's vision, strategy and priorities and to support planned reform.

Governance arrangements, including those implemented to support transition arrangements, are effective and appropriate

## Audit work has addressed the wider scope risks identified in the Annual Audit Plan

42. [Exhibit 5](#) sets out the wider scope risks relating to Vision, Leadership and Governance identified in our 2023/24 Annual Audit Plan. It summarises the audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

## Exhibit 5

### Risks identified from our responsibilities under the Code of Audit Practice

| Audit risk                                                                                                                                                                                                                                                                      | Audit Response                                                                                                                                                                                                                     | Conclusion                                                                                                                                                                                                                                                                                 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Education reform – impact on Education Scotland</b></p> <p>An extensive education reform programme is underway in Scotland. As part of this reform, three new national bodies will be created replacing Education Scotland and the Scottish Qualifications Authority.</p> | <p>We assessed the arrangements Education Scotland has in place to support transition to the new bodies.</p> <p>We reviewed the Performance Report in the annual report and accounts to ensure appropriate disclosure is made.</p> | <p>Education Scotland has continued to manage this risk throughout the education reform process. This has included the implementation of two new oversight Boards to support planned reform.</p> <p>Education Scotland will, however, need to continue to monitor the risks as we move</p> |

| Audit risk                                                                                                                                                                                                                                                               | Audit Response | Conclusion                               |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|------------------------------------------|
| <p>The establishment of the new organisations has been delayed to 2025 and there is significant uncertainty about the new arrangements.</p> <p><b>Risk:</b> There is a risk this may have an adverse impact on staff retention and morale, and operational planning.</p> |                | <p>closer to the date of transition.</p> |

## Education Scotland has established two new assurance boards to support planned reform

**43.** In June 2023 it was announced that the education reforms planned for Summer 2024 would be delayed until 2025. The Education (Scotland) Bill was subsequently introduced in June 2024 and included provisions to create the office of His Majesty's Chief Inspector of Education in Scotland. This will replace the inspection function currently within Education Scotland. Education Scotland's remit will be refocused with the agency leading on curriculum design, delivery and improvement.

**44.** Education Scotland has continued to engage closely with the Scottish Government, Scottish Qualifications Authority and other key stakeholders throughout the reform process. To support transition, the Chief Inspector of Education Scotland is chairing a new Inspectorate Board while an Improvement Board is being chaired by the Chief Executive of Education Scotland. These boards were implemented from the start of the 2024/25 financial year.

**45.** As reported to Education Scotland's Audit and Risk Committee (ARC) in March 2024, the new Boards 'will have a clear focus on the provision of assurance' and be 'responsible for monitoring progress against key deliverables'. The paper also informed ARC members that this 'will require the Boards to maintain key governance processes including budget monitoring, risk and management, performance measurement and internal controls'.

**46.** As part of the transition arrangements any decisions related to finance and resources will remain the responsibility of the Accountable Officer (Chief Executive of Education Scotland) at all times.

**47.** Audit Scotland will continue to evaluate the transition arrangements.

## **Governance arrangements, including those implemented to support transition arrangements, are effective and appropriate**

**48.** Education Scotland's governance arrangements have been set out in the Governance Statement in the annual accounts. Our review of the governance arrangements includes consideration of:

- Board and committee structure and conduct.
- Overall arrangements and standards of conduct including those for the prevention and detection of fraud, error, bribery and corruption.
- Openness of board and committees.
- Reporting of performance and whether this is fair, balanced and understandable.

**49.** We have reviewed the governance arrangements in place at Education Scotland, including those implemented to support planned reform, and concluded that they are effective and appropriate.

## **Climate change arrangements**

**50.** The Scottish Parliament has set a legally binding target of becoming net zero by 2045. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

**51.** In 2023/24, Education Scotland continued to work towards the target of net zero by 2045. The Climate Change (Emissions Reduction Targets) (Scotland) Act 2019 sets out interim targets for Greenhouse gas reductions as set out in the Sustainability Report section of Education Scotland's Annual Report and Accounts.

**52.** The Sustainability Report confirms that in 2023/24 Education Scotland's overall emissions remained similar to the previous year. This was despite an increase in business travel due to the agency's Inspection function returning to full operational capacity. Education Scotland exceeded the set target for emissions reductions by 2023/24 and report that they have met the emissions reduction required by year 2027.

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# 5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

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## Conclusion

Education Scotland continues to develop its approach to demonstrating Best Value.

Work remains ongoing to facilitate appropriate benchmarking aligned to strategic priorities.

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## Education Scotland continues to develop its approach to demonstrating Best Value

**53.** [Ministerial guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

**54.** In our 2022/23 annual audit report we recommended that management should document how Education Scotland meets the best value characteristics set out in the SPFM. We further noted that consideration should be given as to how this feeds into planned reform.

**55.** As part of our current year audit work we identified that a framework document has not yet been written. Management has advised that it is reviewing approaches at other central government bodies to identify good practice. The target date for implementation of the prior year recommendation is 31 December 2024. We will continue to monitor the agency's progress in this area and report accordingly as part of our 2024/25 audit.

## **Work remains ongoing to facilitate appropriate benchmarking aligned to strategic priorities**

**56.** In our 2022/23 annual audit report we reported that the Corporate Plan sets out priority areas for the coming years, and identified that more meaningful analysis could be obtained if data continued to be collected consistently. We also recommended that management should continue to capture performance data during the planned reform to facilitate appropriate benchmarking aligned to its strategic priorities.

**57.** In 2023/24 our work identified that there remained a lack of benchmarking of target values, and that analysis in most cases is limited to comparison with the previous year. Management has advised that work is ongoing against the prior year recommendation, and that 2024/25 targets will be amended to reflect education reform.

**58.** Audit Scotland notes that the target date for the prior year recommendation is 31 December 2024. We will continue to monitor the agency's progress in this area and report accordingly as part of our 2024/25 audit.

# Appendix 1. Action plan 2023/24

## 2023/24 recommendations

| Issue/risk                                                                                                                                                                                                                                                                                                                                                                               | Recommendation                                                                                                                                                                                                                                 | Agreed management action/timing                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>1. Journal Authorisation</b></p> <p>Not all 2023/24 journals were subject to authorisation prior to being posted to the ledger.</p> <p>In addition, there is no documented list of journal authorisers.</p> <p><b>Risk</b> – There is an increased risk of error if journals are posted to the ledger without appropriate authorisation.</p>                                       | <p>Management should prepare a written journal authorisation procedure, which should include a list of approvers. The procedure should be shared with journal posters to ensure clarity over the control.</p> <p><a href="#">Exhibit 2</a></p> | <p><b>Accepted</b></p> <p>Guidance on the process for authorising and recording journals has been prepared and all finance staff have been reminded of the need to ensure that journals have been correctly authorised and recorded. Only finance staff have authority on SEAS to post journals and this remains unchanged. Audit Scotland conducted additional checks on the 2023-24 journals and no errors were identified.</p> <p><i>Head of Finance</i></p> <p>31 July 2024</p> |
| <p><b>2. Financial Strategy</b></p> <p>While delays to Education Reform has made financial planning challenging, effective governance at executive level is essential in providing oversight and scrutiny of key decisions and strategies and in setting the direction of the agency.</p> <p><b>Risk</b> – There is a risk that Leadership Team and the Advisory Board are unable to</p> | <p>Management should ensure that the updated financial strategy covering the 2024/25 financial year is approved by Leadership Team and the Advisory Board.</p> <p><a href="#">Paragraph 41</a></p>                                             | <p><b>Accepted</b></p> <p>The Finance Strategy for 2024-25 has been prepared but has not completed the pre-publication governance reviews. The Leadership Team is due to review the Finance Strategy on 2 July 2024 and following this will be reviewed by the Advisory Board on 16 July. Publication will follow as soon as possible thereafter.</p>                                                                                                                               |

| Issue/risk                                                                                                                 | Recommendation | Agreed management action/timing               |
|----------------------------------------------------------------------------------------------------------------------------|----------------|-----------------------------------------------|
| provide effective oversight and scrutiny if key documents, such as the financial strategy, are not presented for approval. |                | <i>Head of Finance</i><br><i>31 July 2024</i> |

## Follow-up of prior year recommendations

| Issue/risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Recommendation and Agreed Action                                                                                                                                                                   | Progress                                                                                                                                              |
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| <p><b>b/f 1. IFRS 16 - Leases</b></p> <p>Following implementation of IFRS 16, Education Scotland has recognised three “Right of Use Assets” with a net book value of £6 million on the Statement of Financial Position. This includes two leases with rents agreed less than three years ago. We have reviewed management’s assessment and are satisfied the values are not materially misstated.</p> <p><i>Risk – there is a risk that the value of these assets is incorrectly reflected in the intervening period between rent reviews.</i></p> | <p>Given the current property market conditions, management should assess the reasonableness of continuing to use cost as a proxy in future years.</p> <p><i>Original date – 31 March 2024</i></p> | <p><b>Implemented</b></p> <p>Education Scotland carries out an annual impairment review of Right of Use Assets to ensure the cost is appropriate.</p> |
| <p><b>b/f 2. Lease agreement for Denholm House</b></p> <p>The Right of Use Assets include a new 10 year lease agreement for Denholm House.</p> <p>The lease agreement was entered into by Scottish Government on behalf of Education Scotland in February 2022. However, the lease agreement is still in draft and has yet to be</p>                                                                                                                                                                                                               | <p>Management should seek confirmation of the signed lease as a matter of urgency from the primary lease holder.</p> <p><i>Original date – 30 June 2023</i></p>                                    | <p><b>Implemented</b></p> <p>The lease agreement for Denholm House is now signed.</p>                                                                 |

| Issue/risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Recommendation and Agreed Action                                                                                                                                                                                                                                       | Progress                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
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| <p>finalised and signed by all parties.</p> <p><i>Risk – there is no substantive evidence of ownership rights to the “Right of Use” asset or corresponding finance lease liability obligations as disclosed in the Statement of Financial Position.</i></p>                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <p><b>b/f 3. Operational assets with nil value</b></p> <p>We reviewed the asset register and confirmed that all assets not in use with a nil value had been accounted for correctly. Although disposed of, the assets still appear on the asset register, but will automatically be deleted in 23/24. Where the assets are still in use, they were not revalued or given revised asset lives and values.</p> <p><i>Risk – assets are not accurately reflected at the correct value in the asset register.</i></p> | <p>Management should reconsider the value and lives of all assets still in use but included on the asset register at nil value.</p> <p><i>Original date – 31 March 2024</i></p>                                                                                        | <p><b>Closed</b></p> <p>All assets that have been fully depreciated remain in use. Education Scotland runs a regular laptop refresh and these assets will be disposed of when the laptops are replaced.</p> <p>Education Scotland will not remove these from the asset register until they have been replaced, and will not revalue because there is uncertainty about the renewal date (and therefore about the remaining useful life) and given the initial purchase costs the amounts would not be material.</p> |
| <p><b>b/f 4. Best Value framework</b></p> <p>Education Scotland does not have a formally agreed document that details the arrangements in place to support the best value characteristics.</p> <p><i>Risk – Education Scotland is unable to demonstrate compliance with the duty of best value per the characteristics set out in the SPFM.</i></p>                                                                                                                                                               | <p>Management should produce a formally agreed document for 2023-24 which details how it meets the best value characteristics as set out in the SPFM, and consider how this should feed into the new organisations.</p> <p><i>Original date – 31 December 2024</i></p> | <p><b>Ongoing</b></p> <p>The agreed management action was to produce a report for 2023-24 detailing how Education Scotland meets its best value characteristics set out in the SPFM. The target date for this action remains 31 December 2024.</p> <p><i>Head of Governance</i><br/><i>31 December 2024</i></p>                                                                                                                                                                                                     |



| Issue/risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Recommendation and Agreed Action                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Progress                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
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| <p><b>b/f 5. Key performance indicators</b></p> <p>Each strategic priority included in the updated corporate plan has a number of KPIs assigned to it which are used to measure performance against each outcome. The agency has reviewed its KPIs to determine which were still relevant during the transition year, removing some and replacing them with more appropriate ones. The ability to use existing data to inform benchmarking from the outset of the new organisations will be important.</p> <p><i>Risk – the data currently captured by the agency cannot be meaningfully benchmarked by the new organisations following the reform programme.</i></p> | <p>Management should continue to capture performance data during the transition to new organisations to facilitate appropriate benchmarking aligned to its strategic priorities</p> <p><i>Original date – 31 December 2024</i></p>                                                                                                                                                                                                                                                                           | <p><b>Ongoing</b></p> <p>The agreed management action was to keep KPIs under review and continue to capture performance data during planned reform with a view to facilitating appropriate benchmarking from the outset. This action remains on-track.</p> <p><i>Head of Data, Performance and Research</i></p> <p><i>31 December 2024</i></p>                                                                                                                                                                      |
| <p><b>b/f 6. Fixed asset register – fully depreciated assets</b></p> <p>Our audit work found several items of Property, Plant and Equipment that were recorded in the fixed asset register which had a net book value of nil yet were still in use.</p> <p><i>Risk – The cost and accumulated depreciation balances for Property, Plant and Equipment in the financial statements do not accurately reflect the operational assets of the agency.</i></p>                                                                                                                                                                                                             | <p>Management should review the fixed asset register to identify fully depreciated assets. Appropriate adjustments should be made determined by whether these assets are continuing.</p> <p><i>This recommendation was originally raised in the 2021/22 annual audit report. As part of our follow-up of prior year recommendations during our 2022/23 audit we confirmed that assets not in use, although disposed of, still appeared on the asset register. Management advised that these would be</i></p> | <p><b>Closed</b></p> <p>All assets that have been fully depreciated remain in use. Education Scotland runs a regular laptop refresh and these assets will be disposed of when the laptops are replaced.</p> <p>Education Scotland will not remove these from the asset register until they have been replaced, and will not revalue because there is uncertainty about the renewal date (and therefore about the remaining useful life) and given the initial purchase costs the amounts would not be material.</p> |

| Issue/risk                                                                                                                                                                                                                                                                                                                                                                                 | Recommendation and Agreed Action                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Progress                                                                                                                                                        |
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|                                                                                                                                                                                                                                                                                                                                                                                            | <i>automatically deleted in 2023/24.</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                 |
| <p><b>b/f 7. Historic payables balance</b></p> <p>Our review of the aged creditors report at 31 March 2018 identified that this included 17 balances totalling £0.053 million that date back to 2012.</p> <p><i>Risk: There is a risk that the agency is continuing to recognise an obligation for debts that have already been settled in full or that no longer need to be paid.</i></p> | <p>These balances are still included in the system. Management have raised this issue with the systems provider.</p> <p><i>This recommendation was originally raised in our 2017/18 annual audit report. It has continued to be revisited annually since then as part of our follow-up of prior year recommendations. In 2022/23 it was reported that the provider cannot currently remove these balances in the system. However, the SEAS ledger system is due to be upgraded in 2024, at which point the balances should be removed.</i></p> | <p><b>Ongoing</b></p> <p>The prior year management action noted that the SEAS ledger would be upgraded in 2024 and this would remove the historic balances.</p> |

# Education Scotland

## 2023/24 Annual Audit Report

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