


**Learning and Teaching Scotland**  
Annual Report to the Board and the  
Auditor General for Scotland  
2009/10

August 2010



# Learning and Teaching Scotland

## Annual Report to the Board and the Auditor General for Scotland 2009/10

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# Executive Summary

## Financial Statements

Our audit of the 2009/10 financial statements is complete and our audit opinion is unqualified. The financial statements for Learning and Teaching Scotland report a net operating deficit, before Scottish Government funding, of £23.1m (2008/09: £17.8m). Learning and Teaching Scotland received £23.4m in Scottish Government funding during the year.

We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance issued by Scottish Ministers.

## Use of Resources

Scottish Government provides financial support to Learning and Teaching Scotland through grant-in-aid and programme funding. During the year, Learning and Teaching Scotland notified the Scottish Government that it intended to draw down £0.418m less than the approved core grant in aid funding for the year. This was due to a number of non-recurring underspends, including a number of unfilled vacancies. The core grant-in-aid drawn down in the year was further reduced by £0.250m in relation to its voluntary severance scheme.

During 2009/10, Learning and Teaching Scotland's internal auditors carried out a review on the arrangements surrounding the management and use of resources within the Learning and Technology Directorate. The review considered the procedures in place to manage resource planning. The review noted areas for improvement in relation to staffing budgets and an action plan has been agreed to take forward these areas of improvement.

## Performance

Learning and Teaching Scotland's Strategic Plan is currently in draft form following the successful outcome of the Scottish Government strategic review on Learning and Teaching Scotland (Governance Section). A new remit has been agreed and strategic objectives are being aligned with the National Outcomes in the Scottish Government Performance Framework. Learning and Teaching Scotland is also developing performance indicators (for the period April 2010 to March 2013) which will align with the national indicators in the Scottish Government Performance Framework.

Learning and Teaching Scotland's performance management framework is based on balanced scorecard ideals. Performance measures are driven from the organisation's strategic objectives and are developed at corporate, directorate and programme level.

Learning and Teaching Scotland has developed its own programme of best value reviews. The findings from the most recent reviews (recruitment costs and contract management) have yet to be reported.

## **Governance**

A key milestone for Learning and Teaching Scotland has been the conclusion of the Scottish Government's review of the organisation. This review concluded that Learning and Teaching Scotland continues to play a key role in transforming education in Scotland.

Scottish Ministers have recently announced the appointment of two new Board members and the re-appointment of a further two Board Members.

Consultants have been appointed to review the structure of Learning and Teaching Scotland. It is the intention that any new structure will be put in place during 2010.

## **Looking Forward**

Following the conclusion of the Scottish Government's review of the organisation, Learning and Teaching Scotland are working towards revising/refreshing its strategic plan to align with its new remit. The organisation is also exploring, with the Scottish Government, the option of a three year rolling funding allocation. Furthermore, as noted above, there is an expectation that any new organisational structure will be implemented during 2010. Over the coming months we will monitor progress made by Learning and Teaching Scotland in implementing these changes.

## **Conclusion**

This report concludes the 2009/10 audit of Learning and Teaching Scotland. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards.

This report has been discussed and agreed with the Director of Corporate Services and Finance Manager. We would like to thank all management and staff for their co-operation and assistance during our audit.

**Scott-Moncrieff**  
**August 2010**

# Introduction

1. The Auditor General for Scotland is the Scottish Parliament's watchdog for ensuring propriety and value for money in the spending of public monies. The Auditor General for Scotland is responsible for securing the audit of the Scottish Government and most public bodies, including central government bodies, in Scotland.
2. The Companies Act 2006 (Scottish public sector companies to be audited by the Auditor General for Scotland) Order 2008 provides that Learning and Teaching Scotland is to have its accounts audited by the Auditor General for Scotland. The Order came into force from 6 April 2008. The Auditor General for Scotland has appointed Scott-Moncrieff as external auditor of Learning Teaching Scotland for the three year period 2008/09 to 2010/11.
3. This report summarises the findings from our 2009/10 audit of Learning and Teaching Scotland. The scope of our audit was set out in our External Audit Annual Plan, which was presented to the Learning and Teaching Scotland Audit Committee on 25 March 2010.
4. The Code of Audit Practice prepared by Audit Scotland and approved by the Auditor General for Scotland, sets out the ways in which auditors should carry out their functions under the Public Finance and Accountability (Scotland) Act 2000. With reference to the Code of Audit Practice, the main elements of our audit work in 2009/10 have been:
  - Audit of the financial statements, including a review of the Statement on the System of Internal Control
  - Review of governance arrangements, internal controls and financial systems
  - Follow-up of relevant national performance audit studies published by Audit Scotland

The key issues from these outputs are summarised in this annual report.

5. This report is addressed to the Board 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)

# Financial Statements

## Introduction

6. The financial statements are a key way Learning and Teaching Scotland demonstrate stewardship of the resources made available to them. In this section we set out our audit opinion and summarise the issues found as a result of our audit work on the financial statements.

## Our responsibilities

7. We audit the financial statements and give an opinion on:
  - whether they give a true and fair view of the financial position of the Board and its expenditure and income for the year then ended;
  - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
  - whether the information which comprises the Directors Report is consistent with the financial statements; and
  - the regularity of the expenditure and receipts.
8. We also review the Statement on the system of Internal Control by:
  - considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control; and
  - assessing whether disclosures in the statement are consistent with our knowledge of Learning and Teaching Scotland.

## Independence

9. International Standard on Auditing 260 – Communication of Audit Matters with those Charged with Governance – requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence. In addition to the audit of the financial statements, Scott-Moncrieff has, during 2010/11, provided VAT services to Learning and Teaching Scotland. All VAT services are provided by an independent partner and staff who have no involvement in the audit of the financial statements.
10. We can confirm that we have complied with the Auditing Practices Board Ethical Standard 1 – Integrity, Objectivity and Independence. In our professional judgement the audit process has been independent and our objectivity has not been compromised.

## Overall conclusion

11. We are pleased to report that our independent auditors' report expresses an unqualified opinion on the financial statements for the year ended 31 March 2010 and on the regularity of transactions reflected in those financial statements.
12. The annual accounts will be submitted to the Scottish Government and the Auditor General for Scotland prior to the 31 October 2010 deadline.
13. We received draft annual accounts and supporting papers in line with our agreed audit timetable. We are pleased to report that the audit process ran smoothly, and our thanks go to the finance team for their assistance with our work.

## Financial Position

14. In 2009/10, Learning and Teaching Scotland reported an income and expenditure deficit of £23.1m (2008/09: £17.8m). To fund this, Learning and Teaching Scotland received grant-in-aid of £23.4m (2008/09: £19.6m). Of this £23.2m was used to fund revenue expenditure and £0.2m was used to fund capital expenditure. In accordance with the FReM, Learning and Teaching Scotland treats grant-in-aid as funding rather than income. As a result, grant-in-aid is credited directly to the general reserve.

### FRS 17 deficit

15. All members of staff of Learning and Teaching Scotland have the option of joining the Strathclyde Pension Fund (SPF) with existing employees who are members of the Scottish Teachers Superannuation scheme entitled to maintain their membership of that scheme. The SPF is a defined benefit scheme where the assets and liabilities can be separately identified each year by an actuary. Under Financial Reporting Standard 17 this scheme is therefore reflected within the financial statements.
16. At 31 March 2009, Learning and Teaching Scotland showed a net liability of £2.757m. By 31 March 2010 this had increased to a net pension liability of £8.318m. Whilst the fair value of employer assets has significantly improved (increase of £7.1m), the present value of the scheme liabilities has also increased (£12.4m).
17. As a consequence, Learning and Teaching Scotland is reporting a 'net liability' position on its balance sheet (£1.486m). In common with similar public bodies, the future financing of Learning and Teaching Scotland's liabilities will be met by future grant funding from the Scottish Government. The approval of funding for 2010/11 has already been given and there is no reason to believe that future approvals will not be forthcoming. Learning and Teaching Scotland have accordingly considered it appropriate to adopt a going concern basis for the preparation of the 2009/10 financial statements.

## Accounts Direction

18. Learning and Teaching Scotland is required, in preparing its financial statements, to comply with directions given by the Scottish Ministers. The direction by the Scottish Ministers requires Learning and Teaching Scotland to comply with the accounting principles and disclosure requirements of the Government Financial Reporting Manual (FRoM).
19. The 2009/10 FRoM notes that non-departmental public bodies (NDPBs) that are incorporated as companies and have charitable status, should comply with, respectively, the Companies Act 2006, regulations issued under charities legislation and, where applicable, the Statement of Recommended Practice (SORP) *Accounting by Charities*. They should also follow the principles in the FRoM and provide the additional disclosures (for example, on notional costs and salary and pension entitlements) where these go beyond the Companies Act 2006 or the SORP.
20. We are pleased to report that the 2009/10 financial statements of Learning and Teaching Scotland comply with the 2009 edition of the FRoM which was in force for the year when the statement of accounts were prepared and the Charities Statement of Recommended Practice (Charities SORP).

## Audit Adjustments

21. We identified no major errors or weaknesses during our audit. Adjustments to the financial statements arising from the audit related mainly to changes in disclosure and presentation. We agreed all adjustments and potential adjustments with the Finance Manager.
22. Appendix 2 outlines the audit adjustments made to Learning and Teaching Scotland's financial statements. The net effect on the financial statements is as follows:

	£
Net operating deficit (transferred to reserves) per 1 <sup>st</sup> draft accounts	23,008,718
Net effect of adjustments made during the audit	72,000
<b>Revised operating deficit per final accounts</b>	<b>23,080,718</b>

23. We have also identified a number of potential adjustments which are not considered material to the financial statements, either individually or in aggregate.
24. The unadjusted misstatements are shown as an appendix to the letter of representation and we ask the Board to confirm that they do not consider any unadjusted misstatement to be material.

## Issues arising from the audit

25. We are required by international auditing standards to report to the Board the main issues arising from our audit of the financial statements. The most significant issues are noted below.



Those issues that we do not consider to be significant are not noted below but have been included within the action plan at the end of this report.

### **Voluntary Severance Scheme**

26. Learning and Teaching Scotland launched a voluntary severance scheme during the year. The Scottish Government approved a voluntary severance scheme of up to £250,000. The funding for this scheme was to be met from the 2009/10 grant-in-aid but as the expenditure was unlikely to be incurred in 2009/10, the Scottish Government agreed to make the necessary provision in 2010/11.
27. During the year, no individuals left Learning and Teaching Scotland through this scheme. As such there is no provision within the 2009/10 financial statements and Learning and Teaching Scotland did not draw down these funds (paragraph 40).

### **Remuneration Report**

28. In accordance with the FReM, Learning and Teaching Scotland discloses a remuneration report in its Report and Financial Statements. The remuneration report should disclose, for each director who has served during the year:
- the real increase during the year in the pension and, if applicable, related lump sum at age 60 in bands of £2,500
  - the value at the end of the year of the accrued pension and, if applicable, related lump sum at age 60 in bands of £5,000
  - the value of the cash equivalent transfer value at the beginning of the year to the nearest £1,000
  - the real increase in the cash equivalent transfer value during the year to the nearest £1,000
  - the value of the cash equivalent transfer value at the end of the year to the nearest £1,000
29. There is a requirement in Scotland that the prior consent of individuals to disclose information in remuneration reports is obtained. There is however a presumption that information about named individuals will be given, except in circumstances as specified in the FReM, including national security or where an individual may be at risk if their name is disclosed. Where non-disclosure is agreed, the fact that certain disclosures have been omitted should be disclosed.
30. The directors at Learning and Teaching Scotland have stated in the remuneration report that they do not wish to disclose details regarding the real increase in their pension earned in the year or the value of their accrued pension as at 31 March 2010.

### **Equal Pay**

31. The Equal Pay Act 1970 makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work; work rated as equivalent; or work of equal value.

32. The Gender Equality Duty requires public bodies to publish an equal pay statement which outlines the organisation's policy on equal pay between men and women. Learning and Teaching Scotland has published an equal pay statement and also conducted an equal pay audit.
33. To date, Learning and Teaching Scotland has not received any equal pay claims. No provision has therefore been made in the financial statements.

### **Statement on Internal Control**

34. As part of our audit we have considered the statement on the system of internal control, included with the Report and Financial Statements. We are satisfied that the statement is consistent with guidance issued by Scottish Ministers and that the contents are not inconsistent with information gathered during the course of our normal audit work.

### **Regularity**

35. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have issued an unqualified opinion on the regularity of transactions in Learning and Teaching Scotland's accounts.
36. We have also concluded that the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with guidance issued by Scottish Ministers, and that information in the Directors Report which is included in the Report and Financial Statements is consistent with the financial statements.

# Use of Resources

37. This section sets out our main findings from our review of how Learning and Teaching Scotland manages its key resources in terms of its financial position.

## Financial Performance in 2009/10

38. Learning and Teaching Scotland has reported a net operating deficit of £23.1m in year. This deficit is offset through grant-in-aid income received from Scottish Government which is recognised through the general reserve rather than the income and expenditure account. The table below provides a summary of Learning and Teaching Scotland's financial results for the year.

	2009/10 £	2008/09 £
<b>Income</b>	2,300,999	3,179,941
	2,300,999	3,179,941
Cost of sales	(899,620)	(1,153,346)
Charitable activities	(24,260,242)	(20,042,106)
Governance costs	(27,581)	(66,195)
	(25,187,443)	(21,261,647)
Other income/(expenditure)	(194,274)	320,954
<b>Net operating costs</b>	<b>(23,080,718)</b>	<b>(17,760,752)</b>
<b>Grant-in-aid</b>	7,505,000	7,823,000
<b>Scottish Government Programme Funding</b>	15,896,974	11,739,974

**Source:** Learning and Teaching Scotland's Report and Financial Statements 2009/10

39. Operating expenditure for the year includes costs in relation to Glow infrastructure (£0.8m). In previous years these costs have been paid directly by the Scottish Government to the external Interconnect providers (Thus plc and Janet). Learning and Teaching Scotland took on direct responsibility for this for the new contract which commenced in 2009. The Scottish Government provided the funding for these costs. In 2009/10, Learning and Teaching Scotland also established a discrete programme in relation to Global Citizenship and International Education (£1.3 m).

40. The Scottish Government provides financial support to Learning and Teaching Scotland through grant-in-aid and programme funding. In May 2009, Learning and Teaching Scotland was provisionally awarded grant-in-aid funding of £8.173m for 2009/10 to meet expenditure on core operational costs (staffing and services). Learning and Teaching Scotland drawdown funds as

and when required. During the year, Learning and Teaching Scotland notified the Scottish Government that it intended to claim £0.418m less than the award agreed in May 2009. This was due to a number of non-recurring underspends and efficiencies, including a number of unfilled vacancies. The core grant-in-aid drawn down in the year was further reduced by £0.250m in relation to its voluntary severance scheme (paragraph 26). As a result, Learning and Teaching Scotland received £7.505m in grant-in-aid during 2009/10.

## Budgetary Control

41. Learning and Teaching Scotland reported an adverse variance of £1,682 compared with its updated annual budget.

Programme	Actual Income	Actual Expenditure	Net Result	Reforecast	Variance Fav/(Adverse)
Targeted Support	3,009,934	3,015,519	(5,585)	(10)	(5,575)
Curriculum and Assessment Review	3,657,262	3,687,265	(30,003)	1	(30,004)
Glow	4,245,296	4,245,297	(0)	0	(0)
Schools ICT	3,995,318	4,163,765	(168,448)	(12)	(168,436)
Developing Global Citizens	1,479,379	1,479,378	1	(5)	6
Other front line projects	121,402	121,527	(125)	0	(125)
Core and other activities	8,733,960	8,531,257	202,703	252	202,452
<b>Totals</b>	<b>25,242,551</b>	<b>25,244,008</b>	<b>(1,457)</b>	<b>226</b>	<b>(1,682)</b>

**Source:** March 2010 management accounts

42. In April 2009, Learning and Teaching Scotland set a balanced budget with expected costs of £24.890m. A high level annual budget is prepared alongside the annual business plan for the forthcoming year. The budget is approved by the Scottish Government. Comprehensive budgets are not carried out until formal notification of core and project funding is received from the Scottish Government. Adjustments to the budget figures through the year are common; however they are not formally approved by senior management.
43. During 2009/10, Learning and Teaching Scotland's internal auditors carried out a review on the arrangements surrounding the management and use of resources within the Learning and Technology Directorate. The review considered the procedures in place to manage resource planning. The review noted areas for improvement in relation to staffing budgets including the following:
- Underlying assumptions used to plan resources for the year are not sufficiently documented and are primarily based on estimations of approximately how much time was spent by specific staff on specific projects;
  - There is limited challenge to original budget submissions and only minimal adjustments are made to the first submissions;

- Project managers meet at the time of budgeting with a representative from each directorate in order to identify any potential projects which will require the involvement of L&T for the year ahead. LTS will request projects on an ad hoc basis at various times during the year which were not originally predicted;
- There is a lack of regular review by the CMT and Programme Boards concerning the on-going resourcing of each project.

44. An action plan has been agreed to take forward these areas of improvement.

## Treasury Management

45. Learning and Teaching Scotland has historically reported 'high' balances held as cash at bank:

	2009/10	2008/09	2007/08	2006/07	2005/06
	£'000	£'000	£'000	£'000	£'000
<b>Cash at bank and in hand</b>	9,567	9,457	8,347	6,267	4,606
<b>Source:</b> Annual Report and Financial Statements (2006/07-2009/10)					

46. During 2009/10, Learning and Teaching Scotland reviewed its cash flow strategy. As part of the review, its financial strategy for the financial year was clarified. The financial strategy includes the following:

- Money will be held in financial institutions with a minimum AA rating, backed either by the UK government and/or the European Central Bank to give maximum security;
- Maximum fixed deposit term to be 6 months
- Ensure competitive interest rates are paid on LTS deposit sums, by reviewing the current market
- Keep a minimum low-interest bearing reserve readily available for day to day transactions

47. Learning and Teaching Scotland has committed to reviewing this document on a regular basis. As part of our review we considered this strategy against Learning and Teaching Scotland' financial memorandum. The financial memorandum states the following:

- Cash balances accumulated during the course of the year from grant in aid shall be kept at the minimum level consistent with the efficient operation of LT Scotland;
- All borrowing by LT Scotland - excluding agreed overdrafts - shall be from the Scottish Ministers in accordance with guidance in the Borrowing, Lending & Investment section of the Scottish Public Finance Manual;
- LT Scotland shall not make any investments without the prior approval of the Department, nor shall it aim to build up cash balances or net assets in excess of what is required for operational purposes;
- A comprehensive review of banking arrangements, usually leading to competitive tendering, should be undertaken at least every three to five years.

48. Learning and Teaching Scotland should ensure that its cash flow strategy keeps up to date with changes to operational requirements and ensure continued alignment with the requirements of their Financial Memorandum.

***Action plan point 2***

# Performance

## Introduction

49. To ensure effective performance, Learning and Teaching Scotland needs both a clear strategy that defines what it aims to achieve and the mechanisms it requires to effectively monitor and measure its outputs.

## Learning and Teaching Scotland Strategic Plan

50. Learning and Teaching Scotland's Strategic Plan is under draft following the successful outcome of the Scottish Government strategic review (paragraph 71). A new remit has been agreed and strategic objectives are being aligned with the National Outcomes in the Scottish Government Performance Framework. Learning and Teaching Scotland is also developing performance indicators (for the period April 2010 to March 2013) which will align with the national indicators in the Scottish Government Performance Framework.
51. The annual business plan received final endorsement by the Board in April 2010. The Scottish Government however is currently reviewing the plan and until this process is complete, the Board cannot formally approve it.

## Performance Management

52. Learning and Teaching Scotland has developed a performance management framework based on balanced scorecard ideals. Performance measures are driven from the organisations strategic objectives and are developed at corporate, directorate and programme level.
53. Performance reporting is on a quarterly basis to the Board via the Corporate Management Team. Organisational performance, financial performance and risk reporting are aligned and incorporated in a quarterly corporate performance report. This report forms the basis for discussion and decision making. The information from the reports, along with benchmarking data, are key inputs to Learning and Teaching Scotland's improvement plan.
54. Learning and Teaching Scotland's improvement plan is a schedule of all action points identified from, for example, internal audit reviews, external audit reviews and benchmarking data. This plan is reported to senior management, with an overview reported to the Audit Committee and Board.
55. As highlighted in the Directors Report, the key achievements in year included:
- Production of more than 30 examples of emerging curriculum plans from early years, primary, secondary and special schools;

- Identification of almost 100 examples of emerging approaches to assessment as examples to support practitioners – by working with schools and local authorities ;
- Organisation of more than 280 educational events attended by more than 16,000 delegates throughout Scotland;
- Top award at the IMS Global Learning Impact Awards for Glow;
- LTS becoming one of the first education organisations in Europe to launch an iTunes U site for practitioners;
- Memorandum of Understanding partners Scotland's Confucius Classroom Hubs with seven schools in Tianjin;
- Launch of Gaelic Language Plan.

56. Learning and Teaching Scotland has recently reviewed its measures and targets and concluded that for 2010/11 onwards a different approach is required which involves a shift from inward facing performance measures to outcome based performance indicators. Work is underway to develop appropriate indicators. As noted above, these indicators will align with the national indicators in the Scottish Government Performance Framework.

57. Learning and Teaching Scotland also participates in benchmarking clubs. For example, Learning and Teaching Scotland participated in a Scottish Government Baseline Study on Corporate Services. Participation in benchmarking clubs is viewed by the organisation as a key mechanism in measuring the efficiency and effectiveness of specific services and to share best practice with other partners. The output from these exercises informs best value plans and audit work.

## **Public Performance Reporting**

58. Learning and Teaching Scotland's public performance reporting arrangements include an annual review. The annual review details operational performance against the organisation's strategic objectives.

59. In 2007 Ipsos MORI was commissioned to undertake research to review the way in which Learning and Teaching Scotland was perceived by its external stakeholders. The survey reported that stakeholders felt that they were kept informed about Learning and Teaching Scotland's activities with the majority of stakeholders accessing most of their information about Learning and Teaching Scotland through its online service. Overall the research concluded that most stakeholders feel that they are kept at least fairly well informed by Learning and Teaching Scotland about its activities. However more could be done to inform stakeholders about Learning and Teaching Scotland's objectives and priorities, which would be likely to improve the levels of engagement among all stakeholder groups.



## **Best Value Reviews**

60. In light of guidance issued by the Scottish Government and Audit Scotland in relation to best value, Learning and Teaching Scotland has developed and approved a Best Value Strategy. In addition to this a programme of best value reviews has been established.
61. Learning and Teaching Scotland is in the process of delivering two best value reviews on:
- Recruitment Costs; and
  - Contract Management.
62. Recruitment Costs was identified as an area for review through the Scottish Government benchmarking group. This benchmarking group collects and reports standard data from a range of NDPB's to facilitate comparison. Contract Management was selected for review following high profile issues faced by the English Qualifications Agency in the past year.
63. Both best value reviews were scheduled for completion in January 2010. However the recent Scottish Government review (paragraph 71) has delayed the completion of these reviews. Learning and Teaching Scotland aims to finalise both best value reviews by July 2010.
64. During 2008/09, Learning and Teaching Scotland reported on its best value review on travel, accommodation and events. The report considered the extent to which best value is being achieved and the capacity and prospects to deliver continuous improvement in service delivery. It presented four options for service design and delivery including a 'do nothing' option, shared services, devolving services to individual departments and improving current arrangements within the central team. The report concluded that the final option is the preferred option. As a result of this review, actions have been implemented to improve the systems and procedures in place. These have included, for example, negotiating a contract with a new travel agent and introducing a range of preferred suppliers for hotel bookings.

## **National study reports**

65. Audit Scotland has prepared National Studies in a variety of areas. There is an expectation that central government bodies review the National Studies published between April 2009 and March 2010 relevant to them and action them accordingly. As external auditors, Audit Scotland, requires Scott-Moncrieff to complete a pro forma template for each National Study which will address the following points:
- Was the national report discussed at any of the body's committees and on what dates?
  - Did the body carry out a self assessment against the national report?
  - Did the board produce an action plan? A copy of which is to be submitted to Audit Scotland.
  - Are there plans to provide the committee(s) with feedback on the actions?

66. During our 2009/10 audit we reviewed the action Learning and Teaching Scotland has taken in relation to the following reports:
- Improving civil contingencies planning
  - Improving public sector purchasing
  - Scotland's public finances: preparing for the future
67. In February 2010 we submitted the completed pro-formas to Audit Scotland. We are pleased to report that no issues were identified from our review.
68. We will continue to monitor any further National Studies published in the coming year and consider the action taken by Learning and Teaching Scotland in response to these.

# Governance

69. This section sets out the main findings arising from our review of Learning and Teaching Scotland's governance arrangements as they relate to:

- Overall governance arrangements
- Risk management
- Internal audit

## Overall governance arrangements

70. Our work on corporate governance focussed on our review of Learning and Teaching Scotland's arrangements to ensure effective systems of internal control, prevention and detection of fraud and irregularity and standards of conduct and prevention and detection of corruption. We are pleased to report that overall governance arrangements at Learning and Teaching Scotland are generally strong.

## Scottish Government review of Learning and Teaching Scotland

71. During 2009, the Scottish Government carried out a strategic review of Learning and Teaching Scotland. The review considered the role of Learning and Teaching Scotland going forward. In particular it considered:

- Whether the existing structure of Learning and Teaching Scotland is suitable to deliver the functions and tasks that need to be carried out to support Scottish Education;
- Whether Learning and Teaching Scotland needs to be strengthened or changed or another body is better suited to carry out some or all of the desired functions

72. The review was carried out by a team within the Schools Directorate and was split into phases. A wide range of Learning and Teaching Scotland's stakeholders were consulted during the review.

73. The outcome of the review confirmed that Learning and Teaching Scotland continues to play a key role in transforming education in Scotland. Learning and Teaching Scotland's core remit was confirmed as:

- **Curriculum:** to keep the curriculum 3-18 under review and provide advice and support, including quality assured resources, on the curriculum 3-18 to Ministers and the education system
- **Assessment:** to provide advice and support to Ministers and the education system on assessment to support learning, with support from SQA as appropriate, and to work with SQA to ensure the availability of quality assured resources to support assessment

- **Glow and ICT in schools:** to provide advice and support to Ministers and the education system on the use of ICT to support education, to establish and maintain technology standards for education, to ensure practitioners have easy online access to advice and support, including digital resources and to manage the provision of the national ICT infrastructure to support education, currently Glow, the LTS Online Service and the local authority Interconnect

74. Additionally, Learning and Teaching Scotland has a number of generic core responsibilities, including:

- Ensuring the services it provides are high quality, continually improving, efficient and responsive to need (National Outcome 15 in the National Performance Framework)
- Ensuring that everything it does contributes to creating a more successful country with opportunities for all of Scotland to flourish through sustainable economic growth (the National Purpose in the Government Economic Strategy)
- Ensuring it works with other public bodies to make a planned contribution to the achievement of the National Outcomes that maximises outcomes and minimises net public sector costs

75. Learning and Teaching Scotland is governed both by its Memorandum and Articles of Association (updated in 2008) and a Management Statement and Financial Memorandum agreed with the Scottish Government (this was last updated in March 2006).

76. We would encourage the Board to review its key governing documents to ensure all have been updated to reflect the outcome of the Scottish Government review. These documents should also be updated, where appropriate, to reflect any changes to the staffing structure of the organisation (paragraph 81).

***Action plan point 3***

77. Learning and Teaching Scotland is also developing a strategic plan following the outcome of this review. Its strategic objectives are being aligned with national outcomes in the Scottish Government Performance Framework.

## **Board of Learning and Teaching Scotland**

78. Learning and Teaching Scotland's Board of Directors has corporate responsibility for ensuring that Learning and Teaching Scotland fulfils its aims and objectives. Board members are appointed by Scottish Ministers, normally for a period of three years. Four of the existing board members have been appointed until 2010. The Chair of the Board was appointed until 31 March 2010. In June 2010, Scottish Ministers announced the appointment of two new members to the Board and the re-appointment of two members to the Board. Formal induction arrangements are in place for new board members.

79. The Board has delegated certain matters to sub-committees, including an audit committee, remuneration committee, chairs committee and a newly established organisational development committee.

#### **Organisational Development Committee**

80. An Organisation Development Programme, led by the Learning and Teaching Scotland Board of Directors was established in 2009. The committee set up is responsible for considering organisational development initiatives undertaken by Learning and Teaching Scotland. A programme working group, comprising staff from across the organisation, has been established to act as a sounding board for the Programme. This group is also responsible for taking forward specific aspects of the programme work.

#### **Management Team**

81. During 2009/10, three interim directors were appointed. This followed the departure of two directors and the creation of a new director post. These interim arrangements were put in place, pending the outcome of the Scottish Government review. Consultants have been appointed to review the structure of the organisation. It is the intention that any new structure will be put in place during 2010.

#### **Risk Management**

82. An important feature of a robust system of internal control is a developed and integrated approach to risk management. Effective risk management will deliver an appropriate balance between risk and control, more effective decision making, better use of limited resources and greater innovation.
83. In 2008/09, we carried out a detailed review of Learning and Teaching Scotland's risk management arrangements. Overall we concluded that Learning and Teaching Scotland has established and embedded risk management arrangements across the organisation. In particular we noted the following:
- Learning and Teaching Scotland has developed a 'risk management policy and processes' document which outlines the organisation's approach to managing risk;
  - Key risk indicators are linked to Learning and Teaching Scotland's corporate objectives;
  - Arrangements are in place to manage risk at both a strategic and operational level. For example, quarterly reports are presented to the Board; and
  - A Risk Register Programme Board has been established which comprise of all programme directors and members of the Corporate Management Team. This Board is responsible for ensuring key risks from each service area are incorporated into a risk register.
84. At the time we also highlighted a couple of areas where the arrangements could be enhanced. During 2009/10 we have considered whether our recommendations in relation to risk management have been implemented. Our findings are summarised in the following paragraphs.

85. A skills audit and analysis is currently underway across the organisation to gather insight into the current skills base which exists within Learning and Teaching Scotland and how this compares with the skills required by the organisation in the future. A training strategy will be developed following this review. Risk has been considered when setting competencies for each role in the organisation, for example, risk management is seen as a key competency for employees working in the Performance Team. Following the skills analysis each employee agrees to a Personal Development Plan which is structured to address any areas for development noted through the skills analysis. We recommend that this procedure is carried out for senior employees as soon as is practicable to ensure that training requirements in relation to risk management are met.

**Action plan point 4**

86. Learning and Teaching Scotland have decided against communicating risk through the employee newsletters. An adequate level of risk education is deemed to occur through the staff inductions, the skills assessment and personal development plan process noted above, in conjunction with existing risk reporting. Corporate risk is formally reviewed on a quarterly basis, project risk is reviewed monthly. The risk review process involves senior managers across the organisation.

## **Internal Audit**

87. Internal Audit is a key component of Learning and Teaching Scotland's internal control framework. PricewaterhouseCoopers provide an internal audit service to Learning and Teaching Scotland.

88. In accordance with the Code of Audit Practice and International Standard on Auditing 610 – *Considering the work of internal audit, "the external auditor should perform an assessment of the internal audit function when internal auditing is relevant to the external auditor's risk assessment"*. Overall we concluded that reliance could be placed on the work of internal audit. To avoid duplication of effort and to ensure an efficient audit process, we have made use of internal audit work where appropriate.

## **Fraud and Irregularity**

89. Our audit has been planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. As part of our governance work we reviewed the arrangements in place to prevent and detect fraud and irregularity.

90. We did not find any indication of fraud and irregularity and concluded that Learning and Teaching Scotland's internal controls and financial procedures were adequate to prevent and detect material fraud and irregularity.

## **Legality**

91. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially effect the financial statements. Our audit procedures included the following:
- Reviewing minutes of relevant meetings;
  - Enquiring of senior management and the company's solicitors concerning litigation, claims and assessments;
  - Performing a company search; and
  - Performing detailed testing of transactions and balances.
92. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

# Looking Forward

## Use of Resources

93. Learning and Teaching Scotland receive an annual budget from the Scottish Government. However, as the review of Learning and Teaching Scotland has now been completed, with a clear remit set by the Scottish Government, it intends to work towards securing a three year rolling funding allocation from the Scottish Government. This will enable longer term plans to be prepared.
94. It has also been acknowledged, following the review, that it may be beneficial for Learning and Teaching Scotland to move to a single budget allocation from the Scottish Government.
95. In 2010/11, Learning and Teaching Scotland will enter into a joint business planning exercise with key partners. This will be based on guidance from the Scottish Government on Outcomes Based Approach to Planning.

## Performance

96. The Public Services Reform (Scotland) Act received Royal Assent in May 2010. Part 3 of this Act makes provisions for the publication of information on expenditure and certain matters by Scottish Ministers and certain public bodies. Learning and Teaching Scotland is currently considering the impact that this Act will have on them as an organisation with a view to providing a full report to the Board in the near future. Over the coming year, Learning and Teaching Scotland are upgrading their finance system. It is the intention that the coding system will be developed to enable the reporting of this information.
97. Learning and Teaching Scotland's Strategic Plan is under draft following the successful outcome of the strategic review. The strategic objectives are being aligned with the National Outcomes in the Scottish Government Performance Framework. Learning and Teaching Scotland is also developing performance indicators (for the period April 2010 to March 2013) which will align with the national indicators in the Scottish Government Performance Framework. We will continue to monitor the progress made by Learning and Teaching Scotland in developing its strategic plan and performance indicators.

## Governance

98. As highlighted in the governance section of this report, over the coming months the membership on the Board of Directors will change. There could also be changes at the operational level following a review of the organisation structure of Learning and Teaching Scotland. We will review and report on changes at Board and organisation level during our 2010/11 audit.



# Appendix 1: Action Plan

Our action plan details the key weaknesses and opportunities for improvement that we have identified during this review. To assist Learning and Teaching Scotland in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. The rating structure is summarised as follows:

5	Very high risk exposure - Major concerns requiring immediate Board attention.
4	High risk exposure - Absence / failure of significant key controls.
3	Moderate risk exposure - Not all key control procedures are working effectively.
2	Limited risk exposure - Minor control procedures are not in place / not working effectively.
1	Efficiency / housekeeping point.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

No	Title	Issue Identified	Risk and Recommendation	Management Comments
1	<b>Supplier Statement Reconciliations (para. 25)</b>	<p>We noted during our audit that supplier statement reconciliations are not being performed.</p> <p>Without evidence of supplier statement reconciliations, assurance cannot be gained that all creditors have been identified for the financial statements.</p>	<p>We recommend that supplier statement reconciliations are performed.</p> <p><b>Grading: 2</b></p>	<p>LTS will carry out supplier statements in December and January 2010 in advance of the year end to ensure completeness and accuracy of the closing balance.</p> <p><b>Responsible officer</b> Director of Corporate Services</p> <p><b>Implementation date</b> March 2011</p>
2	<b>Treasury management arrangements (para. 48)</b>	<p>During the year Learning and Teaching Scotland reviewed its cash flow strategy and clarified its financial strategy for the year. This included investment of cash balances in financial institutions.</p>	<p>Learning and Teaching Scotland should ensure that its strategy keeps up to date with changes to operational requirements and ensure continued alignment with their Financial Memorandum.</p> <p><b>Grading: 3</b></p>	<p>LTS will continue to ensure the treasury management strategy is fit for purpose and aligned with the organisation's delegated authority.</p> <p><b>Responsible officer</b> Director of Corporate Services</p> <p><b>Implementation date</b> Ongoing</p>
3	<b>Review of governance documents (para. 76)</b>	<p>The outcome of the Scottish Government strategic review on Learning and Teaching Scotland confirmed the organisation's core remit.</p> <p>There is a risk that the organisation's governing documents do not reflect the outcome of this review.</p>	<p>We would encourage the Board to review its key governing documents to ensure all have been updated to reflect the outcome of the Scottish Government review. These documents should also be updated, where appropriate, to reflect any changes to the staffing structure of the organisation.</p> <p><b>Grading: 3</b></p>	<p>LTS will carry out appropriate review and revision of governing documents during this year.</p> <p><b>Responsible officer</b> Professional Adviser, Policy and Governance</p> <p><b>Implementation date</b> December 2010</p>
4	<b>Risk management –</b>	<p>Risk has been considered when setting</p>	<p>We recommend that this process is carried</p>	<p>LTS will carry out risk management</p>

No	Title	Issue Identified	Risk and Recommendation	Management Comments
	<b>training arrangements (para. 85)</b>	competencies for each role in the organisation, for example, risk management is seen as a key competency for employees working in the Performance Team. This process however has yet to be extended to all senior employees.	out for senior employees as soon as is practicable to ensure that and training requirements in relation risk management are met. <b>Grading: 2</b>	training as required over the next year. <b>Responsible officer</b> HR Manager <b>Implementation date</b> December 2010

# Appendix 2: Audit Adjustments

The following audit adjustments during the audit which impacted on the final position as follows:

	Balance Sheet		Profit and Loss	
	Dr	Cr	Dr	Cr
	£	£	£	£
1 Pension Liability	191,000			
Staff Costs				191,000
<i>Being update to the financial statements following receipt of the FRS 17 report</i>				
2 Other finance costs			263,000	
Pension Liability		263,000		
<i>Being update to the financial statements following receipt of the FRS 17 report</i>				
3 General Reserve	5,489,000			
Pension Liability		5,489,000		
<i>Being recognition of actuarial gains/losses following receipt of FRS 17 report</i>				
4 Notional cost of capital				107,318
Reversal of notional cost of capital			107,318	
<i>Being revision to calculation following receipt of the FRS 17 report</i>				
5 Debtors	13,114			
Tangible Fixed Assets		13,114		
<i>Being reclassification of fixed assets</i>				
<b>Net impact on profit</b>			<b>72,000</b>	



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