

Education Scotland

Annual Audit Plan 2016/17



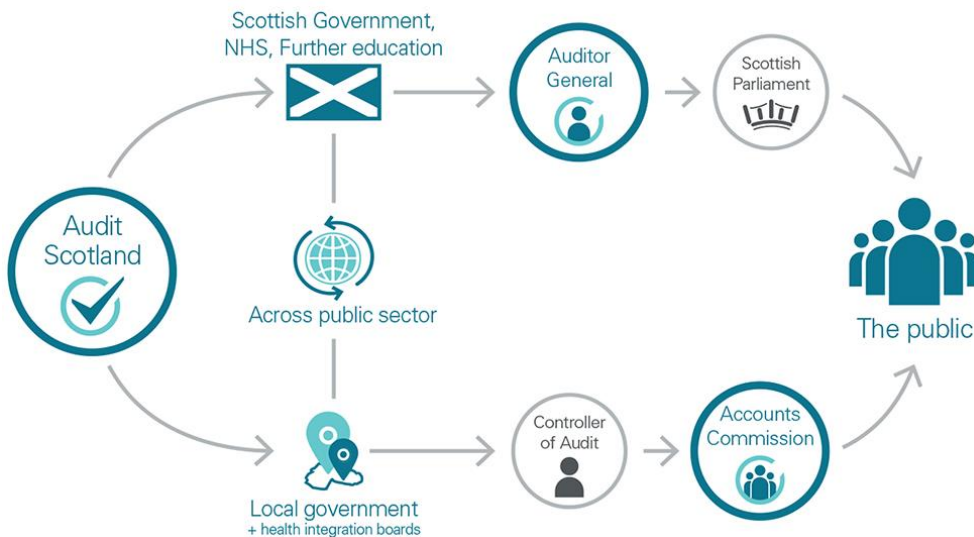
 AUDIT SCOTLAND

Prepared for Education Scotland
February 2017

Who we are

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

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



About us

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

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

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

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Risks and planned work

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

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

Audit risks

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

Exhibit 1

Audit Risk	Management assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business.
<p>2 Accounting practices</p> <p>In 2015/16 the external auditor reported issues with Education Scotland's accounting practices in the following areas:</p> <ul style="list-style-type: none"> • leasehold improvement indexation • temporary staff cost classification <p>There is a risk that the financial statements are misstated due to</p>	<p>Indexation of leasehold improvements will be reviewed in 2016-17. Risk is minimal as adjustments will not impact on the Statement of Comprehensive Net Expenditure and will simply be a movement in reserves.</p> <p>The classification of staff costs in 2015-16 reflected the distinction between staff who were engaged to fulfil an ES</p>	<ul style="list-style-type: none"> • Detailed testing of leases and staff costs.

Audit Risk	Management assurance	Planned audit work
incorrect accounting practices being applied.	role and those who were engaged to undertake a specific piece of work. This complies with the requirements of the FReM. We have now coded both agency staff and contractors as agency staff as per AS recommendation. However, we would welcome some further clarity from AS on this.	

Wider dimension risks

<p>3 Financial management</p> <p>The main financial target for Education Scotland is to achieve a break even position at year-end. At October 2016 a projected overspend of £394k was anticipated which is based on the assumption that the Scottish Government would provide further budget transfers at the Spring Budget Revision. Education Scotland continues to face a risk over its financial sustainability due to budget pressures and uncertainty over future funding allocations.</p>	<p>Risks are managed through the following:</p> <p>Budgets are allocated to budget holders at the start of the year. Budget holders responsibilities are set out in a letter which they are asked to sign up to.</p> <p>Monthly monitoring of forecast spend against budget. Forecasts are completed by budget holders and summarised financial information is issued to portfolio board, CMG and quarterly to the ARC and Management Board.</p> <p>Monthly returns to SG highlighting variance of expenditure against budget. Education Scotland attends monthly meeting with colleagues in the ELL portfolio where we have an opportunity to highlight any existing pressures.</p> <p>Engagement with SG colleagues during spending review, ABR and SBR to ensure that core budget and budget transfers are agreed.</p>	<ul style="list-style-type: none"> • Review of arrangements to secure efficiencies • Review of correspondence with Scottish Government regarding 2016/17 funding • Review financial monitoring papers presented to committee.
<p>4 ICT</p> <p>In 2015/16 the external auditor reported a lack of senior ICT capability. There are currently four vacancies within the department. There remains a risk that lack of leadership could adversely affect delivery of Digital Services.</p>	<p>Since the appointment of the Head of Digital, both corporate and on-line resourcing models have been adapted to provide effective and efficient digital support and consultation services which extend across and beyond Education Scotland. Furthermore, three senior digital roles (C band) have been created. Appointments were made following a recent recruitment exercise during December 2016. The overall digital</p>	<ul style="list-style-type: none"> • Discussion with management to establish timing of appointment of new posts • Review progress of planned digital services outputs.

Audit Risk	Management assurance	Planned audit work
	resourcing provides permanent capability across key areas such as Web Strategy and Design, Digital Engagement and Information Security.	
<p>5 Digital strategy</p> <p>The Scottish Government's programme, 'Scotland's Digital Future – A Strategy for Scotland' aims to accelerate the pace of digital transformation to deliver improved, user-focused digital public services and drive innovation and efficiency in the Scottish public sector. As yet Education Scotland has no formal digital strategy in place. There is a risk that the Education Scotland is not obtaining the advantages of greater integration across the public sector and improving services to stakeholders.</p>	<p>The corporate digital strategy has been drafted and we now are engaging with external digital sources to ensure the business and strategic digital direction is compliant with wider industry and governmental (national and UK) standards and movements. Engagements with external sources and further organisational review will take place over February/March 2017.</p>	<ul style="list-style-type: none"> • Monitor progress of implementation in year
<p>6 Business Continuity Plan</p> <p>Education Scotland are currently drafting a Business Continuity plan.</p> <p>There is a risk that, without adequate Business Continuity arrangements in place, Education Scotland will be unable to respond quickly from issues with IT systems, potentially impacting ability to deliver services.</p>	<p>There is already an ES policy in place for what to do when there is a loss of utilities. ES uses the SG policy for IT disruption, travel disruption and inclement weather. We are in the process of pulling all of these sources into a comprehensive ES Business Continuity Plan. Internal Audit have been providing assistance with this.</p>	<p>Monitor progress of implementation</p>
<p>7 Role of the Board</p> <p>Three of the four non-executive director appointments expire in 2017. There is a risk of a loss of skills and experience amongst members. Adequate succession planning, training and committee support is required to ensure that levels of governance and scrutiny are maintained.</p>	<p>Education Scotland is about to initiate a recruitment campaign for Non Executive Board Members. The intention is to increase the overall number from 4 to 6 and re-introduce a membership difference between the ARC and Management Board. In the longer-term we are also considering the roles of the Management Board and Corporate Management Group as part of our overall review of Governance. One proposal is that these two boards merge to reduce duplication and provide direct external representation at our main strategic decision making-meeting.</p>	<ul style="list-style-type: none"> • Completion of 'Role of Boards' follow up • Review of board minutes and papers

Audit Risk	Management assurance	Planned audit work
<p>8 Workforce planning</p> <p>Education Scotland does not have a comprehensive workforce plan setting out the size and constitution of workforce required to deliver future services and objectives. In the absence of a workforce plan there is a risk that the appropriate number of staff, skills and competencies are not available in future years, adversely affecting the capacity to deliver services.</p>	<p>Education Scotland has developed a detailed workforce plan for the period 2017-2020.</p>	<ul style="list-style-type: none"> Review workforce projections
<p>9 Internal audit</p> <p>In 2015/16 the external auditor reported that internal audit did not complete their planned audit work until the final quarter of the year. There is a risk that planned internal audit work may not be able to support the preparation of the annual report or feed into the annual assurance statement.</p>	<p>ES and internal audit have been working together to ensure work is completed in good time this year. The exit meeting for Internal Audit work is 28 February 2017.</p>	<ul style="list-style-type: none"> Review progress against the 2016/17 Internal Audit Plan Discussions with Internal Audit
<p>10 Corporate Plan</p> <p>Education Scotland's Corporate plan sets out the strategic management priorities for the agency over a three-year period. The latest Corporate plan covers the period 2013 to 2016. There is no up to date Corporate Plan. In addition, no 2016-17 Business Plan was published. There is a risk that the absence of a Corporate and Business plan could result in a lack of strategic focus with no clear priorities or targets for the year.</p>	<p>The development of our next Corporate Plan was put on hold as a result of the Scottish Government's consultation on the governance of education. As a national body, Education Scotland is in the scope of this review. The consultation ran from September 2016 to January 2017. Now that the consultation has finished we are proceeding with plans to develop our next Corporate Plan and publish it later in 2017.</p> <p>Although the 2016-17 Business Plan was not published, a plan was produced and is available. In addition, every programme and core area of work across the organisation has a detailed plan which is maintained and updated on a regular basis. These plans are monitored and discussed at the monthly Programme Boards and then, by exception, at the monthly Portfolio Board.</p>	<ul style="list-style-type: none"> Discussion with officers to establish a timeline for publication of the new 2016-2019 Corporate Plan.
<p>11 Risk Management</p> <p>A review of Education Scotland's risk management procedures planned for 2015/16 has yet to</p>	<p>A new Head of Governance and Corporate Support was appointed during the year. She is currently taking forward work on the risk management</p>	<ul style="list-style-type: none"> Monitor developments in this throughout the year Review of Risk Registers

Audit Risk	Management assurance	Planned audit work
<p>be completed. There is a risk that the risk management arrangements in place are not in line with the Education Scotland's current operational activities and do not address the material risks within its business operations.</p>	<p>processes to reflect the ES operational model. New corporate risks were discussed at the last ARC in December.</p>	
<p>12 Performance Management</p> <p>A new performance approach was due to be implemented in 2016/17. This has not happened. There is a risk that Education Scotland is unable to demonstrate the impact of its work without relevant performance measures.</p>	<p>We are in the process of finalising our overall strategy for identifying and measuring our impact.</p> <p>Every programme and core area of work in Education Scotland has now developed a set of outcomes with measures and/or Key Performance Indicators. This approach will be partially implemented in the final quarter of 2016-17 and fully implemented for 2017-18.</p>	<ul style="list-style-type: none"> • Review of performance reporting to the board.
<p>13 Long term financial planning</p> <p>One of the challenges for Education Scotland is the absence of long term funding and policy information from the Scottish Government and the resulting difficulty in preparing medium to long term funding strategies. While this is an obstacle to precise financial planning the Board should take steps to prepare a 3-5 year rolling budget using what information is available and incorporating sensitivity analysis and scenario planning.</p> <p>In the absence of medium to long term financial planning the future financial risks facing Education Scotland may not be clearly understood.</p>	<p>Education Scotland already plans for the medium to longer term notwithstanding the fact that SG budgets have only been allocated for one year.</p> <p>Education Scotland had a core budget of £23.3m to cover central costs. The bulk of the budget is taken up by staff costs and central overheads, which includes accommodation and T&S. The current workforce plan covers the period 2017-20. The estates strategy covers the period up to 2020 when the lease for the Optima is up for renewal. T&S guidance and digital communication solutions have already been implemented with a view to reducing costs over the longer term.</p>	<ul style="list-style-type: none"> • Review of board papers and minutes • Review of correspondence with Scottish Government regarding funding.

Reporting arrangements

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

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

6. We will provide an independent auditor's report to the Board and the Auditor General for Scotland setting out our opinion on financial statements and other

matters upon which we are required to provide an opinion. We will provide the Board and Auditor General with an annual audit report containing observations and recommendations on significant matters which have arisen during the course of the audit.

Exhibit 2

2016/17 Audit outputs

Audit Output	Target date	Audit and Risk Committee
Annual audit plan	17 February 2017	09 March 2017
Annual audit report	19 May 2017	05 June 2017
Independent auditor's report	05 June 2017	05 June 2017

Audit fee

7. The agreed audit fee for the 2016/17 audit of Education Scotland is £34,040. In determining the audit fee we have taken account of the risk exposure of Education Scotland, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

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

Responsibilities

Accountable Officer and Board

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

10. The audit of the financial statements does not relieve the Accountable Officer and Board of their responsibilities.

Appointed auditor

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

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

Audit scope and timing

Financial statements

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

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

14. We will give an opinion on:

- whether the financial statements give a true and fair view of the state of the affairs of Education Scotland and of the income and expenditure for the year
- whether the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union as interpreted and adapted by the 2016/17 the Government Financial Reporting Manual (FRoM)
- whether the financial statements have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers
- the regularity of the expenditure and income.

Materiality

15. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any potential audit adjustments on the financial statements. We calculate materiality at different levels as described below. The materiality values for Education Scotland are set out in [Exhibit 3](#).



Exhibit 3

Materiality values

Materiality level	Amount
Planning materiality - This is the figure we use in assessing the overall impact of potential audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2017.	£327,000
Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 70% of planning materiality.	£229,000
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of a predetermined reporting threshold. This has been calculated at 2% of planning materiality.	£ 7,000



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

Timetable

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

Exhibit 4

Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited financial statements with complete working papers package	21 April 2017
Latest date for final clearance meeting with Head of Finance and Procurement Manager and Assistant Director Corporate Services	15 May 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report	19 May 2017
Issue of Independent auditor's report	05 June 2017

Internal audit

18. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by the Scottish Government Internal Audit Division.

Adequacy of Internal Audit

19. We are currently in the process of assessing whether the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and will report any issues in our Annual Audit Report.

20. We will consider the work of internal audit throughout the year to inform our audit approach.

Audit dimensions

21. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5

Audit dimensions



Financial sustainability

22. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We will conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability
- the appropriateness and effectiveness of arrangements in place to address any funding gaps
- whether Education Scotland can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Financial management

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

- whether the Board has arrangements in place to ensure that systems of internal control are operating effectively

- the effectiveness of the budgetary control system in reporting accurate and timely financial performance
- how the Board has assured itself that its financial capacity and skills are appropriate
- whether the Board has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

24. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We will review, conclude and report on:

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

Value for money

25. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- The Board can provide evidence that it is demonstrating value for money in the use of its resources.

Independence and objectivity

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

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

Quality control

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

29. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and engages external bodies to conduct independent quality reviews.

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

Education Scotland

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