

Education Scotland

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared by Audit Scotland
July 2023

Contents

Key messages	3
Introduction	4
1. Audit of 2022/23 annual report and accounts	6
2. Financial management	12
3. Financial sustainability	17
4. Vision, leadership and governance	19
5. Use of resources to improve outcomes	24
Appendix 1. Action plan 2022/23	27

Key messages

2022/23 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified.
- 2 Expenditure and income in the financial statements were incurred or applied in accordance with legislation and guidance issued by Scottish Ministers.
- 3 The performance report, governance statement and remuneration and staff report are consistent with the accounts and properly prepared in accordance with guidance.

Financial management and sustainability

- 4 Education Scotland operated within budget in 2022/23.
- 5 Unused ring-fenced non-cash budget of £1 million impacted on the overall 2022/23 outturn and a delay in moving to new premises meant a further £1.5 million underspend in year
- 6 The agency has effective financial reporting and budget monitoring arrangements in place to secure sound financial management.
- 7 There has been appropriate scrutiny and oversight of the digital transformation programme.
- 8 High level systems of internal control operated effectively during 2022/23.

Vision, leadership and governance

- 9 Education Scotland play a key role in the education reform programme. Strategic priorities within the corporate plan have been updated accordingly.
- 10 Effective governance and decision-making arrangements are in place.
- 11 Arrangements to consider performance against climate change targets are in place and cyber security arrangements are adequate.

Use of resources to improve outcomes

- 12 The agency should further develop its approach to demonstrating Best Value.
- 13 The updated Corporate Plan sets out priority areas for the coming years and reporting of KPIs will provide more meaningful analysis going forward if data continues to be collected consistently.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of Education Scotland. The scope of the audit was set out in an annual audit plan presented to the Audit and Risk Committee in March 2023.

2. This Annual Audit Report comprises:

- significant matters arising from an audit of the 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.

3. This report will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment from 2022/23

4. I, Mark Laird, have been appointed by the Auditor General as auditor of Education Scotland for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new [Code of Audit Practice](#) which was introduced for financial years commencing on or after 1 April 2022.

5. My team and I would like to thank the Advisory Board and Audit and Risk Committee members, strategic directors, finance, governance and corporate performance staff, for their cooperation and assistance in this year and we look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

6. 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 account's direction from the Scottish Ministers. Education Scotland is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

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

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

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

Auditor Independence

10. We can confirm that we 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 2022/23 audit fee of £37,940 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

11. We add value to the agency 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.

1. Audit of 2022/23 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.

Main judgements

Audit opinions on the annual report and accounts are unmodified.

Expenditure and income in the financial statements were incurred or applied in accordance with legislation and guidance issued by Scottish Ministers.

The performance report, governance statement and remuneration and staff report are consistent with the accounts and properly prepared in accordance with guidance.

Audit opinions on the annual report and accounts are unmodified

12. The annual report and accounts for the year ended 31 March 2023 were approved for issue by the Accountable Officer on 19 July 2023, following the meeting of the Advisory Board of 12 July 2023. Signing of the accounts was delayed until 19 July 2023 while discussions in relation to the accounting treatment of 'Right of Use' assets under IFRS 16 was discussed with Scottish Government.

13. As reported in the independent auditor's report, in my 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 financial reporting framework
- the performance report and governance statement were consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Overall materiality was assessed as £0.870 million

14. 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.

15. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in Exhibit 1.

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£0.870 million
Performance materiality	£0.650 million
Reporting threshold	£0.045 million

16. 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.

17. 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 from the previous audit team.

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

Significant findings and key audit matters

19. Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to the board, including our view about the qualitative aspects of the body's accounting practices.

20. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on

Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

21. 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>1. Consideration of going concern</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 (see issue 7).</p> <p>As a result of the above reform announcement, we considered applicable guidance and the Financial Reporting Manual (FReM), to ensure that the use of the going concern assumption remained appropriate.</p>	<p>For information only</p> <p>We believe that the use of the going concern basis of accounting remains appropriate for the 2022/23 annual report and accounts.</p> <p>The functions of Education Scotland will continue to be delivered by the agency until the reform is complete. At that time, the functions will transfer and continue to be delivered by an alternative public sector body.</p> <p>Appropriate disclosure on this matter has been made in the 2022/23 annual report and accounts.</p>
<p>2. IFRS 16 - Leases</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.</p>	<p>We have reviewed management’s assessment and are satisfied the values are not materially misstated.</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>Recommendation 1</p> <p>(Refer Appendix 1, action plan)</p>

Issue	Resolution
<p>3. Lease Agreement for Denholm House</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 finalised and signed by all parties.</p>	<p>Per the ISA 580 Letter of Representation, assurances were sought from the Accountable Officer that Education Scotland has ownership rights to recognise this asset as a “Right of Use Asset” on its Statement of Financial Position as at 31 March 2023.</p> <p>Recommendation 2</p> <p>(Refer Appendix 1, action plan)</p>
<p>4. Operational assets with nil value</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. There were five assets identified as still in use with a total initial cost value of £347k. These were not revalued or given revised asset lives and values.</p>	<p>From the work undertaken we are satisfied that non-current asset values are not materially misstated.</p> <p>Management should reconsider the value and lives of assets still in use but included on the asset register at nil value.</p> <p>Recommendation 3</p> <p>(Refer Appendix 1, action plan)</p>
<p>5. Intangible assets</p> <p>We reviewed the accounting treatment of the intangible assets disclosed in Note 6 and identified that one asset, ‘catalogue of professional learning resources’, came into use in March 2023. This was disclosed incorrectly as an asset under development in the note at a value of £1.526 million. This was identified as a disclosure issue and did not impact on the Statement of Financial Position.</p>	<p>Management amended the note accordingly to classify this asset under ‘other software’.</p>
<p>6. Grant accruals</p> <p>Our testing of accruals identified a grant payable to a council had been under-accrued by £55,000 following correspondence received after the initial accrual confirming the larger amount.</p>	<p>Management amended the accrual to reflect the true position in the revised annual report and accounts. This increased accruals on the Statement of Financial Position and decreased net assets by £55,000.</p>
<p>7. Education reform delay</p> <p>On 22 June 2023, the Cabinet Secretary for Education and Skills announced that reform of Education Scotland and the establishment of new organisations would be delayed until 2025. This constitutes a non-adjusting post balance sheet event under International Accounting Standard (IAS) 10.</p>	<p>Management have included the relevant disclosure in a note to the accounts and in the Annual Governance Statement. All references to the reform have also been updated in the audited annual report and accounts.</p>

Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

22. 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 we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Significant risks of material misstatement in the annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of management override of controls</p> <p>As stated in International Standard on Auditing (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 and post-closing entries and focus on significant risk areas.</p> <p>Evaluated significant transactions outside the normal course of business.</p> <p>Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</p>	<p>Results: Work undertaken included detailed testing of journal entries, accruals, prepayments and invoices; as well as review of 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>Conclusion: No incidents of management override of controls were identified.</p>

23. In addition, we identified "areas of audit focus" in our 2022/23 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. These areas of specific audit focus were:

- **Value Added Tax provision:** We reviewed the disclosure of the £917k VAT provision and are content that the transaction has been accounted for correctly. The original capital provision was created and offset against

intangible asset additions and has been written back as the costs did not crystallise.

- **Dilapidation provision:** We reviewed the methodology for calculating this provision and the corresponding accounting entries for provisions. We are content that the treatment is correct.
- **Intangible assets:** See issue 5 in [Exhibit 2](#).
- **IFRS 16 – Leases:** See issue 2 in [Exhibit 2](#).
- **Operational assets with nil value:** See issue 4 in [Exhibit 2](#).

24. We kept these areas under review throughout our audit. Based on the findings of the audit procedures performed, there are no matters which we need to bring to your attention.

There was one non-material misstatement identified within the financial statements

25. Other than the corrected non-material misstatement detailed as a significant finding in [Exhibit 2](#), our audit identified no misstatements above our reporting threshold.

26. Our audit identified several presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual report and accounts. This is normal audit practice and none of the presentational changes have any impact on the agency's outturn for the year.

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

27. We received the unaudited annual report and accounts on 5 May 2023 in line with the agreed audit timetable. The annual report and accounts submitted for audit were of a reasonable standard as were supporting working papers. Finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly. MyCSP is the agency which administers the Civil Service pension schemes. There was significant delay in MyCSP providing the agency with pension information for inclusion in remuneration and staff report. This information was received on 19 June 2023.

Reasonable progress was made on prior year recommendations

28. The agency has made reasonable progress in implementing the audit recommendations identified by the previous audit team. For actions not yet implemented, 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 budget in 2022/23.

Unused ring-fenced non-cash budget of £1 million impacted on the overall 2022/23 outturn and a delay in moving to new premises meant a further £1.5 million underspend in year

The agency has effective financial reporting and budget monitoring arrangements in place to secure sound financial management.

There has been appropriate scrutiny and oversight of the digital transformation programme.

High level systems of internal control operated effectively during 2022/23.

Education Scotland operated within its revised budget in 2022/23

29. Education Scotland, as an executive agency of the Scottish Government (SG), receives most of its funding directly from the SG. Its main financial objective is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

30. The initial budget, £28.734 million, was set out in the SG 2022/23 budget published in January 2022. The agency received additional budget transfers, totalling £17.742 million during the year, resulting in a final budget for 2022/23 of £46.476 million. The significant budget transfers were:

- £6.1 million for Glow - Scotland's online learning and training platform. This includes funding for permanent and temporary staff who support the work on Glow together with the costs associated with the contract.
- £1.8 million to fund the National e-Learning Offer – this complements the online learning being provided by schools, local authorities and Regional Improvement Collaboratives across Scotland.

31. At its March 2023 meeting, management provided the Audit and Risk Committee with a budget monitoring update as at 31 January 2023. A forecast year end underspend of £0.110 million was reported against the Resource

Departmental Expenditure Limit (RDEL). Education Scotland has reported an actual outturn of £42.521 million, a net underspend of £3.955 million. The main movements between the forecast and actual outturn were:

- The 2022-23 non-cash budget to cover depreciation and impairment charges for two workstreams was not required. These will start amortising in 2023-24.
- The lease for Endeavour House ended on 2 March 2023 but the move into new accommodation has been delayed and therefore the new lease could not be accounted for in 2022-23. This led to an underspend of capital expenditure on Right of Use Assets.

32. The agency's financial performance against its budget is set out at [exhibit 4](#).

Exhibit 4

Performance against budget in 2022/23

Performance	Initial budget £m	Final budget £m	Outturn £m	Over (under) spend £m
Resource budgets	28.734	43.545	41.792	(1.753)
Capital budget	0	2.931	0.729	(2.202)
Total budget	28.734	46.476	42.521	(3.955)

Source: Education Scotland audited 2022/23 annual report and accounts

Capital expenditure was underspent against budget in 2022/23

33. In 2022-23 £1.4 million of capital budget was allocated to the organisational transformation project. During the year, HMRC ruled that Education Scotland has been treating the VAT on this project correctly and the provision created to cover the potential VAT liability was not required. £0.917m was therefore written back and some of this budget was utilised.

34. 2022-23 was also the first year of implementation of IFRS 16 (Leases) and £1.5 million of capital budget was requested to cover the capitalised future lease payments for a new lease in Compass House and the final dilapidation costs. However, the underspend in relation to the move from Endeavour House noted above contributed to the overall capital underspend of £2.2 million.

The agency has effective financial reporting and budget monitoring arrangements in place to secure sound financial management

35. 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.

36. The agency 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.

37. From our review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach, we did not identify any 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.

There has been appropriate scrutiny and oversight of the digital transformation programme

38. In 2020/21 Education Scotland began its digital transformation programme. This aimed to update the business processes and supporting technical platforms in use across the organisation to ensure the agency is better placed to support Scotland's teachers and their support of learners.

39. The programme's business case defined the needs of the organisation, and set out a clear vision for the programme, its objectives, and the benefits this would bring to Scotland's educators, learners, other users and for the agency itself. The programme covered four main products:

- Customer Records Management (CRM) system - this has been released for use across multiple areas of the organisation and is under a programme of ongoing development.
- Catalogue of professional learning resources – this is now live.
- Digital tool for event management – work is partially complete.
- Web channels – new website was developed and part of this was completed in March 2023. The corporate website element went live in April 2023, however, there is still some ongoing development work.

40. Education Scotland has put in place an appropriate level of governance and oversight of the project. In 2020/21, the agency established a Digital Transformation Programme Board to drive the programme forward and to ensure outcomes and benefits are delivered. The Board membership included representation from the Strategic Leadership team and a non-executive board member. The Board met regularly until September 2022 when the Transformation Programme ended, and the Board disbanded.

41. In our 2021/22 Annual Audit Report, we recommended that following completion of the programme, it would be beneficial for Education Scotland to undertake a post programme review to identify areas of strength and to reflect on lessons learned to drive continuous improvement. This review was completed in August 2022. It concluded that the programme has delivered an excellent foundation to progress from with learning to take into the next programme. All of the aims listed in the business case were achieved or partially achieved.

42. There were also several recommendations to take forward from the review, particularly around the transformation methodology, managing organisation-wide communication, and building more technical and delivery skills.

Internal audit provided a substantial level of assurance over Education Scotland’s risk management, control, and governance arrangements in place during 2022/23

43. Internal audit provides the Accountable Officer, the Advisory Board and Audit and Risk Committee with independent assurance on the adequacy and effectiveness of the systems of governance, controls and financial management. The internal audit function is carried out by the Scottish Government Internal Audit Division (SGIAD). We did not plan to place any specific reliance on the work of internal audit for the purposes of the audit of the annual report and accounts.

44. Public Sector Internal Audit Standards (PSIAS) are mandatory for all central government departments, agencies and executive NDPBs. The standards require the “chief audit executive” to provide an annual internal audit opinion and report that can be used to inform the annual governance statement.

45. The opinion provided by internal audit is that of “substantial assurance.” SGIAD define reasonable assurance as: “Risk, governance and control procedures are effective in supporting the delivery of any related objectives. Any exposure to potential weakness is low and the materiality of any consequent risk is negligible.” In its annual report, internal audit commented positively on several areas, including the effectiveness of the Audit and Risk Committee.

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

46. 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.

47. The agency has adequate arrangements in place to prevent and detect fraud or other irregularities.

National Fraud Initiative

48. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud.

49. Education Scotland also participates in National Fraud Initiative (NFI) through the SG Payroll and Financial Services Division. 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. The NFI 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.

50. As the SG 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 SG has not advised the agency of any matches in relation to the NFI exercise.

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.

Conclusion

Education Scotland's core budget for 2023/24 remains at 2022/23 level, which is a reduction in real terms. Ongoing engagement with the Scottish Government will be required to address known financial pressures.

The Scottish Government's education reform proposals will impact on the agency's workforce and financial planning.

A corporate finance strategy 2023-24 is in place.

Education Scotland's core budget for 2023/24 remains at 2022/23 level, which is a reduction in real terms. Ongoing engagement with the Scottish Government will be required to address known financial pressures.

51. The Scottish Government's 2023/24 budget confirms that the Education Scotland's core budget will remain at £28.734 million, the same 'flat cash' level as 2022/23. This does not take account of salary increases and inflation which will have a significant impact on the overall budget. The salary increase for 2022-23 was 5%.

52. 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. This funding model makes short-term budget planning and monitoring challenging for the agency. Effective budget monitoring arrangements, together with ongoing dialogue with the Scottish Government, will be key in ensuring the agency delivers its strategic priorities within its allocated budget in 2023/24.

The Scottish Government's education reform plans have impacted the agency's workforce and financial planning

53. As reported in our 2021/22 Annual Audit Report, the Cabinet Secretary has 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. The timeline for this reform is for the new organisations to be operational by 2025.

54. Education Scotland has a workforce plan in place which is linked to its other corporate strategies and budget. The key objective of these plans is to ensure successful delivery of the agency's strategic priorities in its Corporate Plan. The Corporate Plan was updated following the announcement of the education reform agenda to include a new strategic priority (SP). The Corporate Plan 2022-24 includes SP 7:

- Outcome: We successfully transition to two new organisations and our staff feel engaged and supported.
- Objective: To establish two new organisations with a fit for purpose vision, mission, purpose and aims and a staffing structure to deliver the new remits.

55. During May 2023, the agency ran Connect with Colleagues sessions to ensure communication and engagement with staff in relation to strategic priorities and transition to the new organisation. This is with a view to gathering information and publishing an updated Corporate Plan in August 2023.

A corporate finance strategy 2023-24 is in place

56. The agency's finance strategy does not go beyond 2023-24 as the new organisations are expected to be established in 2024. Likewise, during 2021/22 the agency developed a medium-term financial plan covering up to the 2026/27 financial year. However, this will not be updated due to the reform timeline.

57. It is recognised that the ongoing uncertainty caused by the reform makes meaningful longer-term planning more challenging. The current functions of Education Scotland will continue but these will sit within the two new proposed organisations. The budgets set out in its medium-term financial plan will provide a basis on which the successor organisations can build from.

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

Education Scotland play a key role in the education reform programme. Strategic priorities within the corporate plan have been updated accordingly.

Effective governance and decision-making arrangements are in place.

Arrangements to consider performance against climate change targets are in place and cyber security arrangements are adequate

58. [Exhibit 5](#) sets out the wider scope risks relating to vision, leadership and governance we identified in our 2022/23 audit. It summarises the audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Our audit work has addressed the wider scope risks identified in our Annual Audit Plan

Exhibit 5

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p>Education reform – impact on Education Scotland</p> <p>An extensive education reform programme is underway in Scotland. As part of this reform, three new national education bodies will be created, replacing Education Scotland and the Scottish Qualifications Authority: a qualifications</p>	<p>Liaise with management and review the agency's preparations for the transfer of services and people to the new bodies</p> <p>Review the Performance Report in the annual report and accounts to ensure appropriate disclosure is made.</p>	<p>Results: Work undertaken included enquiries of management, review of key documentation including the updated corporate plan, Leadership and Change Team papers, consideration of internal audit's review of change and reform.</p> <p>The Performance Report in the annual report and</p>

Audit risk	Assurance procedure	Results and conclusions
<p>body, a national agency for Scottish education, and an independent inspectorate body.</p> <p>The new bodies are due to be in place in 2024 but there is still significant uncertainty about the new arrangements. Education Scotland has to manage business as usual while implementing the changes arising from the Scottish Government's education reform programme.</p> <p>Risk: There is a risk that key talent cannot be recruited or retained, that staff morale is impacted, and Education Scotland's business performance is detrimentally affected during the transition period</p>		<p>accounts contains appropriate disclosures in relation to education reform. This includes the Cabinet Secretary announcement on 22 June 2023 that the establishment of new organisations would be delayed until 2025.</p> <p>Conclusion: The agency have considered the impact of reform and are prepared to address the risks involved.</p>

Education Scotland play a key role in the education reform programme. Strategic priorities within the corporate plan have been updated accordingly

59. Education Scotland have maintained ongoing engagement with the Scottish Government, the SQA and other key stakeholders throughout the reform process. Two teams, including SG colleagues, were created to map current functions to other areas across the education system, as well as produce draft Target Operating Models (TOMs) for the new organisations.

60. In November 2022, an additional Strategic Priority was added to the agency's Corporate Plan to focus specifically on the reform agenda and the work to be undertaken in support of the SG and stakeholders. This adds to the six strategic priorities that are aligned to the National Improvement Framework and wider Scottish Government policy priorities:

- System Leadership
- Curriculum
- Learning, Teaching and Assessment
- Inclusion, Wellbeing, Equity and Equalities
- Best use of Evidence

- Culture, Values and Behaviour.

61. It was also appropriate to reduce the timeframe for delivery to focus on what can be achieved by 2024, at which point the new agency and inspection body were due to become fully operational. This has now been delayed until 2025.

Internal audit provided substantial assurance over the change and reform programme

62. Internal audit's review, issued in May 2023, reported that Education Scotland is doing everything it can reasonably be expected to do to support the Education Reform programme, whilst maintaining business as usual activities. This included confirmation of good practice in the following areas:

- Governance arrangements
- Staff management
- Change management
- Relationship management.

Good practice

Education Scotland has continued to support the education reform programme. This has included the continued operation of a Change Team and a proactive and effective staff engagement strategy.

63. Education Scotland should continue to work closely and flexibly with the Scottish Government and other partners as the reform changes are implemented. The needs of its staff, together with learners and educators, should remain its priority throughout this period of transition.

Effective governance and decision-making arrangements are in place

64. The agency's governance arrangements have been set out in the Governance Statement in the annual accounts. We have reviewed these arrangements and concluded that they are appropriate and effective.

65. Our review of the governance arrangements of an organisation 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.

66. In recent years we have reported consistently that the agency benefits from strong leadership. For 2022/23 we have concluded that effective governance arrangements remain in place, including the transparency in which the agency conducts its business.

Arrangements to consider performance against climate change targets are in place

67. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. 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.

68. In 2022/23, the agency has continued to work towards the target of net zero by 2045 and targets are set out in their 2022/23 sustainability report. Performance against targets is also summarised in the annual report and accounts. This confirms that during 2022/23 Education Scotland has exceeded the target for 2022-23, meeting the emissions reduction target for 2027.

69. Education Scotland must report to Scottish Ministers on climate change annually. Within the most recent report (2021/22), they identified a number of areas where climate change feeds into their plans and strategies. The agency's Health, Sustainability and Welfare policy and committee, which considered the impact on natural environment, has been superseded by the Health and Safety Committee. A new Sustainability Group has been formed which is supported by two of the Agency's Strategic Directors and comprises a broad range of staff from across the organisation.

70. The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

Cyber security arrangements are adequate

71. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we considered Education Scotland's arrangements for managing and mitigating cyber security risks.

72. Arrangements for maintaining the integrity and security of data within networks used by the agency is considered to be adequate. The agency do not control end user devices or network devices. Education Scotland has a shared service agreement in place with iTECS within Scottish Government for the provision of a Shared IT service. This includes device management and end point security / patch management under a Terms of Supply formal agreement. Devices that access the Glow environment are not owned or

managed by Education Scotland. The shared Scottish Government SCOTS system obtained Cyber Essentials Plus accreditation in December 2022.

73. The agency has a Cyber Incident Response Plan in place, which has been successfully tested by the Scottish Business Resilience Centre, most recently in November 2022. Overall, we found cyber security arrangements to be adequate.

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.

Conclusions

The agency should further develop its approach to demonstrating Best Value.

The updated Corporate Plan sets out priority areas for the coming years and reporting of KPIs will provide more meaningful analysis going forward if data continues to be collected consistently.

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

74. [Exhibit 6](#) sets out the wider scope risks relating to the Use of Resources to Improve Outcomes we identified in our 2022/23 audit. It summarises the audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 6

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Audit Response	Conclusion
<p>Performance reporting</p> <p>The agency has developed a set of corporate Key Performance Indicators (KPIs) which are reported to the Advisory Board on a quarterly basis.</p> <p>Some relevant KPIs do not have an assigned target; data gathering on each of the KPIs could be improved and the performance report enhanced so that a meaningful, transparent assessment of</p>	<p>Consider and assess management's review of the KPIs.</p> <p>Review the Performance Report in the annual report and accounts to ensure it is clear, balanced and understandable.</p>	<p>Results: 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. Consideration was also given to targets. While the KPIs allow monitoring of performance, for some it is not possible to identify targets. This is due to the fact that, in some instances, work is influenced by factors</p>

Audit risk	Audit Response	Conclusion
<p>performance can be made by stakeholders over time.</p> <p>Risk: There is a risk that the agency is not able to monitor progress against its key objectives and is not transparent in reporting its performance.</p>		<p>outwith the agency's control. It was also noted that the reform process has moved forward considerably and the agency have had to increasingly focus on work to support the transition. Given that Education Scotland was due to be replaced from August 2024, they did not feel it appropriate to develop new targets. This has now been delayed until 2025. However, the ability to use existing data to inform benchmarking from the outset of the new organisations will be important and KPIs in the Performance Report have been structured around the Strategic Priorities.</p> <p>Conclusion:</p> <p>See Appendix 1, recommendation 5.</p>

The agency should further develop its approach to demonstrating Best Value

75. [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.

76. We consider whether Accountable Officers have put in place appropriate arrangements to satisfy their corresponding duty of best value. We may also, in conjunction with Education Scotland, agree to undertake local work in this area. We did not undertake any specific work in 2022/23, however we confirmed that Education Scotland does not have a formally agreed document that details the arrangements in place to support the best value characteristics.

77. The best value process could be further enhanced by producing a document that is updated annually detailing the arrangements that support the characteristics. The annual update should be presented and approved by the Board or appropriate committee.

Recommendation 4

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.

The inspections programme has recommenced

78. Following the pause of the inspection programme throughout the Covid-19 pandemic, inspections restarted in August 2022. Inspections are therefore yet to return to pre-pandemic levels in some areas.

The updated Corporate Plan sets out priority areas for the coming years and reporting of KPIs will provide more meaningful analysis going forward if data continues to be collected consistently

79. 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. Data gathering and reporting of many of these have been impacted by the pandemic. The agency's Oversight Board is tasked with overseeing progress against the updated Corporate Plan.

80. As stated at [exhibit 6](#), 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. Given that Education Scotland was due to be replaced from August 2024 (now delayed until 2025), they did not feel it appropriate to develop new targets.

81. The ability to use existing data to inform benchmarking from the outset of the new organisations will be important. KPIs in the Performance Report have been structured around the Strategic Priorities and the agency should continue to capture this data during the transitional period targets and trends can be developed.

Recommendation 5

Management should continue to capture performance data during the transition to new organisations to facilitate appropriate benchmarking aligned to its strategic priorities.

82. Overall, arrangements to ensure resources are deployed to improve strategic outcomes and for reporting performance against outcomes are adequate.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. IFRS 16 - Leases</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>Exhibit 2</p>	<p>The reasonableness of using cost as a proxy for fair value will be considered annually, with particular focus on those years where there is a scheduled rent review.</p> <p>Head of Finance 31 March 2024</p>
<p>2. Lease agreement for Denholm House</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 finalised and signed by all parties.</p>	<p>Management should seek confirmation of the signed lease as a matter of urgency from the primary lease holder.</p> <p>Exhibit 2</p>	<p>This is currently being chased up.</p> <p>Head of Finance 30 June 2023</p>

Issue/risk	Recommendation	Agreed management action/timing
<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>3. Operational assets with nil value</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>Exhibit 2</p>	<p>There is now additional support in the finance team and this will be reviewed on a regular basis going forward.</p> <p>Head of Finance</p> <p>31 March 2024</p>
<p>4. Best Value framework</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>Paragraph 77</p>	<p>Education Scotland will produce a report for 2023-24 detailing how it meets the best value characteristics set out in the SPFM. Thereafter this work will feed into best value arrangements for the new organisations.</p> <p>Head of Governance</p> <p>31 December 2024</p>
<p>5. Key Performance Indicators</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</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>Education Scotland will continue to keep KPIs under review and continue to capture performance data during the transition to the new organisations to facilitate appropriate benchmarking from the outset.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>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>Paragraph 81</p>	<p>Strategic Director Corporate Service</p> <p>31 December 2024</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>b/f 1. Performance report</p> <p>The performance report complies with guidance but could be further improved to provide a more user-friendly exposition of the agency's performance.</p> <p>Risk: Stakeholders are unable to easily understand the agency's performance.</p>	<p>The agency should consider reviewing the presentation of information in the performance report for future years.</p>	<p>Complete</p> <p>Our review of the 2022/23 performance report confirms that this has been completed. The overall presentation has been reviewed to streamline the report and infographics are included to enhance readability.</p>
<p>b/f 2. Digital transformation programme – accounting treatment</p> <p>The digital transformation programme is accounted for as one asset under development in the annual report and accounts. However, there are various projects within this, some of which became operational in 2021/22.</p>	<p>Management should undertake a review of the capitalised costs of the total programme and assign these to distinct projects. This will allow amortisation to be charged once each project becomes operational.</p>	<p>Complete</p> <p>Our review of the 2022/23 financial statements confirms that this has been completed.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Risk: If the costs associated with each project are not appropriately recorded and apportioned there is a risk that the asset register is not accurate and future accounts could be materially misstated.</p>		
<p>b/f 3. Fixed asset register – fully depreciated assets</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>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.</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>Ongoing: The assets not in use, although disposed of, still appear on the asset register, These will automatically be deleted in 23/24.</p>
<p>b/f 4. Digital transformation programme – post programme review</p> <p>Following the completion of the digital transformation programme, it will be beneficial for Education Scotland to undertake a post programme review to identify areas of strength and to reflect on any lessons learned to drive continuous improvement. This review should also assess whether the intended objectives of the programme have been met.</p> <p>Risk: The programme has not met its intended objectives and fails to contribute to the agency's strategic priorities.</p>	<p>Education Scotland should undertake a post programme review to identify areas of strength and to reflect on any lessons learned. This review should also assess whether the intended objectives of the programme have been met.</p>	<p>Complete</p> <p>This review was completed in August 2022. It concluded that the programme has delivered an excellent foundation to progress from with learning to take into the next programme. All of the aims listed in the business case were achieved or partially achieved.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>b/f 5. Key performance Indicators</p> <p>Further refinement of the Key Performance Indicators (KPIs) is required. Data gathering on each of the KPIs needs to be improved so that a meaningful, transparent assessment of performance can be made by stakeholders.</p> <p>The presentation of the KPIs in the annual report and accounts could be enhanced using clear infographics that show whether targets assigned to the strategic priorities have been met, and whether performance is improving or deteriorating over time.</p> <p>Risk: The agency is not able to monitor and demonstrate progress against its strategic priorities.</p>	<p>Management should establish consistent data gathering processes for each KPI so that meaningful analysis can be undertaken on their progress. This should include relevant KPIs being assigned a target to allow for an assessment of the agency's performance by stakeholders over time.</p>	<p>Ongoing: Year on year information has been provided in the report for the KPIs where this information is available. The Corporate Plan and KPIs were reviewed in the last year in light of the developments around reform. As part of this some KPIs were removed or adapted and new ones added in. Year on year information will be provided for the new KPIs in next year's Annual Report and Accounts Performance on blank cells. While KPIs focus on key areas of the business and these are tracked to monitor performance in these areas, it is not possible to identify targets for every KPI. This is due to the fact that, in some instances, these areas of work are influenced by factors outwith the agency's control (see recommendation 5).</p>
<p>b/f 6. Grant debtors</p> <p>There were a number of issues with the year-end accounting treatment of grant debtors that resulted in adjustments to the annual report and accounts.</p> <p>Risk: There is a risk that year end trade receivables balance is misstated in the annual report and accounts.</p>	<p>In the absence of the final grant schedules being received, management should consider providing an estimate based on the latest information available from the grantee. This would limit any significant adjustments the annual report and accounts.</p>	<p>Closed</p> <p>The grant managers and the business partners have agreed that they should focus their efforts on the larger amounts and provide this information for the draft accounts. This will ensure minimal and not material changes to the audited accounts.</p>
<p>b/f 7. Historic payables balance</p> <p>Our review of the aged creditors report at 31 March 2018 identified that this included 17 balances totalling</p>	<p>These balances are still included in the system. Management have raised this issue with the systems provider.</p>	<p>Ongoing: 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.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>£0.053 million that date back to 2012.</p> <p>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.</p>		

Education Scotland

2022/23 Annual Audit Report

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility



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