

Food Standards Scotland

2017/18 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Food Standards Scotland and the Auditor General for Scotland
August 2018

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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Key messages

2017/18 annual report and accounts

- 1 In our opinion the financial statements of Food Standards Scotland give a true and fair view of the financial position and its expenditure and income; the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance; and the other information in the annual report and accounts was consistent with the financial statements and prepared in accordance with legal requirements.

Financial management

- 2 We concluded that Food Standards Scotland has effective arrangements in place for financial management.
- 3 Systems of internal control operated effectively in 2017/18 with scope for improvements in some areas.

Financial sustainability

- 4 FSS has made good progress in developing its approach to financial planning and should continue work to complete longer-term financial plans which are closely linked to the objectives set out in its Strategic Plan.
- 5 There are no concerns about the overall financial position of Food Standards Scotland.
- 6 Food Standards Scotland have been very proactive in planning ahead for the potential impact of the withdrawal from the EU.

Governance and transparency

- 7 Effective governance arrangements are in place and Food Standards Scotland is open and transparent in the way it conducts its business.

Value for money

- 8 Food Standards Scotland has sound arrangements for monitoring and reporting performance against strategic outcomes with some scope for improvements in setting targets for agreed indicators.
- 9 There is a need to introduce a Workforce Strategy and Plan to ensure best use of the workforce and to inform future strategic planning.

Introduction

1. This report summarises the findings from our 2017/18 audit of Food Standards Scotland (FSS).

2. The scope of our audit was set out in our Annual Audit Plan presented to the February 2018 meeting of the Audit and Risk Committee. This report comprises the findings from:

- an audit of FSS's annual report and accounts
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: *Code of Audit Practice 2016*

3. The main elements of our audit work in 2017/18 have been:

- a review of FSS's main financial systems
- an audit of FSS's 2017/18 annual report and accounts including the issue of an independent auditor's report setting out our opinions
- consideration of the four audit dimensions.

4. FSS has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers. The FSS annual report and accounts includes the following:

- Performance Report
- Accountability Report (which includes the Corporate Governance Report, Remuneration and Staff Report and, Parliamentary and Accountability Report)
- Financial statements and supporting notes.

5. FSS is also responsible for establishing effective arrangements for governance, propriety and regularity that enable the Board to successfully deliver its objectives.

6. Our responsibilities as independent auditor are outlined in the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK.

7. As public sector auditors we give independent opinions on the annual report and accounts. We also review and provide conclusions on the effectiveness of the performance management arrangements, suitability and effectiveness of corporate governance arrangements, and the financial position and arrangements for securing financial sustainability. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

8. This report raises matters from the audit of the annual report and accounts and consideration of the audit dimensions. 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. Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

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 2017/18 audit fee of £40,630 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

11. Our aim is to add value to FSS by increasing insight into, and offering foresight on, financial sustainability, risk and performance, by identifying areas of improvement and by recommending and encouraging good practice. In so doing, we aim to help the Board promote improved standards of governance, better management and decision making and more effective use of resources.

12. This report is addressed to both FSS and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

13. We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2017/18 annual report and accounts



Main judgements

The financial statements of Food Standards Scotland give a true and fair view of its financial position as at 31 March 2018 and its expenditure and income for 2017/18.

The expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.

The other information in the annual report and accounts is consistent with the financial statements and prepared in accordance with legal requirements.

Audit opinions on the annual report and accounts

14. The annual report and accounts for the year ended 31 March 2018 will be presented to the Board of Food Standards Scotland (FSS) for approval on 22 August 2018. We reported within our independent auditor's report that in our opinion:

- the financial statements give a true and fair view and were properly prepared
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the performance report, governance statement and remuneration and staff report were all consistent with the financial statements and properly prepared in accordance with the accounts direction.

15. Additionally, we have nothing to report in respect of misstatements in the information presented with the financial statements, the adequacy of accounting records and the information and explanations we received.

Submission of annual report and accounts for audit

16. We received the unaudited financial statements on 22 June 2018 in line with our agreed audit timetable.

17. The working papers provided with the unaudited financial statements were well documented and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

Risk of material misstatement

18. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process. These risks had the greatest effect on the overall audit strategy, the allocation of staff resources to the

The annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

audit and directing the efforts of the audit team. Also included within the appendix are wider audit dimension risks, how we addressed these and conclusions.

Materiality

19. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

20. Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit. On receipt of the annual report and accounts we reviewed our materiality calculations and revised them accordingly. These are summarised in [Exhibit 2](#).

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality	£188,000
Performance materiality	£132,000
Reporting threshold	£2,000

Source: Audit Scotland

How we evaluate misstatements

21. It is our responsibility to request that all misstatements other than those below the reporting threshold are corrected. The final decision on this lies with those charged with governance considering advice from senior officers and materiality.

22. All individual misstatements which exceeded our reporting threshold have been amended in the audited financial statements. The total value of adjustments made to the unaudited accounts was £118,835. This resulted in both total comprehensive net expenditure and total net liabilities reducing by £118.835. The adjustments related to the non-accrual of official controls charging income (£6,610) and an overstatement of expenditure on marketing costs (£112,225).

Significant findings from the audit in accordance with ISA 260

23. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

Exhibit 3

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Charging income accounting treatment</p> <p>The calculation of the value of charging income receivable for official controls work does not take into account the exact amounts payable for the period up to 31 March. An adjustment has been made to the 2017/18 annual accounts to reflect the value for the charging income receivable. The net difference between the opening and closing accrual is £6,610.</p>	<p>An adjustment has been made to the 2017/18 annual accounts to reflect accrued official controls charging income. A year end accrual will be made for official controls income in future years.</p> <p> Recommendation 1 (refer appendix 1, action plan)</p>
<p>2. Pension disclosures in Remuneration Report</p> <p>The pension benefits of one member of the senior management team have not been disclosed in the Remuneration Report. This officer is seconded on a part time basis to Food Standards Scotland, with his payroll and pensions costs being funded by his permanent employer. The amounts to be disclosed for pension benefits could not be provided by his permanent employer.</p>	<p>A foot note has been added to the Pension Benefits table in the Remuneration Report explaining the arrangements for the officer's secondment and the unavailability of the value of pension benefits at 31 March 2018.</p> <p>An early request for pension information will be made for the 2018/19 annual accounts.</p> <p> Recommendation 2 (refer appendix 1, action plan)</p>

Source: Audit Scotland

Other findings

24. We identified some differences between the asset value disclosures in the annual accounts and the fixed asset register. These related to assets under construction for intangible assets. Although this had no impact on the figures in the Statement of Financial Position, this required a change in presentation to Note 7, Intangible Assets.

25. We also identified a number of minor presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited financial statements.

Follow up of prior year recommendations

26. We have followed up actions agreed in 2016/17 to assess progress with implementation. Good progress has been made against the three actions, with two being actioned as planned (creating a provision for future dilapidation costs and developing key performance indicators). The third action related to the introduction of longer term financial plans. While a comprehensive financial plan has now been agreed by the Board covering three years, further action is planned to develop this further to cover a longer-term period.

Part 2

Financial management



Main judgements

FSS effectively managed its finances in 2017/18.

Systems of internal control operated effectively in 2017/18 with scope for improvements in some areas.

Financial performance in 2017/18

27. The main financial objective for FSS is to ensure that the financial outturn for the year is within the budget allocated in the Budget Bill.

28. FSS has reported an outturn of £15.035 million and has remained within its overall resource budget for 2017/18 with an underspend of £0.159 million (0.01% of budget). The financial performance against Departmental Expenditure Limits (DEL) is shown in [Exhibit 4](#).

29. FSS are provided with an Annually Managed Expenditure (AME) budget to cover liabilities for the Local Government Pension Scheme (LGPS). For 2017/18 FSS was provided with an AME budget of £0.568m and reported an outturn of £0.610 million.

Exhibit 4

Performance against DEL in 2017/18

Performance	Final budget £m	Actual outturn £m	Overspend/ (underspend) £m
Resource DEL	15.0	14.8	(0.2)
Capital DEL	0.3	0.3	0
Total DEL	15.3	15.1	(0.2)

Source: FSS budget monitoring returns and Annual Report and Accounts

Budgetary processes

30. We reviewed FSS's budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports and committee papers we confirmed that senior management and members receive regular and up to date financial information on the financial position.

31. We concluded that FSS has strong budget monitoring and control arrangements that allow members and officers to carry out effective scrutiny of its finances.

Systems of internal control

32. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that FSS has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

33. Our audit findings were included in the management report presented to the Audit and Risk Committee on 20 June 2018. We concluded that the controls tested were operating effectively, with some scope for strengthening processes in a number of areas. Overall no significant internal control weaknesses were identified during the audit which could affect FSS's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Part 3

Financial sustainability



Main judgements

FSS has made good progress in developing its approach to financial planning and should continue work to complete longer-term financial plans which are closely linked to the objectives set out in its Strategic Plan.

There are no concerns about the overall financial position of FSS.

FSS have been very proactive in planning ahead for the potential impact of the withdrawal from the EU.

2017/18 financial position

34. The Statement of Financial Position summarises what is owned and owed by FSS. This shows taxpayers' equity – an accounting measurement of the amount invested that has continuing public benefit. It shows how much of this has arisen from the application of revenues and that which has resulted through changes over time in the value of physical assets.

35. The annual accounts show that FSS:

- has total net liabilities of £6.629 million, a decrease of £0.922 million from 2016/17 which is largely attributable to a reduction in the net pension liability due to an actuarial gain rather than a loss.
- the Principal Civil Service Pension Scheme (PCSPS) and the Local Government Pension Scheme (LGPS) remains in a deficit position with liabilities exceeding assets by £9.962 million. The corresponding balance in 2016/17 was £10.872 million with the reduction in the pension deficit relating to changes during the year in actuarial assumptions.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Financial budget 2018/19

36. FSS received its budget allocation from the Scottish Government (SG) via the 2018/19 Budget Bill. The resource budget allocation was £15.3 million. This is the same level of funding as 2017/18 and as such represents a real time reduction of around £0.2 million. It is expected that this can be addressed through in year efficiencies and a funding gap for 2018/19 is not expected. FSS have also been allocated £0.885 million of additional funding from the Scottish Government following a bidding process for additional funds relating to EU exit related expenditure.

37. FSS has taken the positive step of revising its basis for the allocation of budgets, moving away from the allocation of funding across service departments to core activities and its 3 change work programmes of Brexit, Diet and Nutrition and Regulatory Strategy. Approximately 70% of funding has been allocated across core activities with the remainder relating to the work programmes. In addition, the

2018/19 budget for core activities has been allocated across its six strategic outcomes, with 48% of funding being put to the key objective of Food is Safe.

38. FSS intend to review the priorities and resource allocations going forward, in particular in relation to the work connected to planning for the impact of the UK's exit from the EU. It is intended that future budget monitoring reports to the Board will report on actual spends against the budgets allocated to the work programmes and core activities. Such an approach enhances transparency in the use of resources and will help to demonstrate the impact of any future decisions on changes to priorities and funding allocations on the achievement of outcomes.

Medium to long term financial planning

39. We reviewed the financial planning systems and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.

40. FSS have made good progress in developing its financial strategy and have produced a financial plan covering a three year period. Along with direct financial pressures, the plan covers risks that may have an impact on FSS resources and how these need to be aligned to deliver organisational priorities. The financial plan will be reviewed bi-annually and updated accordingly for any changes identified.

41. FSS recognises that further work is required to introduce longer term financial plans which reflect sensitivity analysis and scenario planning to take into account, as far as possible, for those future developments which are likely to impact on future funding levels, policies and activity levels.



Recommendation 3

FSS should work to complete longer-term financial plans which reflect the likely financial impact of major developments affecting the organisation and ensure these reflect the six strategic outcomes included in its Strategic Plan.

Going Concern

42. Due to the net pension liability, the 2017/18 Statement of Financial Position shows a total net liability of £6.629 million (2016/17 £7.551 million). The Accountable Officer has considered the financial position at 31 March 2018 and deemed it appropriate to prepare the annual accounts on a going concern basis and we concur with this.

Ending of public sector pay cap

43. The end of the public sector pay cap will make it more challenging for FSS to operate within its allocated budget especially if future funding levels remain static. FSS took account of the implications of the end of the public sector pay gap in preparing its budget for 2018/19.

EU withdrawal

44. There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is essential that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
- Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.

- Regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.

45. Exiting the EU poses a considerable risk to FSS and is likely to significantly affect all areas of its activity. FSS's regulatory and operational delivery functions largely relates to EU law and approximately 260 pieces of EU legislation that relate to food standards will initially be reserved to the UK government. This is creating uncertainty over the role of FSS in the short-term (i.e. what does it mean for the work they currently do that relates to this legislation) and in the longer-term (i.e. what will any new legislation look like).

46. FSS has been very proactive in planning ahead for the withdrawal from the EU and have maintained close engagement with the Scottish and UK Governments. A specific Brexit Work Programme is in place which is one of the three key priority areas for FSS in 2018/19 alongside the delivery of core activities. Key tasks being taken forward include ensuring the continuity of legislation that is both applicable and acceptable to Scotland, reviewing the memoranda of understanding with other bodies and ensuring businesses understand any changes to their legal responsibilities. A risk register is maintained which covers specific Brexit associated risks. This is reviewed on a regular basis by the Audit and Risk Committee with frequent updates on Brexit being reported to the Board.

Part 4

Governance and transparency



Main judgements

FSS has effective governance arrangements in place.

FSS is open and transparent in the way it conducts its business.

Governance arrangements

47. The corporate governance framework within FSS is centred around the Board, which is supported in its role by the Audit and Risk Committee. The Board is responsible for providing strategic direction, oversight and governance.

48. The Audit and Risk Committee met 5 times in 2017/18. Agendas follow a standard format and papers are circulated to members in advance, allowing adequate time for members to review. From attendance at the Audit and Risk Committee, we are satisfied that members provide appropriate scrutiny and challenge of officers.

Transparency

49. Transparency means that the public have access to understandable, relevant and timely information about how FSS is taking decisions and how it is using resources such as money, people and assets.

50. FSS demonstrates many of the characteristics of openness and transparency including:

- Board meetings are open to the public and the minutes of these meetings are publicly available on the FSS website
- Details of Board members' Registers of Interest and Gifts and Hospitality are publicly available
- Performance in complaints handling are published on the FSS website
- A variety of performance reports are published on the FSS website including the quarterly incident reports covering the recall or withdrawal of food products and the audit reports from every approved meat establishment audit.

Internal audit

51. FSS's internal audit function is carried out by the Scottish Government's Internal Audit Directorate. Each year we consider whether we can rely on internal audit work to avoid duplication of effort. As reported in our 2017/18 Annual Audit Plan we were able to take assurance from the Internal Audit Follow Up Report on the Review of Charges for the Industry.

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.

52. Audit Scotland, as the external auditors of the Scottish Government also complete an annual review of the adequacy of the Scottish Government's Internal Audit Directorate. This review concluded that while the Scottish Government's Internal Audit Directorate meets some of the requirements of the Public Sector Internal Audit Standards (PSIAS), it did not comply with a number of significant aspects of the standards in areas such as audit planning and documentation, clearing audit findings and reports and management review.

53. It is important to note however that the review found no areas where the underlying evidence would suggest an incorrect audit opinion or conclusion.

Governance Statement

54. HM Treasury's Financial Reporting Manual (the FReM) states that FSS must prepare an annual governance statement within the annual report and accounts. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the governance statement and provides assurances around the achievement of the organisation's strategic objectives.

55. The SPFM does not prescribe a format for the annual governance statement but sets out minimum requirements for central government bodies. The process undertaken by FSS included conducting an assurance mapping exercise and working to an assurance plan that assessed the evidence underpinning the preparation of the governance statement.

56. We concluded that the 2017/18 governance statement complies with the guidance issued by the Scottish Ministers and, based on our knowledge and work performed, presents a comprehensive picture of governance arrangements and matters.

National Fraud Initiative

57. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

58. The FSS matching exercise is carried out on its behalf by the Scottish Government finance team. FSS have not been advised of any matches occurring.

Standards of conduct for prevention and detection of fraud and error

59. We have reviewed the arrangements in place to maintain standards of conduct including the Staff Handbook and Civil Service and Members' Codes of Conduct. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

60. Based on our review of the evidence we concluded that FSS has appropriate arrangements in place for the prevention and detection of bribery corruption. We are not aware of any specific issues that we need to bring to your attention.

Cyber security

61. The Scottish Government issued a Public Sector Action Plan on Cyber Resilience in November 2017. This requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate.

62. We concluded that FSS is actively strengthening its cyber resilience arrangements. FSS completed its Cyber Essentials pre-assessment by the required date of March 2018 and is working towards achieving full compliance with Cyber Essentials accreditation by the end of October 2018.

General Data Protection Regulation

63. The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998. GDPR sets out more requirements than the DPA and has introduced new and significantly changed data protection concepts.

64. GDPR introduces a wide range of new rights for individuals in respect of their personal data. These include the right to be forgotten, the right to object to certain processing activities and to decisions taken by automated processes. Failure to comply with new GDPR data handling arrangements could result in FSS incurring significant fines and reputational damage.

65. FSS has been proactive in planning for the implementation of GDPR and has developed an action plan for ensuring full compliance and to provide assurance to the Board and Senior Management Team.

Part 5

Value for money



Main judgements

FSS has sound arrangements for monitoring and reporting performance against strategic outcomes with some scope for improvements in setting targets for agreed indicators.

There is a need to introduce a Workforce Strategy and Plan to ensure best use of the workforce and to inform future strategic planning.

Performance management

66. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where such requirements are not specified we may, in conjunction with FSS agree to undertake local work in this area.

67. The first Strategy and Corporate Plan for FSS was agreed by the Board in June 2016. The Strategy covers the 5 years to 2021, with the Corporate Plan covering the three years to 2019. FSS's arrangements for managing performance require regular reports to the Board on the specific areas of financial management, performance against strategic outcomes and operational performance, as well as reports on key programmes of activity and initiatives. Overall the quality of these reports is of a high standard with detailed data being provided which should support member decisions and scrutiny.

68. An update of activities over the first two years of the Corporate Plan was last reported to the Board in March 2018. This describes the various programmes developed which are key activities in the delivery of its strategic outcomes as well as those areas of the Corporate Plan where work has either yet to start or behind planned schedule.

69. An important part of the performance management framework is the Outcomes Report. This is put to the Board every six months and shows trends in data under each of FSS's six strategic outcomes. The report is well structured in that it shows the link between Scottish Government's and FSS's target outcomes and explains what each outcome would look like at a local level. For example, the FSS objective of ensuring Food is Safe has been translated into outcome areas such as "Scottish consumers understand how to make sure the food they cook and eat won't do them any harm". Movements in each indicator since 2015/16 are shown against each outcome.

70. It is considered that the reporting of progress against each of FSS's agreed outcomes would be enhanced by measuring performance against set targets. Targets should be set for all relevant indicators which are realistic and reflect agreed priorities and available resources. Such targets would support continuous improvement and help inform the future prioritisation of resources. Plans are in place for the setting of such targets as part of the continued development of FSS's performance management framework.

Value for money is concerned with using resources effectively and continually improving services.



Recommendation 4

FSS should continue to develop performance targets in order to demonstrate continuous improvement against its key strategic outcomes.

People Management

71. We previously reported in our 2015/16 Annual Audit Report that FSS should produce an organisational-wide workforce plan which maps its current workforce against the organisation's resourcing requirements over the short, medium and long-term.

72. The plan should include scenario planning to help identify the potential impact of changes in available finances, skills required or demand for services and should be closely aligned to long-term financial plans. The workforce plan should be developed following consultation with staff and other stakeholders. This is of particular importance given the uncertainties surrounding the potential impact on the workforce of the withdrawal from the EU. There are additional pressures on workloads and staff capacity to continue core activities at the same time as preparing for any future changes to migration and trade policies which are likely to affect the availability of skilled and unskilled labour.

73. Some progress has been made in the short term with quarterly meetings between HR and Branch Heads to discuss staffing issues, organisation charts, future staffing and training requirements. An organisation-wide workforce plan is still in the development stage and will be included in the People Strategy which is due to be completed in 2018/19.



Recommendation 5

FSS should produce an organisational-wide workforce plan which maps its current workforce against the organisation's resourcing requirements over the short, medium and long-term.

National performance audit reports

74. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. The reports published in 2017/18 are outlined in [Appendix 3](#).

75. FSS should consider putting arrangements in place for reviewing national performance reports against local arrangements and processes.

Recommendation 6

FSS should formally consider the findings of relevant Audit Scotland national performance reports and compare against local arrangements to take into account good practice examples or recommendations for improvement in practices.

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement

No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Charging income accounting treatment</p> <p>It is not current practice for FSS to reflect the value of official controls charging income receivable at the year in the annual accounts. An adjustment has been to the 2017/18 annual accounts to reflect the value for the charging income receivable. The net difference between the opening and closing accrual is £6,610.</p> <p>Risk</p> <p>There is the risk that the operating income disclosed in the Statement of Comprehensive Net Expenditure does not accurately reflect the income relating to 2017/18.</p>	<p>FSS should account for their official controls charging income receivable at the year end on an accruals basis.</p> <p>Paragraph 23</p>	<p>FSS accepts this recommendation and if relevant will include an accrual for charging income in future accounts.</p> <p>Osa Udoh (Financial Accountant)</p> <p>August 2018</p>
2	<p>Pension disclosures in Remuneration Report</p> <p>The pension benefits of one member of the senior management team have not been disclosed in the Remuneration Report. This officer is seconded on a part time basis to Food Standards Scotland, with his payroll and pensions costs being funded by his permanent employer. The amounts to be disclosed for pension benefits could not be provided by his permanent employer.</p> <p>Risk</p> <p>The Remuneration Report does not disclose the full</p>	<p>An early request for pension information should be made for the 2018/19 annual accounts.</p> <p>Paragraph 23</p>	<p>FSS accept this recommendation and will seek to work with the University to present the pension disclosures fully.</p> <p>Garry Mournian (Head of Corporate Services)</p> <p>December 2018</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	pension benefits of all relevant employees.		
3	<p>Long term financial plan</p> <p>A financial plan covering three years was introduced for the first time during 2017/18. While this is a positive step in financial planning, strategic planning processes would be better supported by the development of financial plans covering a longer term.</p> <p>Risk</p> <p>Longer term strategic planning is not informed by corresponding financial projections and assumptions.</p>	<p>FSS should work to complete longer-term financial plans which measure the likely financial impact of major developments affecting the organisation and ensure these reflect the six strategic outcomes included in its Strategic Plan</p> <p>Paragraph 41</p>	<p>FSS accepts this recommendation with the caveat that it remains difficult to develop longer-term plans due to the continuation of one-year financial settlements from SG. We will however continue to develop our financial management plan based on best-practice and through considering other major developments that may impact the organisation and its ability to deliver its strategic outcomes in line with available budget.</p> <p>Garry Mournian (Head of Corporate Services)</p> <p>September 2018</p>
4	<p>Performance targets</p> <p>While indicators have been agreed to measure progress against each of FSS's agreed outcomes, performance targets have yet to be fully developed.</p> <p>Risk</p> <p>There is a risk that progress in achieving FSS's strategic outcomes is not effectively monitored and continuous improvement cannot be demonstrated.</p>	<p>To support continuous improvement, FSS should continue to develop performance targets for their relevant local outcomes.</p> <p>Paragraph 70</p>	<p>FSS accept the recommendation and are already considering further development of our key performance indicators and consideration of appropriate targets, which will now need to reflect the new National Performance Framework.</p> <p>Garry Mournian (Head of Corporate Services)</p> <p>March 2019</p>
5	<p>People management</p> <p>Although development work has started, FSS does not yet have a formal workforce plan in place.</p> <p>Risk</p> <p>Without an effective organisation-wide workforce plan, it is not possible to ensure a fully integrated approach to strategic planning. There is a risk that workforce decisions may be uncoordinated leading to decisions in one area having</p>	<p>FSS should produce an organisational-wide workforce plan which maps its current workforce against the organisation's resourcing requirements over the short, medium and long-term. The plan should include scenario planning to help identify the potential impact of changes in available finances, skills required or demand for services and should be closely aligned to long-term financial plans.</p>	<p>FSS accept the recommendation and we are already working on developing a workforce plan as part of our wider people strategy. We have noted the requirements and will ensure these are considered throughout its development.</p> <p>Jennifer England (HR Manager)</p> <p>March 2019</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	unintended consequences in another.	Paragraph 73	
6	<p>Review of national performance reports</p> <p>It is not current practice for the findings of those Audit Scotland national performance reports of relevance to FSS to be formally considered by members and compared against local arrangements.</p> <p>Risk</p> <p>FSS arrangements do not consider the good practice or recommendations for improvement highlighted by Audit Scotland's national performance reports.</p>	<p>FSS should formally consider the findings of relevant Audit Scotland national performance reports and compare against local arrangements to reflect good practice examples or recommendations for improvement in practices.</p> <p>Paragraph 75</p>	<p>FSS accept the recommendation and will formally consider all relevant National Performance Reports in the light of FSS's arrangements.</p> <p>Garry Mournian (Head of Corporate Services)</p> <p>September 2018</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the financial statements and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 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>Reviewed the appropriateness of journal entries and other adjustments recorded in the general ledger and financial statements.</p> <p>Reviewed accounting estimates for biases.</p> <p>Evaluated significant transactions that are outside the normal course of business.</p> <p>Focussed testing of the regularity and cut-off assertions during the financial statements audit.</p>	<p>We concluded from our audit testing that all 2017/18 journal entries, accounting estimates and judgements, and significant transactions that we reviewed were appropriate.</p>
<p>2 Fraud over income and expenditure</p> <p>ISA 240 requires audit work to consider the risk in any audit of fraud over income and expenditure.</p> <p>Food Standards Scotland receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud.</p> <p>The risk of fraud over expenditure also exists in FSS due to the variety and extent of expenditure incurred in carrying out its functions.</p>	<p>Analytical procedures on income and expenditure streams.</p> <p>Detailed testing of revenue and expenditure transactions.</p>	<p>We confirmed through audit testing that revenue and expenditure had been recognised appropriately in the financial statements.</p>

Audit Risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>4 Withdrawal from the EU</p> <p>The withdrawal of the United Kingdom from the EU is likely to have a significant impact on the operation of FSS.</p> <p>Planning for the withdrawal from the EU is likely to place additional pressures on services and pose a risk to staff capacity and the continued provision of FSS services.</p>	<p>We reviewed the action FSS has taken to plan for and mitigate the risks of withdrawal from the EU.</p>	<p>FSS are effectively planning for the potential impact on its activities of the withdrawal of the UK from the EU. Specific work programmes have been created covering the key areas of potential change and sound risk management arrangements introduced.</p>
<p>5 Information and cyber security</p> <p>In the past year public sector organisations in Scotland were subject to an increasing number of cyber-attacks. Successful cyber-attacks can result in significant disruptions to operations, loss of data and reputational damage.</p> <p>In addition, the new General Data Protection Regulation (GDPR) become effective from 25 May 2018 and is more extensive in scope than the current requirements of the Data Protection Act. Non compliance with the GDPR may result in financial penalties.</p>	<p>We reviewed FSS's arrangements in relation to the cyber security.</p> <p>Monitored and assessed FSS's preparedness for complying with the requirements of the new General Data Protection Regulation.</p>	<p>FSS has been proactive in planning for the implementation of GDPR and is making good progress towards achieving Cyber Essentials certification by October 2018.</p>

Appendix 3

Summary of national performance reports 2017/18



		Apr	
		May	
Common Agricultural Policy Futures programme: further update		Jun	 Scotland's colleges 2017
		Jul	 NHS workforce planning
Self-directed support: 2017 progress report		Aug	
Equal pay in Scottish councils		Sept	
Transport Scotland's ferry services		Oct	 NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov	
		Dec	
		Jan	
Early learning and childcare		Feb	
Managing the implementation of the Scotland Acts		Mar	

Food Standards Scotland

2017/18 Annual Audit Report

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