

# Food Standards Scotland

2020/21 Annual Audit Report



Prepared for Food Standards Scotland and the Auditor General for Scotland

November 2021

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# Contents

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Key messages	3
Introduction	4
1. Audit of 2020/21 annual report and accounts	7
2. Financial management	11
3. Financial sustainability	14
4. Governance and transparency	16
5. Value for money	18
Appendix 1. Action plan 2020/21	20
Appendix 2. Significant audit risks	26
Appendix 3. Summary of uncorrected misstatements	28
Appendix 4. Summary of 2020/21 national performance reports	29

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# Key messages

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## 2020/21 annual report and accounts

- 1 Our audit opinions on the annual accounts are unmodified.
- 2 The original timetable agreed for the preparation and audit of the annual report and accounts was revised due to the impact of Covid-19.

## Financial management and sustainability

- 3 Appropriate and effective financial management arrangements are in place, with Food Standards Scotland reporting an underspend of £1.7 million which is within its revised Departmental Expenditure Limit.
- 4 Appropriate arrangements are in place for preventing fraud and corruption. Food Standards Scotland has advised that its policies were reviewed in 2020/21, however these have not been finalised due to the intention of aligning them with recently published Scottish Government's fraud policies.
- 5 Additional Covid-19 expenditure was managed within the allocated budget and was partly offset by savings realised as a result of the pandemic.
- 6 The implementation of both the medium-term financial management plan and longer-term financial plan were further delayed.
- 7 Transformation to the new organisational structure was progressed despite the Covid-19 pandemic, however some challenges remain.

## Governance, transparency and value for money

- 8 Food Standards Scotland responded positively to the challenges presented by the Covid-19 pandemic, and has maintained appropriate arrangements for governance and transparency.
- 9 The openness and transparency of Food Standards Scotland's Board and Committee meetings is an example of good practise.
- 10 The development of a strategic Best Value framework has continued to progress.
- 11 Plans to align performance indicators to the new corporate strategy and three-year corporate plan remain in development.

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# Introduction

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**1.** This report summarises the findings from our 2020/21 audit of Food Standards Scotland. The scope of our audit was set out in our Annual Audit Plan presented to the Audit and Risk Committee on 5<sup>th</sup> May 2021. This report comprises the findings from:

- an audit of Food Standards Scotland's annual report and accounts
- our consideration of [financial management, financial sustainability and governance and transparency](#) in line with the small bodies provisions included in the Code of Audit Practice supplementary guidance.

**2.** The main elements of our audit work in 2020/21 have been:

- an audit of the Food Standards Scotland's 2020/21 annual report and accounts including the issue of an independent auditor's report setting out my audit opinion
- a review of the Food Standards Scotland's key financial systems
- consideration of the three audit dimensions.

**3.** The global coronavirus pandemic has had an impact on Food Standards Scotland during 2020/21. This has had implications for the services it delivers, sickness absence levels, and the suspension of non-essential projects and activities. Risks related to the pandemic were considered during the audit planning stage, and we have adapted our planned audit work to address any new emerging risks.

## Adding value through the audit

**4.** We add value to the body through the audit by:

- regular attendance at the Audit and Risk Committee and Board meetings
- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Responsibilities and reporting

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

**6.** Our responsibilities as independent auditor are established by 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. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

**7.** The Code of Audit Practice 2016 (the Code) includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body, the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. As highlighted in our 2020/21 Annual Audit Plan, due to the volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2020/21 audit focusing on financial management, financial sustainability and governance.

**8.** This report raises matters from our audit. 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, the responsible officers and dates for implementation. It also includes any outstanding actions from last year and progress against these.

## Auditor Independence

**10.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

**11.** 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 2020/21 audit fee of £47,590 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

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

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

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# 1. Audit of 2020/21 annual report and accounts

The principal means of accounting for the stewardship of resources and performance.

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## Main judgements

The financial statements of Food Standards Scotland give a true and fair view of its financial affairs as at 31 March 2021 and have been properly prepared in accordance with the financial reporting framework.

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

The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements.

The original timetable agreed for the preparation and audit of the annual report and accounts was revised due to the impact of Covid-19.

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## Our audit opinions on the annual report and accounts are unmodified

**14.** The annual report and accounts for the year ended 31 March 2021 were approved by the Board on 17 November 2021. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

## The Covid-19 pandemic had a limited impact on audit evidence

**15.** The completeness and accuracy of accounting records and the extent of information and explanations that we required for our audit were not significantly affected by the Covid19 outbreak.

16. The working papers provided to support the accounts were of a good standard and the audit team received support from finance staff which helped ensure the final accounts audit process ran as smoothly as possible.

## The annual report and accounts were signed off in line with the revised audit timetable

17. The unaudited annual report and accounts were received in line with the revised audit timetable on 28 June 2021. Covid-19 added additional challenges to the audit process for both Food Standards Scotland and audit staff resulting in routine audit work and queries taking longer to resolve than normal. Regardless of these challenges we have been able to sign off the annual report and accounts in line with the revised audit timetable.

## Whole of Government Accounts (WGA)

18. In accordance with the WGA guidance we plan to complete the required assurance statement and submit to the National Audit Office (NAO) in due course after board approval and audit certification of the Food Standards Scotland financial statements.

## Overall materiality is £418 thousand

19. Our initial assessment of materiality was carried out during the 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](#).

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### Exhibit 1

#### Materiality values

Materiality level	Amount
Overall materiality	£418 thousand (£416 thousand)
Performance materiality	£293 thousand (£291 thousand)
Reporting threshold	£13 thousand (£12 thousand)

Source: Food Standards Scotland Annual Audit Plan 2020/21 (original figures in brackets)

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## [Appendix 2](#) identifies the main risks of material misstatement and our audit work to address these

20. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the audit team were directed. [Appendix 2](#)

also identifies the work we undertook to address these risks and our conclusions from this work.

## We have significant findings to report on the annual report and accounts

**21.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. Where findings have resulted in a recommendation to management, a cross reference to the Action Plan in Appendix 1 has been included. The significant findings are summarised in Exhibit 2.

### Exhibit 2

#### Significant findings from the audit of financial statements

Issue	Resolution
<p><b>1. Non-pay expenditure - accrual</b> Expenditure relating to licence costs covering period February to July 2020 was not split between financial years. In 2019/20 an accrual for the full licence cost was created instead of for two months only (February-March 2020). This resulted in an over accrual in the 2019/20 accounts and an understatement of expenditure in the 2020/21 accounts of £44 thousand.</p>	<p>The amount is not material and the net effect of required correction across the two financial years would be zero. This therefore remained as an uncorrected misstatement.</p>
<p><b>2. Clearance of holding accounts</b> Food Standards Scotland maintains holding accounts for items which are expected to be capitalised. These accounts should be cleared regularly. Following discussions during the audit process, Food Standards Scotland identified a holding account for IT systems and equipment which had a net credit balance of £22 thousand.</p>	<p>The amounts have been adjusted to correct the misstatement. <b>Recommendation 1</b> (refer <a href="#">Appendix 1</a>, action plan)</p>
<p><b>3. Post balance sheet event – income overcharge</b> Food Standards Scotland reviewed the initial charge out rates relating to the export hubs once the actual cost of the service was known. Its review in summer 2021 identified that Food Business Operators were overcharged in quarter 4 of financial year 2020/21 by £27 thousand.</p>	<p>The amounts have been adjusted to correct the misstatement.</p>
<p><b>4. Post balance sheet event – legal case settlement</b> Food Standards Scotland settled a legal case in October 2021 for which provision was made in the financial statements. While the provision was based on legal advice, the actual settlement amount was £62 thousand less than that provided for. This difference is not material but is above our clearly trivial threshold.</p>	<p>As the amount is not material, management made the decision that adjusting for the change so late in the audit process is not practical. This has therefore been included as an uncorrected misstatement.</p>

**22.** Except for points 1 and 4, all other individual adjustments which exceeded our reporting threshold (£13,000) were amended in the audited financial statements as detailed in Exhibit 2. Adjustments made in the audited accounts increased net operating expenditure in the Statement of Comprehensive Net Expenditure by £8 thousand, and decreased net assets in the Statement of Financial Position by £20 thousand.

### **We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold**

**23.** Misstatements were identified that have not been adjusted by management in the accounts as these are not considered material. These would have decreased net expenditure by £18 thousand in the Statement of Comprehensive Net Expenditure and decreased current liabilities by the same amount in the Statement of Financial Position ([Appendix 3](#)).

**24.** It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected. The final decision on making the correction, however, lies with those charged with governance who consider advice from senior officers and materiality. The gross sum of the unadjusted errors is below our materiality and has not affected our opinion.

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## 2. Financial management

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

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### Main judgements

Food Standards Scotland has appropriate and effective financial management arrangements in place.

Food Standards Scotland reported an underspend of £1.7 million, which is within its revised Departmental Expenditure Limit.

Food Standards Scotland has appropriate arrangements for preventing fraud and corruption, however some internal policies have not been reviewed or updated within the timescales set.

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### Food Standards Scotland operated within its revised budget in 2020/21

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

**26.** Food Standards Scotland has reported an outturn of £17.1 million against its overall budget for 2020/21 with an underspend of £1.7 million. The financial performance against Departmental Expenditure Limits (DEL) is shown in [Exhibit 3](#).

**Exhibit 3****Performance against DEL in 2020/21**

Performance	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Resource DEL	16.0	17.8	16.5	(1.3)
Capital DEL	0.0	0.6	0.2	(0.4)
Total DEL	16.0	18.4	16.7	(1.7)

Source: 20/21 Budget Bill, 20/21 Spring Budget Revision, FSS budget monitoring returns and Annual Report and Accounts 2020/21

### **Food Standards Scotland has an established process for reporting financial performance that enables effective scrutiny and challenge**

**27.** Food Standards Scotland's budget was increased as part of the Spring Budget revision. Additional funding from the Scottish Government included £2.4 million to implement a new structure as a result of the UK leaving the European Union and £0.5 million of Annually Managed Expenditure.

**28.** Additional Covid-19 expenditure was managed within the allocated budget and was partly offset by savings realised as a result of the pandemic.

**29.** Food Standards Scotland continued to provide monthly returns to the Scottish Government monitoring the additional Covid-19 related costs and savings.

### **Good practice**

**30.** We observed that senior management and the Board continued to receive regular and accurate performance reports on the financial position throughout the year. The level of detail and quality of financial information was similar to prior years and allows members to effectively scrutinise and challenge financial performance.

### **Financial systems of internal control are designed appropriately**

**31.** 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 the body has systems for recording and processing transactions that provide a sound basis for the preparation of the financial statements. We concluded that these controls were appropriately designed and implemented.

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

**32.** Food Standards Scotland is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. Furthermore, the Board is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place. Through our audit work we confirmed that Food Standards Scotland has appropriate arrangements for the prevention and detection of fraud, error and irregularities.

**33.** We have reviewed the arrangements in place to maintain standards of conduct. We concluded that there are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

**34.** We also followed-up on our prior year recommendation (point 3, [Appendix 1](#)) where we reported that the fraud policy and whistleblowing policy had not been reviewed since April 2015. This was despite the fraud policy stating it would be reviewed on an annual basis, and the whistleblowing policy stating that it was due for review in June 2017. Management has advised that these policies were reviewed during the first half of the 2021 calendar year, however the review is still not formally concluded. This is due to management's intention to benchmark against recently updated Scottish Government policies.

**35.** There is a risk that outdated policies do not adequately address the evolving nature of the risks relating to fraud and corruption. It is therefore imperative that these are reviewed and updated on a regular basis to ensure they are fit for purpose.

## Food Standards Scotland has not been advised of any data matches occurring as part of the current National Fraud Initiative

**36.** The National Fraud Initiative (NFI) is a United Kingdom wide counter-fraud exercise. It aims to prevent and detect fraud by using 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.

**37.** The Scottish Government submit payroll data and carry out a data matching exercise on Food Standards Scotland's behalf and advise of any data matches. Food Standards Scotland has not been advised of any data matches occurring.

**38.** We confirmed that Food Standards Scotland's trade creditors data was not submitted as part of the 2020/21 NFI exercise. There is no mandatory requirement for the organisation to provide this information. Going forward, however, management may wish to consider the costs and benefits associated with submitting this additional data set and investigating potential matches.

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# 3. Financial sustainability

Financial sustainability looks forward to the medium and long-term to consider whether a body is planning effectively to continue to deliver its services.

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## Main judgements

Food Standards Scotland's medium-term financial management plan and longer-term financial plan were further delayed.

Food Standards Scotland was able to progress transformation to the new organisational structure despite the Covid19 pandemic, however some challenges remain.

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### Food Standards Scotland's development of medium and longer-term financial plans has been further delayed as management consider the impact of Covid-19

**39.** Food Standards Scotland planned update of its 2018/19-2020/21 Financial Management Plan (FMP) and development of a longer-term financial plan was due to be presented to the Senior Management Team in January 2020. As reported in our 2019/20 Annual Audit Report, both plans were initially delayed due to the ongoing complexities of European Union withdrawal, internal restructuring, and delays in publications including the workforce plan.

**40.** Management agreed a revised date for both the FMP and longer-term financial plan of March 2021, however this date has also been missed. Management has advised that this was due to the impact of Covid-19 with internal restructuring plans put on hold; recruitment delayed for posts in the new structure; as well as delays in developing the workforce plan. The new structure was implemented in April 2021 and we will consider the impact of this as part of our 2021/22 audit.

**41.** During 2020/21, Covid19 related expenditures amounted to approximately £0.6 million and was managed within existing budget. This was largely offset by savings in other areas impacted by the pandemic such as reductions in staff travel and conference attendance. The financial impact of the pandemic on Food Standards Scotland is likely to extend across several years, and the medium and longer-term financial plans will need to take into account:

- the delivery cost of pandemic related programmes
- any delays in major capital investment programmes
- failure to deliver previously planned savings
- the impact on the workforce plan.

## Food Standards Scotland restructure progressed despite the pandemic, but challenges remain

**42.** We previously reported that Food Standards Scotland was proactive in dealing with the consequences of European Union (EU) withdrawal and that its business case for additional funding was approved by the Scottish Ministers. The funding is being used to implement a new organisational structure to enable Food Standards Scotland to deal with the implications of the United Kingdom exiting the EU.

**43.** The restructuring plan was progressed during 2020/21 despite additional challenges presented by Covid-19. However, further work is required to fill all posts and to ensure that Food Standards Scotland is operating at full capacity and is prepared for the challenges ahead.

**44.** Recruitment for the new organisational structure has proved challenging. Food Standards Scotland are required to use Scottish Government Human Resources Shared Services (SG HRSS), and this has led to significant delays in the recruitment and on-boarding of new staff. From discussion with the Audit Director for the Scottish Government audit, we understand that these issues are not unique to Food Standards Scotland.

**45.** We have previously reported issues in this area and recommended a review of the arrangements in place (point 8, [Appendix 1](#)). Although no major progress has been made during 2020/21 to resolve these issues, Food Standards Scotland has advised that they continued to engage with SG HRSS and escalated issues as they arose. Food Standards Scotland should consider whether the process for escalating issues is appropriate. We will continue to monitor developments in this area.

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# 4. Governance and transparency

The effectiveness of scrutiny and oversight, and transparent reporting of information.

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## Main judgements

Food Standards Scotland responded positively to the challenges presented by the Covid-19 pandemic, and has maintained appropriate arrangements for governance and transparency.

The openness and transparency of Food Standards Scotland's Board and Committee meetings is an example of good practise.

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## The governance arrangements and controls operating throughout the Covid19 pandemic have been appropriate

**46.** The impact of Covid19 from March 2020 has been set out in the governance statement of Food Standards Scotland's annual report and accounts. We reported in last year's annual report on the revised governance arrangements introduced by Food Standards Scotland including:

- implementing the business continuity plan to ensure key services remained available and risks were identified to the delivery of core business activity, financial impact and staff availability
- supporting office-based staff to work safely from home
- supporting field staff who were identified as essential workers
- moving Board, ARC and SMT meetings to virtual meetings and publishing Board papers on the website per standard procedure; Board meetings were held on Zoom and Teams to allow for members of the public to attend as normal
- the Board assigned the Executive Team the guardianship of its corporate governance system; Weekly meetings took place with the Board Chair and Deputy Chair to provide updates on activity relating to Covid-19, business as usual and the organisation's recovery strategy.

**47.** We have also considered revisions to key financial controls as a result of Covid-19 during 2020/21, and concluded that governance arrangements are reasonable and appropriate in supporting good governance and accountability.

## The Performance and Accountability Report provides a detailed and comprehensive overview of performance, but there remains scope to streamline the report

**48.** In addition to the opinion on the performance report covered in Part 1 of this report, we also consider the qualitative aspects of Food Standard Scotland's performance report. The performance report should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of a body's performance as well as helping stakeholders to understand the financial statements.

**49.** Our 2019/20 Annual Audit Report commented that the Performance and Accountability Report provides a detailed and comprehensive overview of Food Standards Scotland's performance. It noted, however, that the inclusion of so much detail made it extensive and that there was scope to streamline the report going forward (point 2, [Appendix 1](#)).

**50.** Management accepted our recommendation and advised that going forward they would be reporting against the new Food Standards Scotland strategy. Management further advised that a comprehensive review would take place to ensure reports are more focused and aligned to Audit Scotland's Performance Report Good Practice Guide.

**51.** The new corporate strategy was introduced in April 2021, and we have been advised that the Performance and Accountability Report will be updated in line with our recommendations in the 2021/22 Annual Report and Accounts. We will continue to monitor progress against the agreed recommendation.

### Good practice

**52.** Openness and transparency in how a body operates and makes decisions is key to supporting understanding and scrutiny. Transparency means that the public have access to understandable, relevant and timely information about how the Board is taking decisions and how it is using resources such as money, people and assets.

**53.** Food Standards Scotland's Board meetings are held in public, and minutes and papers are published on its website. We consider these arrangements as an example of good practice.

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# 5. Value for money

Using resources effectively and continually improving services.

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## Main judgements

Food Standards Scotland has continued to progress the development of a strategic Best Value framework.

Food Standards Scotland's plan to align performance indicators to the new corporate strategy and three-year corporate plan remains in development.

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## Food Standards Scotland's strategic Best Value framework remains in development

**54.** [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.

**55.** Food Standards Scotland aims to deliver best value in accordance with the principles outlined within the SPFM guidance and specifically the guidance for accountable officers. Managers are encouraged to identify where improved ways of working can be achieved through the scheme of financial delegation, business planning processes, performance management and objective setting for staff and partnership working.

**56.** Food Standards Scotland also focuses attention on partnership working with stakeholders and other Government departments to deliver shared objectives. It continues to make use of the Scottish Government's corporate shared services where possible and takes advantage of Government procurement frameworks in order to achieve best value.

**57.** A recommendation in prior year Annual Audit Reports was for Food Standards Scotland to review the ministerial guidance on Best Value and develop arrangements to demonstrate best value attributes and practices in the organisation.

**58.** As detailed in the Best Value section of Food Standard Scotland's governance statement, an advisory review of the draft Best Value framework was carried out by internal audit in the last quarter of 2020/21. The output from this review has been considered and further work is planned to develop a strategic Best Value framework.

**59.** We will continue to monitor Food Standards Scotland's progress against our recommendation going forward, and will consider the final framework document once available.

## Food Standards Scotland's plan to align performance indicators to the new corporate strategy and plan remains in progress

**60.** Our 2019/20 Annual Audit Report recommended that Food Standards Scotland should consider including targets for the key performance indicators identified to allow for more effective scrutiny and challenge (point 5, [Appendix 1](#)). This recommendation was accepted with management planning to align indicators to the new Food Standards Scotland Strategy and the three-year Corporate Plan.

**61.** Development of the new strategy led to a focus on, and identification of, Key Performance Indicators (KPI) and performance thresholds that will be measured at executive and Board level. From the beginning of quarter 4 of 2021/22 reporting year, Food Standards Scotland plans to implement a performance reporting dashboard on a quarterly basis. Management also plan to undertake a baseline assessment of KPIs during the 2022/23 financial year before agreeing and setting performance targets.

**62.** We will continue to monitor Food Standards Scotland's progress against our recommendation going forward.

## National performance audit reports

**63.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2020/21 a number of reports were published which may be of direct interest to the body. These are outlined in [Appendix 4](#).

# Appendix 1. Action plan 2020/21

## 2020/21 recommendations

Issue/ risk	Recommendation	Agreed management action/ timing
<p><b>1. Clearance of holding accounts</b></p> <p>The account code for expenditure items expected to be capitalised should be reviewed and cleared on a regular basis. In the course of this year's audit an immaterial net credit balance was highlighted in this account which required a small number of correcting journals.</p> <p><b>There is a risk going forward that financial statements will be misstated if the account code is not regularly reviewed and cleared.</b></p>	<p>Review of holding account codes should be incorporated in key control processes <a href="#">Exhibit 2</a>.</p>	<p>Review of the account codes will be brought forward to the monthly balance sheet reconciliation process.</p> <p><b>Responsible officer</b> Philip McKibben</p> <p><b>Agreed date</b> Implemented</p>

## Follow-up of prior year recommendations

Issue/ risk	Recommendation/ update	Agreed management action/ timing
<p><b>2. Performance and Accountability Report</b></p> <p>The Performance and Accountability Reports should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced and understandable</p>	<p>Food Standards Scotland should consider streamlining its Performance and Accountability Report to focus on the most significant and relevant areas in line with the Audit Scotland's Performance Report Good Practice Guide.</p> <p><b>Update</b></p>	<p><b>Status:</b> In progress</p> <p><b>Revised action</b></p> <p>Work is underway to review the structure of the Reports to align with the new strategy and address the original recommendation as well as the additional comments regarding emerging risks.</p>

Issue/ risk	Recommendation/ update	Agreed management action/ timing
<p>analysis of a body's performance as well as helping stakeholders understand the financial statements.</p> <p>The 2019-20 Performance and Accountability Report provides a detailed and comprehensive overview of performance in the year. The inclusion of so much detail, however, does make it an extensive report and there is scope to streamline this going forward, focussing on the most significant and relevant areas in line with the Audit Scotland's Performance Report Good Practice Guide.</p> <p><b>There is a risk that an overly long Performance Report loses focus and does not direct the attention of the reader to the most significant issues.</b></p>	<p>Food Standards plan to align its Performance and Accountability Report with the new corporate strategy that was introduced in April 2021. Our recommendation will therefore be addressed in the 2021/22 Annual Report and Accounts.</p> <p>We would note that while the current year Performance and Accountability Report provides a summary of the key risks faced and how they were mitigated, it does not provide commentary on emerging risks as required by the FReM.</p> <p>Furthermore, the performance appraisal does not provide the reader with detail on whether performance has met expectation, including an explanation if performance is below expectation.</p> <p>We will continue to monitor progress against the agreed recommendation.</p>	<p><b>Responsible officer</b> Diane Strachan / Elaine McLaughlin</p> <p><b>Revised date</b> 31 March 2022</p>
<p><b>3. Prevention and Detection of Fraud Policies</b></p> <p>Appropriate Counter-Fraud, Whistleblowing and Gifts and Hospitality policies are in place, however the fraud Policy and whistleblowing Policy have not been updated since April 2015. This is despite the fraud policy stating that it would be reviewed on an annual basis, and the whistle-blowing policy stating it was due for review in June 2017.</p> <p><b>There is a risk that internal policies do not adequately cover the evolving fraud</b></p>	<p>Policies relating to the prevention and detection of fraud and corruption should be reviewed and updated on a regular basis.</p> <p><b>Update</b></p> <p>Food Standards Scotland reviewed its policies in 2020-21, however they have not been finalised due to the intention to align them with the recently reviewed Scottish Government fraud policies.</p> <p>It is imperative that policies relating to the prevention and detection of fraud and corruption are reviewed and</p>	<p><b>Status:</b> In progress</p> <p><b>Revised action</b></p> <p>Work is being finalised on the development of a new Counter Fraud plan for the organisation.</p> <p><b>Responsible officer</b> Philip McKibben / Elaine McLaughlin</p> <p><b>Revised date</b> 31 December 2021</p>

Issue/ risk	Recommendation/ update	Agreed management action/ timing
<p><b>and corruption landscape if they are not regularly reviewed and updated.</b></p>	<p>updated independently on a regular basis to ensure they are fit for purpose.</p>	
<p><b>4. Medium and Longer-Term Planning</b></p> <p>Food Standards Scotland has not updated its 2018/19-2020/21 Financial Management Plan (FMP) or developed a longer-term financial plan for 2020-2024 as planned. The updated FMP was to be presented to the Senior Management Team for approval in January 2020. Due to delays in other publications, such as the Workforce Plan and Corporate Plan and the impacts of TUPE and Brexit, neither the updated FMP nor longer-term financial plan was delivered.</p> <p><b>There is a risk that, in the absence of longer-term financial plans, Food Standards Scotland may not be able to direct and control its finances efficiently.</b></p>	<p>Food Standards Scotland should update its FMP and produce a longer-term financial plan as soon as possible. The workforce plan and corporate plan should also be developed and updated taking into account TUPE and Brexit implications.</p> <p><b>Update</b></p> <p>Management initially agreed a revised date for both the FMP and longer-term financial plan of March 2021. This date was missed due to internal restructuring and delays in the recruitment and onboarding of staff.</p> <p>The FMP and longer-term financial plan also need to be aligned to other key corporate documents. This includes the workforce plan which has been drafted and is currently subject to advisory work by internal auditors before being finalised.</p>	<p><b>Status:</b> In progress</p> <p><b>Revised action</b></p> <p>Due to Covid-19 there were delays in implementing the new structure which did not take place until April 2021. Work is in progress to develop the FMP and align it with the new strategy.</p> <p><b>Responsible officer</b> Elaine McLaughlin</p> <p><b>Revised date</b> 30 November 2021</p>
<p><b>5. Performance Targets</b></p> <p>Performance reports provided to the Board do not include targets for the key performance indicators identified. Considering and setting targets would allow for more effective scrutiny and challenge of performance in the year. We are aware that Food Standards Scotland is currently reviewing how performance is measured and reported.</p> <p><b>There is a risk that performance is not adequately measured or</b></p>	<p>Food Standards Scotland should consider including targets for the key performance indicators identified to allow for more effective scrutiny and challenge.</p> <p><b>Update</b></p> <p>Development of the new strategy led to a focus on, and development of, Key Performance Indicators (KPIs) and performance thresholds. These will be measured at executive and</p>	<p><b>Status:</b> In progress</p> <p><b>Revised action</b></p> <p>Food Standards Scotland has implemented a performance reporting dashboard and is in the process of finalising KPI measures for the new strategy. A baseline assessment of the KPIs will be undertaken during the first half of the financial year 2022/23 before performance targets are agreed and set.</p> <p><b>Responsible officer</b> Ruth Dewar / Garry McEwan</p>

Issue/ risk	Recommendation/ update	Agreed management action/ timing
<p>monitored when there is no set target to assess performance against.</p>	<p>board level from the 2021/22 reporting year.</p>	<p><b>Revised date</b> 30 October 2022</p>
<p><b>6. Equalities Monitoring</b></p> <p>No training on equalities issues has been delivered to the Board since 2015.</p> <p>In addition, Food Standards Scotland does not currently have any key performance indicators to measure equalities issues.</p> <p><b>There is a risk that equalities issues are not being effectively monitored.</b></p>	<p>The Board should ensure that adequate and up to date training regarding equalities issues is provided.</p> <p>It should also consider developing key performance indicators relating to equalities issues.</p> <p><b>Update</b></p> <p>The agreed action was not progressed due to other work priorities.</p>	<p><b>Status:</b> In progress</p> <p><b>Revised action</b></p> <p>This has been progressed. Training was looked at from the view of stakeholders with deprived circumstances and we considered how to mitigate challenges in this area. A Fairer Scotland Duty Impact Assessment presentation was also delivered to the Board in August 2021.</p> <p>KPIs to measure equalities will be included in the reporting dashboard.</p> <p><b>Responsible officer</b> Diane Strachan / Garry McEwan</p> <p><b>Revised date</b> 31 March 2022</p>
<p><b>7. Best Value</b></p> <p>There is no Best Value framework document that sets out how Best Value attributes are embedded in everyday work.</p> <p><b>There is a risk that Food Standards Scotland are unable to evidence compliance with Ministerial Guidance on Best Value.</b></p>	<p>Food Standards Scotland should review the ministerial guidance on Best Value and develop arrangements that will enable it to demonstrate how Best Value attributes and practices are embedded within the way it works through its usual assurance and self-assessment processes.</p> <p><b>2019/20 update</b></p> <p>An initial outline document was drafted collating the five main themes and two cross cutting themes for review. Further work was started to populate the requirements, measures, responsibility, etc. This was put on hold, however, due to other priorities and in response to Covid-19.</p>	<p><b>Status:</b> In progress</p> <p><b>Revised action</b></p> <p>Discussion has taken place with Audit Scotland on this recommendation regarding how the Accountable Officer can demonstrate that Best Value is being delivered in Food Standards Scotland. Further review is required on this action.</p> <p><b>Responsible officer</b> Natalie Greenland / Garry McEwan</p> <p><b>Revised date</b> 31 March 2022</p>

Issue/ risk	Recommendation/ update	Agreed management action/ timing
	<p><b>2020/21 update</b></p> <p>The Best Value framework has not yet been implemented although good progress was made during 2020/21.</p> <p>The first draft of the document was reviewed by the Internal Audit Department, with a recommendation to focus on strategic level Best Value activity.</p>	
<p><b>8. Shared Services</b></p> <p>Food Standards Scotland continue to experience problems with the quality of service provided by the Scottish Government for Human Resources and payroll processing.</p> <p><b>There is a risk that Food Standards Scotland are not obtaining value for money from shared services provided by the Scottish Government.</b></p>	<p>Food Standards Scotland should review current arrangements and determine whether better value for money could be achieved through a formal Service Level Agreement (SLA) with the Scottish Government, which specifies service standards, or through alternative means of service provision including outsourcing.</p> <p><b>Update</b></p> <p>Limited progress was made during 2020/21 to resolve the issues, and there remains a risk that organisational performance and delivery of services is impacted by difficulties in recruiting staff to the new organisational structure.</p> <p>Food Standards Scotland should continue to work with the Scottish Government to resolve outstanding matters, and should review the effectiveness of arrangements for escalating issues with the Scottish Government Human</p>	<p><b>Status:</b> In progress</p> <p><b>Revised action</b></p> <p>The Scottish Government has embarked upon a Shared Services Transformation Programme which FSS is engaged in. This is unlikely to fully concluded until March 2023. The Scottish Government has stated that there will be no review of SLAs until after these services are implemented.</p> <p>FSS has considered the process for escalating issues with SG HRSS and regular engagement now takes place with senior staff in both organisations.</p> <p><b>Responsible officer</b> Elaine McLaughlin / Garry McEwan</p> <p><b>Revised date</b> 31 March 2023</p>

Issue/ risk	Recommendation/ update	Agreed management action/ timing
	Resources Shared Services (SG HRSS) team.	

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# Appendix 2. Significant audit risks

The table below sets out the audit risks we identified on the 2020/21 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 to our wider responsibility under the [Code of Audit Practice 2016](#).

## Risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p>	<p>Detailed testing of journal entries.</p> <p>Understanding key areas of judgement and accounting estimates within the financial statements and the basis for these judgements and the application of accounting policies.</p> <p>Review significant provisions included in the accounts.</p> <p>Reviewing unusual and/or significant transactions that are outside the normal course of business to understand the rationale for these transactions.</p>	<p>We concluded from the work performed and evidence obtained that there was no management override of controls.</p>
<p><b>2. Risk of material misstatement caused by fraud in expenditure</b></p> <p>As set out in Practice Note 10 (revised), issued by the Financial Reporting Council, most public-sector bodies are net expenditure bodies and the risk of fraud is more likely to occur in expenditure.</p> <p>Payroll expenditure is the largest expenditure stream. It is tightly</p>	<p>Walkthrough of key expenditure controls in place.</p> <p>Analytical review of expenditure streams.</p> <p>Review budget monitoring reports submitted to the Board.</p>	<p>We did not identify any significant issues during interim or substantive testing in relation to expenditure. We concluded that expenditure tested was incurred in line with applicable standards and regulations and has been</p>

Audit risk	Assurance procedure	Results and conclusions
monitored and controlled which limits the potential for manipulation. Therefore, our focus will be on non-pay expenditure.	Review expenditure cut-off procedures and substantive testing of pre and post year end balances.	appropriately recognised in the financial statements.

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

Audit risk	Assurance procedure	Results and conclusions
<p><b>3. Medium and longer-term financial planning</b></p> <p>In our 2019/20 Annual Audit Report (AAR) we reported that the Financial Management Plan (FMP) required updating. Also, a longer-term financial plan had still to be developed. These had been impacted by delays in finalising other key documents notably an updated workforce plan.</p> <p>In the absence of an updated FMP and a longer-term financial plan there is a risk that Food Standards Scotland may not be able to direct and controls its finances efficiently.</p>	<p>Review progress in compiling an updated FMP.</p> <p>Monitor progress in producing a longer-term financial plan.</p> <p>Review progress in preparing and finalising an updated workforce plan.</p>	<p>The medium-term financial plan and longer-term financial plan have not been finalised and work is ongoing to tie these in with Food Standards Scotland's new strategy and corporate plan.</p> <p>We have raised this again within our Action Plan at <a href="#">Appendix 1</a> and will continue to monitor this going forward. The longer-term financial plan will be assessed against the good practice guidance once available.</p>

# Appendix 3. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £13 thousand.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 2](#). We are satisfied that these errors do not have a material impact on the financial statements.

Account areas	Comprehensive income and expenditure statement		Balance sheet	
	Dr £000	Cr £000	Dr £000	Cr £000
1. IT/Hardware expenditure	44			
General Fund				(44)
Provision			100	
Expenditure		(62)		
Accrual				(38)
<b>Net impact</b>		<b>(18)</b>	<b>18</b>	

# Appendix 4. Summary of 2020/21 national performance reports

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## April

[Affordable housing](#)

## June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

## July

[The National Fraud Initiative in Scotland 2018/19](#)

## January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

## February

[NHS in Scotland 2020](#)

## March

[Improving outcomes for young people through school education](#)

# Food Standards Scotland

## 2020/21 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](http://www.audit-scotland.gov.uk/accessibility)



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