



Environmental Standards Scotland

Final report to the Audit and Risk Committee, the board and the Auditor General for Scotland on the 18 months to 31 March 2023 audit

Issued on 26th September 2023 for the meeting on 4th October 2023

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1.1 Partner introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the Annual Report and Accounts.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Audit and Risk Committee (“the Committee”) of Environmental Standards Scotland (“ESS”) for the 18 months to 31 March 2023 audit. The report summarises our findings and conclusions in relation to the audit of the Annual Report and Accounts and the wider scope requirements, the scope of which was set out within our planning report presented to the Committee in March 2023.

I would like to draw your attention to the key messages of this paper:

Conclusions from our testing

Based on our audit work completed to date, we expect to issue an unmodified audit report.

The Performance Report and Accountability Report comply with the statutory guidance and proper practice and are consistent with the Annual Report and Accounts and our knowledge of ESS. We provided management with comments and suggested changes based on review of the first draft and an update has been received confirming compliance.

The auditable parts of the Remuneration and Staff report have been prepared in accordance with the relevant regulation. Some changes were required in order to comply with reporting requirements, for example the Fair Pay disclosures, however these have been corrected by management in the revised Annual Report and Accounts.

A summary of our work on the significant risks is provided in the dashboard on page [9](#). ESS met its financial targets for 2021/22 and 2022/23, achieving a combined surplus of £1.406m.

No material errors have been identified to date and there are no uncorrected misstatements. Two corrected misstatements in excess of our reporting threshold of £2,000 has been identified up to the date of this report which is included within the Appendix to this report. These have no impact on ESS’s final financial surplus position.

1.2 Partner introduction (continued)

The key messages in this report (continued)

Status of the Annual Report and Accounts audit

Outstanding matters to conclude the audit include:

- Receipt of final Annual Report and Accounts;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2023.

Conclusions from wider scope audit work

Financial management – Sound financial management arrangements have been established during the first 18 months of operation. While a significant underspend was reported in the year, this was largely as a result in delays in recruitment as the organisation becomes established and has been closely monitored throughout the year.

Financial sustainability – Financial balance has been achieved in 2022/23 and a balanced budget approved for 2023/24, therefore ESS is financially sustainability in the short term. While early work has started in developing a medium term outlook, further work is required to full develop this to be able to demonstrate that ESS is financially sustainable over the medium to longer term. We have recommended that, as the next stage in the development of ESS, a comprehensive financial strategy be developed.

Vision, leadership and governance – The approved Strategic Plan sets out a clear vision for ESS. During its first 18 months of operation, an experienced leadership team have been put in place, both at the Executive and non-Executive level.

Effective governance and scrutiny arrangements are in place, underpinned by clear governance documents and demonstrated through high attendance and effective scrutiny and challenge at Board and Audit and Risk Committee (“ARC”) meetings.

ESS is also open and transparent. This could be further enhanced by publishing Board papers on line alongside the minutes currently published and considering holding some Board meetings in public.

Use of resources to improve outcomes – A clear performance management framework is in place, and in line with best practice, there is a clear approach to assessing its performance and impact on long term outcomes. We will continue to monitor how this is implemented in practice during the course of our audit appointment.

Best Value – ESS has sufficient arrangements in place to secure best value. It has a clear understanding of areas which require further development. Financial sustainability remains a key risk.

1.3 Partner introduction (continued)

The key messages in this report (continued)

Conclusions from wider scope audit work (continued)

Climate change – Recognising the nature of ESS as a public sector body with one office site and the wider role that ESS has on the environment, nature and climate change, it is clear that ESS is committed to take action to meet the Scottish Government’s ambitious targets in relation to sustainability and climate.

Cyber risk – Cyber security is high priority for ESS and is closely monitored as part of the Strategic Risk Register. Plans are in place to carry out an Internal Audit review of cyber security in 2023/24.

Next steps

An agreed Action Plan is included on pages [36 to 37](#) of this report.

Added value

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

Pat Kenny
Associate partner

Annual Report and Accounts Audit









2.1 Quality indicators

Impact on the execution of our audit

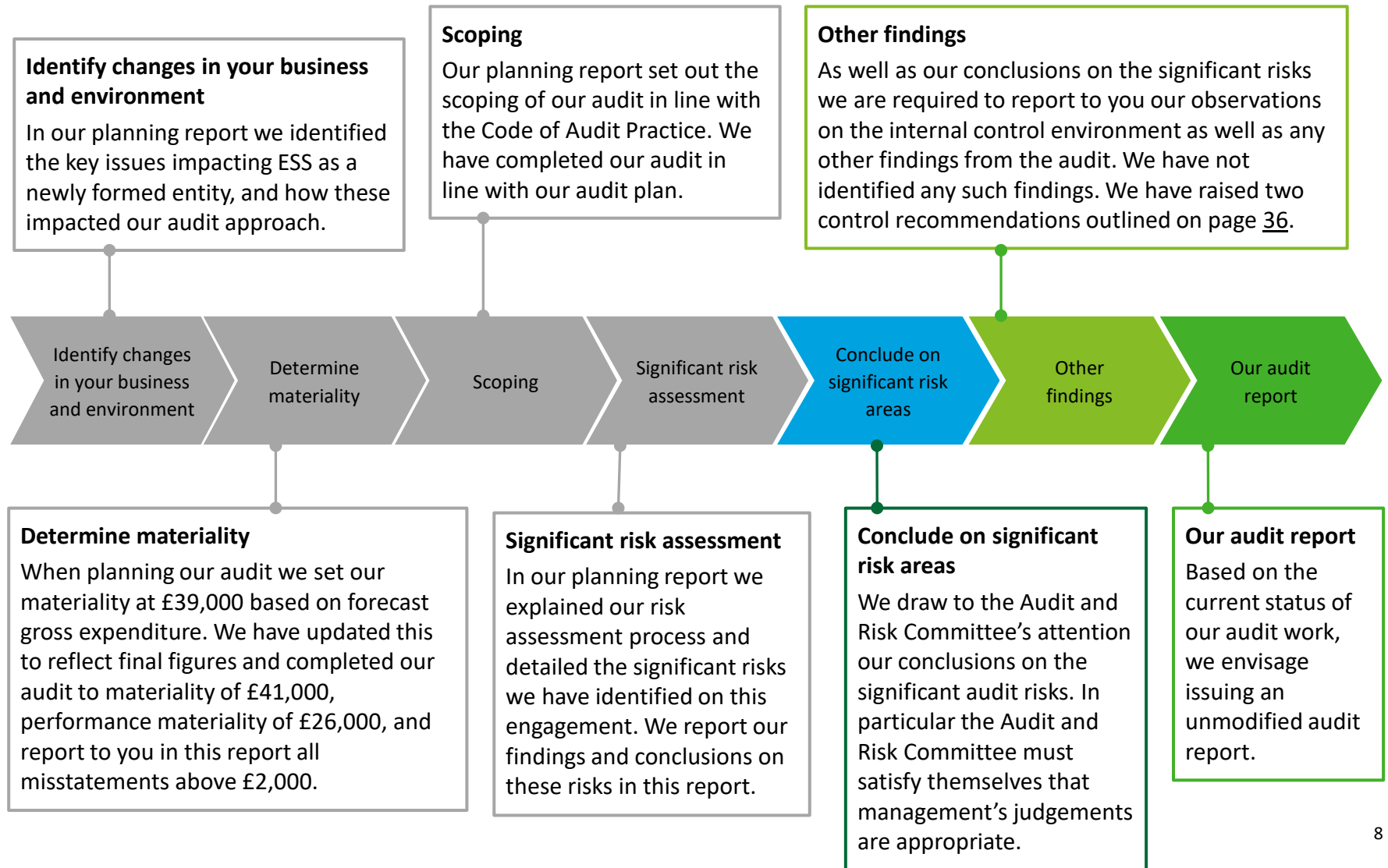
Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

 Lagging
  Developing
  Mature

Area	Grading	Reason	Further detail
Timing of key accounting judgements/estimates	N/A	Not applicable as the Annual Report and Accounts do not contain any key accounting judgements or estimates	N/A
Adherence to deliverables timetable		All deliverables were provided within agreed upon timeframes. All follow up requests and queries were dealt with appropriately.	N/A
Access to finance team and other key personnel		All key members of staff were available throughout the audit. No issues were encountered.	N/A
Quality and accuracy of management accounting papers		Evidence provided by management was generally found to be complete, accurate and sufficient for the purposes of our audit.	N/A
Quality of draft Annual Report and Accounts		The completed draft of the Annual Report and Accounts were provided for audit on 10 July 2023. There were some changes required in order to ensure compliance with the financial reporting framework.	15
Response to control deficiencies identified		We noted two findings in relation to inappropriate calculations to recognised prepayments and accruals as well on cash reconciliations. We are satisfied with responses from Management.	12
Volume and magnitude of identified errors		We have not identified any material errors however we note that the aggregate of the two reportable errors identified exceeds our performance materiality. This is due to an error relating to cash and accruals which have been corrected. However, the errors have no impact on the financial results of ESS.	38





2.2 Our audit explained

We tailor our audit to your business and your strategy






2.3.1 Significant risks

Significant risk dashboard

Risk	Fraud risk	Planned approach to controls	Controls conclusion	Consistency of judgements with Deloitte's expectations
Management override of controls			Satisfactory	
Operating within the expenditure resource limit			Satisfactory	

Controls approach adopted
 Assess design & implementation

Controls conclusion
 Satisfactory
 Not Satisfactory

Consistency of judgements with Deloitte's expectations
 Consistent
 Improvement required
 Inconsistent

2.3.2 Significant risks (continued)

Management override of controls

Risk identified

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent Annual Report and Accounts by overriding controls that otherwise appear to be operating effectively.

Although management is responsible for safeguarding the assets of the entity, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Annual Report and Accounts and accounting records.

Deloitte response and challenge

In considering the risk of management override, we have performed the following audit procedures that directly address this risk:

Journals

We have tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the Annual Report and Accounts. In designing and performing audit procedures for such tests, we have:

- Tested the design and implementation of controls over journal entry processing;
- Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Selected journal entries and other adjustments made at the end of a reporting period; and
- Considered the need to test journal entries and other adjustments throughout the period.

Accounting estimates and judgements

Our audit testing has confirmed management's conclusion that there are no significant accounting estimates or judgements impacting the Annual Report and Accounts.

Significant and unusual transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Deloitte view

We have not identified any instances of management override of controls from our testing. Our testing in this area has not identified any exceptions.

2.3.3 Significant risks (continued)

Operating within the expenditure resource limits



Risk identified and key judgements

Under Auditing Standards there is a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In line with our planning report, we do not consider this to be a significant risk for ESS as there is little incentive to manipulate revenue recognition with all revenue being from the Scottish Government which can be agreed to confirmations supplied.

We therefore considered the fraud risk to be focused on how management operate within the expenditure resource limits set by the Scottish Government. There is a risk that ESS could materially misstate expenditure in relation to year-end transactions, in an attempt to align with its tolerance target or achieve a breakeven position.

The significant risk is therefore pinpointed to the completeness of accruals and the existence of prepayments made by management at the year-end and invoices processed around the year-end as this is the area where there is scope to manipulate the final results. Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of accruals and prepayments around year-end.



Deloitte response and challenge

We have evaluated the results of our audit testing in the context of the achievement of the limits set by the Scottish Government. Our work in this area included the following:

- Evaluating the design and implementation of controls around monthly monitoring of financial performance;
- Confirming the resource limits allocated to ESS by the Scottish Government by reference to the Budget Act ;
- Performing focused testing of accruals and prepayments made at the year-end; and
- Performing focused cut-off testing of invoices received and paid around the year-end.

Deloitte view

We have concluded that expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers.

Based on our testing to date, we confirm that ESS has performed within the limits set by Scottish Government achieving a surplus of £1.406m over the 18 month period and therefore is in compliance with the financial targets set for the period.

2.4 Your control environment and findings

Control deficiencies and areas for management focus

Observation	Deloitte recommendation	Management response and remediation plan
<p>Through our audit testing it was noted that there were errors within the calculations and classifications of year-end accounting adjustments for accruals and prepayments.</p> <p>These errors were caused by incorrect calculations used to determine prepayments values, and deficiencies in the control for distinguishing between year-end accruals and creditors based on when invoices are received and recognised in the ledger.</p>	<p>It is recommended that a more detailed review-type control be designed and implemented for these year-end adjustments. Such a review would help mitigate the risk of error within accruals and prepayments.</p>	<p>See Action Plan on page 36.</p>
<p>Our audit testing identified that cash had been incorrectly disclosed in the initial version of the draft Annual Report and Accounts. This was due to the incorrect identification of a cash transaction as a reconciling item.</p>	<p>It is recommended that the controls around the bank reconciliation be strengthened to ensure that the review effectively identifies any errors.</p>	<p>See Action Plan on page 36.</p>

2.5 Other significant findings

Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

ESS's Annual Report and Accounts have been prepared in accordance with the Government Financial Reporting Manual (the "FReM"). Following our audit work, we are satisfied that the accounting policies are appropriate.

Significant matters discussed with management:

There were no significant matters discussed with management other than the applicability of IFRS 16 to the current period's Annual Report and Accounts.

Regulatory change

IFRS 16, Leases, came into effect on 1 April 2022, therefore 2022/23 is the first year of implementation. Due to the short term nature of the office lease in place for the 2021-2023 period, the short-term lease exemption under IFRS 16 was applied meaning that no right-of-use asset required to be capitalised and no lease liability recognised in the annual accounts for the year ended 31 March 2023

Going forward, assessment of new accommodation arrangements in place following the period end will need to reassessed. This will be considered as part of the 2023/24 audit.

Liaison with internal audit

The audit team, has completed an assessment of the independence and competence of the internal audit department and reviewed their work and findings. In response to the significant risks identified, no reliance was placed on the work of internal audit and we performed all work ourselves.

We will obtain written representations from ESS on matters material to the Annual Report and Accounts when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.

2.6 Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.

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Our opinion on the Annual Report and Accounts

Our opinion on the Annual Report and Accounts is expected to be unmodified.

Going concern

We have not identified a material uncertainty related to going concern and will report that we concur with management's use of the going concern basis of accounting.

Practice Note 10 provides guidance on applying ISA (UK) 570 Going Concern to the audit of public sector bodies. The anticipated continued provision of the service is more relevant to the assessment that the continued existence of a particular body.



Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the Annual Report and Accounts that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the Annual Accounts and the audit work performance and to ensure that they are fair, balanced and reasonable.

Opinion on regularity

In our opinion in all material respects the expenditure and income in the Annual Report and Accounts were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page [15](#).

2.7 Your Annual Report and Accounts

We are required to provide an opinion on the auditable parts of the Remuneration and Staff report, the Annual Governance Statement and whether the Performance Report is consistent with the disclosures in the accounts.

	Requirement	Deloitte response
The Performance Report	The report outlines ESS's performance, both financial and non-financial. It also sets out the key risks and uncertainties faced by ESS.	<p>We have assessed whether the Performance Report has been prepared in accordance with the Accounts Direction. We have also read the Performance Report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>We provided management with comments and suggested changes which management have updated in the revised draft. This included presentational suggestions.</p>
The Accountability Report	Management have ensured that the accountability report meets the requirements of the FReM, comprising the governance statement, remuneration and staff report and the parliamentary accountability report.	<p>We have assessed whether the information given in the Annual Governance Statement is consistent with the Annual Report and Accounts and has been prepared in accordance with the accounts direction. No exceptions noted.</p> <p>We have also read the Accountability Report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading. We provided management with comments and suggested changes which management have updated in the revised draft.</p> <p>We have also audited the auditable parts of the Remuneration and Staff Report and confirmed that it has been prepared in accordance with the accounts direction. Changes to ensure compliance with the FReM were suggested to management, particularly in relation to Fair Pay disclosure requirements. Management have corrected these in the final draft of the Annual Report and Accounts.</p>

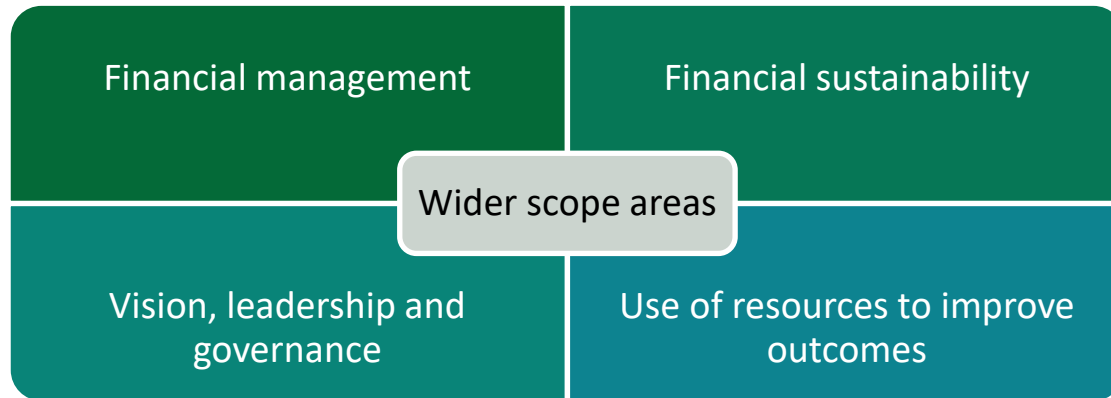
Wider scope audit



3.1 Wider scope requirements

Overview

As set out in our audit plan, Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit specified by the Code of Audit Practice broadens the audit of the accounts to include consideration of additional aspects or risks in the following areas.



In its planning guidance, Audit Scotland has also highlighted the following national or sectoral risks that the Auditor General and Accounts Commission wish auditors to consider at all bodies during the 2022/23 audits:

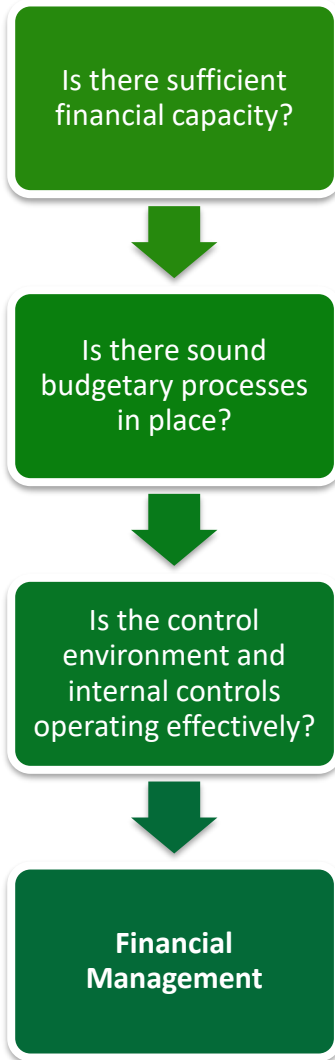
- Climate change.
- Cyber security.

Our audit work has considered how ESS is addressing these and our conclusions are set out within this report, with the report structured in accordance with the four dimensions. Our responsibilities in relation to Best Value ('BV') have all been incorporated into this audit work.

ESS was established in October 2021, with the 18 month period to 31 March 2023 being the first Annual Report and Accounts and audit. Our work in 2022/23 has enabled us to form a view of ESS's baseline position and management should use this to drive continuous improvement. We will use this baseline in future audits to assess performance and in particular inform our assessment in relation to Best Value.

3.2 Wider scope requirements (continued)

Financial management



Significant risks identified in Audit Plan

In our Audit Plan we highlighted that as a new organisation established in 2021, there is a risk that adequate financial planning and management arrangements are not in place, including a sufficiently qualified and experienced finance team. We have considered the impact on the following pages.

Current year financial performance

As a Non-Ministerial Office (NMO) of the Scottish Administration, working alongside but separate from the Scottish Government and accountable directly to the Scottish Parliament, ESS' budget allocation appears as distinct lines items in the Annual Scottish Budget Bill. The Chief Executive, as Accountable Officer, has direct accountability to the Scottish Parliament in relation to the financial management of ESS. However, given the Board has ultimate responsibility for ESS, the Board needs to assure itself that procedures are in place to ensure the propriety and probity of public expenditure.

After receiving the allocation, ESS has flexibility to determine how that money is spent and is split at a high-level between staff and non-staff costs. As ESS was formally established on 1 October 2021, it operated for 6 months of financial year 2021/22 and the full year or 2022/23. The 2022/23 budget was presented to the Board for noting at its meeting in March 2022. Since its inception, regular reports have been provided the Board and the Audit and Risk Committee on the budget position, with these reports evolving to include more detail as the organisation developed.

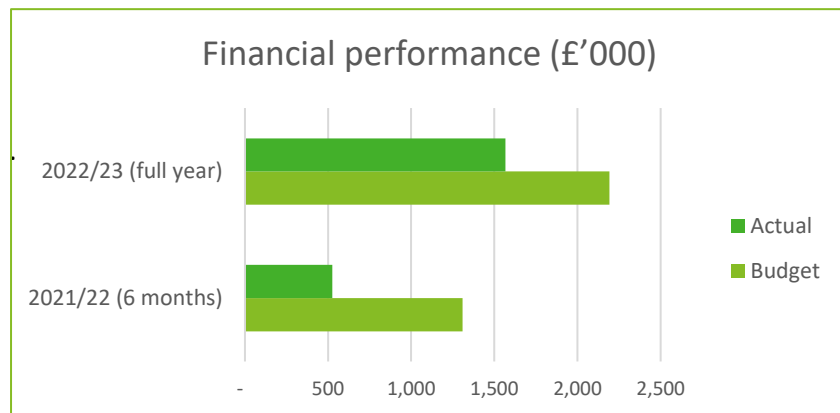
3.3 Wider scope requirements (continued)

Financial management (continued)

Current year financial performance (continued)

ESS has reported a significant underspend against its budget allocation for the first 18 months of operation, as illustrated below. The key reasons for the variance is due to a significant underspend in staff costs as a result of all posts not yet being filled as initially planned. This is understandable given year 1 of an organisation and the lead in time needed for recruitment. As staff costs account of 72% of the overall budget, this has a significant impact on the overall position. This position has been regularly reported to the Board and Scottish Government.

To mitigate the potential impact of these staff vacancies on delivering the Strategic Plan, ESS has used alternative resources, including outsourcing key tasks and use of external providers to ensure that the organisation has not been significantly impacted.



Finance capacity

The finance team is led by the Head of Corporate Services and Communications. A Finance and Accountancy Advisor was recruited during the year on a part-time basis for four days per month to provide support at key times throughout the year.

Time is needed for the team to fully embed within ESS after one full year cycle. In addition, the implementation of the new Scottish Government ledger system from 1 April 2024 will result in further changes to the work of the team. We have not, however, identified any risks with the teams capacity that has impact on the operational financial management of ESS. We will continue to monitor this during our audit appointment.

Internal controls and internal audit

ESS relies upon the financial systems provided by the Scottish Government, in particular the general ledger, purchase ledger and payment of invoices. A detailed Framework Agreement is in place, which was signed in January 2022. This agreement also includes the provision of internal audit services.

3.4 Wider scope requirements (continued)

Financial management (continued)

Internal controls and internal audit (continued)

We have assessed the internal audit function, including its nature, organisational status and activities performed. The agreed 2021-23 internal audit plan set out plans to provide an assurance review of corporate governance in ESS to provide a benchmark of the elements of a sound and robust corporate structure.

We have reviewed all internal audit reports published throughout 2022/23. The conclusions have helped inform our audit work, although no specific reliance has been placed on this work.

Standards of conduct for prevention and detection of fraud and error

We have assessed ESS' arrangements for the prevention and detection of fraud and irregularities. This has included specific considerations in response to the Audit Scotland's publication "Fraud and irregularities 2021/22 – sharing risks and case studies to support the Scottish public sector in the prevention of fraud". Overall, we found the arrangements to be to be designed and implemented appropriately.

Deloitte view – financial management

ESS has established sound financial management arrangements during its first 18 months of operation, with timely financial reporting which has evolved during the year. While a significant underspend was reported in the year, this was largely as a result in delays in recruitment as the organisation becomes established and has been closely monitored throughout the year.

The finance team is led by the Head of Corporate Services and Communications and the team has grown in the year, bringing in capacity to support the organisation. We will continue to monitor this during our audit appointment. There is also a robust internal audit function in place and clear arrangements for the prevention and detection of fraud and error.

3.5 Wider scope requirements (continued)

Financial sustainability

Can short term (current and next year) financial balance be achieved?



Is there a medium and longer term plan in place?



Is the body planning effectively to continue to deliver its services or the way in which they should be delivered?



Financial Sustainability

Significant risks identified in Audit Plan

In our Audit Plan we highlighted that as a new organisation established in 2021, there is a risk that robust medium-to-long term planning arrangements are not in place to ensure that ESS can manage its finances sustainably and deliver services effectively, identify issues and challenges early and act on them promptly.

2023/24 budget setting

As explained on page [18](#), ESS' budget allocation appears as distinct lines items in the Annual Scottish Budget Bill. The confirmed budget allocation for 2023/24 is £2.910 million. The breakdown of this budget was presented to the Board in February 2023 for approval and had been reviewed in detail by the Audit and Risk Committee in advance of the Board. This provided a granular detail of the proposed budget allocations and assumptions applied and how this compared to previous year costs, demonstrating that a balanced position is expected to be achieved.

The paper clearly set out the assumptions applied and the key risks, the main one being that without careful planning and success in recruitment plans, ESS could again see an underspend position in 2023/24. To mitigate this, each Committee and Board meeting will be provided an update on expenditure to date, projected expenditure for the full year. Teams will also provide verbal updates on plans that are in place to deliver on all areas of the budget where it is harder to ensure full utilisation.

We are pleased to note that there is a recruitment plan in place, and plans to develop a People Strategy. It is important that this is progressed and closely monitored to ensure that the risk of underspends, and associated risks around delivery, are closely managed, with mitigating action taken where needed.

3.6 Wider scope requirements (continued)

Financial sustainability (continued)

Medium-to-long term financial planning

As part of the Spending Review, the Scottish Government expects bodies to set an annual efficiency target of 3% and also expects them to explore the scope to maximise the use of shared services across the public sector landscape. We have considered each of these elements as applicable to ESS as follows.

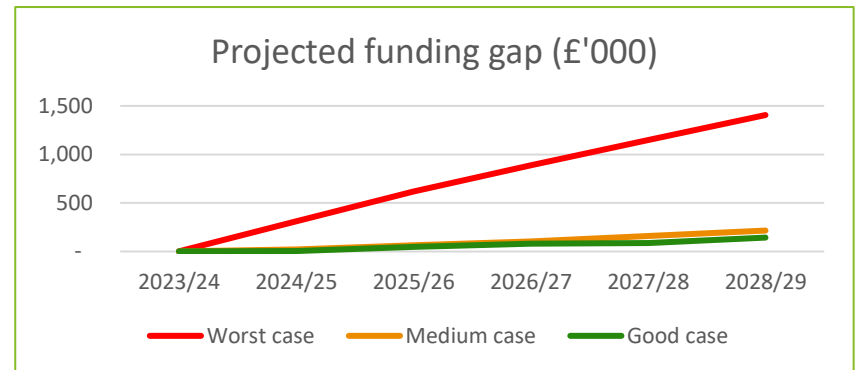
Savings targets

While the budget update reports to the Board acknowledge the need to find savings of a minimum of 3%, the budget allocations currently do not set out how that will be achieved. This is an area that ESS could incorporate into future budget setting paper to demonstrate how it is contributing to the 3% efficiency target.

Use of shared services

ESS currently has a shared service agreement in place with Scottish Government for the finance system. It is also working closely with other public sector bodies to explore options including shared office space and procurement.

The Executive Team has prepared a five year forecast of the financial position of ESS, applying worst case (10% decrease in funding each year), medium case (flat cash funding for 5 years) and good case (OBR inflation increases) scenarios. The impact of this is illustrated below, with the funding gap ranging from £142,000 to £1.4m by 2028/29.



Management have recognised that there are a number of risks not currently applied to the above scenario planning including:

- The use of judicial reviews has not been tested within ESS yet, and may be under-budgeted;
- ESS must absorb any pay awards each year as all staff part of civil service; and
- As ESS was vested in 2021, there is a degree of settling down required against budgets.

3.7 Wider scope requirements (continued)

Financial sustainability (continued)

Medium-to-long term financial planning (continued)

Strategic planning, financial planning and workforce planning are intrinsically linked and critical to the future success of any organisation. It is therefore positive to see the early thinking on the projected position over the next 5 years and plans in place to develop both a Medium Term Financial Strategy People Strategy.

ESS is taking a precautionary approach to its planning, recognising the potential funding gaps in the future and the fact that a high proportion of its costs are salaries. This includes the use of fixed term contracts to maintain an element of flexibility and ensuring that the impact of any Board decisions on the future financial position are clearly thought through.

We would recommend that the next stage in the development of a finance strategy should set out contextually more detail around the assumptions and risks impacting the medium term and how ESS propose to address the potential funding gaps.

Audit Scotland's report, published in June 2014 [Scotland's public finances – A follow-up audit: Progress in meeting the challenges \(audit-scotland.gov.uk\)](http://audit-scotland.gov.uk) includes a helpful summary of important features of a financial strategy, as summarised opposite. We would recommend that management use this as a reference for developing its strategy,

Area	Important features of a financial strategy
Period	A financial strategy should cover 5-10 years.
Cost	A clear understanding of the business model and the cost of individual activities within it
Savings options	Evidence based options for achieving savings
Savings details	Details of one-off and recurring savings
Scenario planning	Scenario planning to outline best, worst and most likely scenarios of the financial position and the assumptions used
Assets/Liabilities and Reserves	Details of assets, liabilities and reserves and how these will change over time
Capital Investment Activity	Details of investment needs and plans and how these will be paid for
Demand	An analysis of levels of service demand and project income
Funding shortfalls	Any income or funding shortfalls and how to deal with these
Strategy links	Clear links to the corporate strategy and other relevant strategies such as workforce and asset management
Risks and timescales	The risks and timescales involved in achieving financial sustainability

3.8 Wider scope requirements (continued)

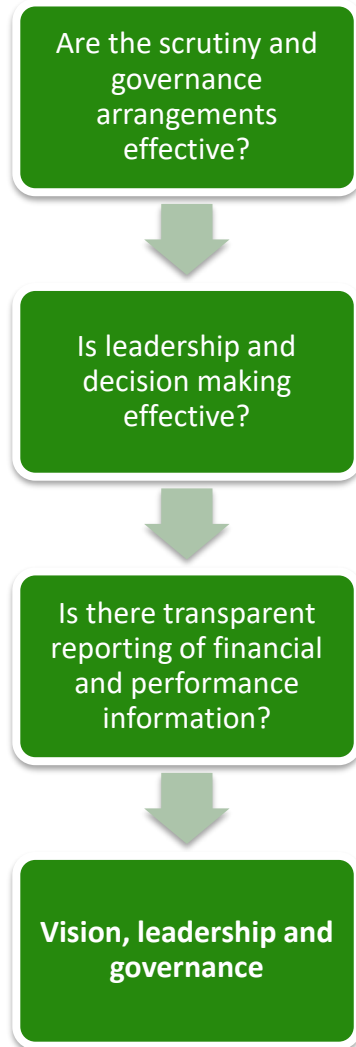
Financial sustainability (continued)

Deloitte view – Financial sustainability

ESS has achieved financial balance in 2022/23 and has confirmed funding for 2023/24 with an approved balanced budget, therefore is financially sustainability in the short term. While early work has started in developing a medium term outlook, further work is required to full develop this to be able to demonstrate that ESS is financially sustainable over the medium to longer term. We have recommended that, as ESS develop its five year plan, reference is made to Audit Scotland's publication which sets out the important features of a financial strategy.

3.9 Wider scope requirements (continued)

Vision, leadership and governance



Significant risks identified in Audit Plan

In our Audit Plan we highlighted that as a new organisation established in 2021, there is a risk that ESS does not have strong and effective leadership, and robust governance and scrutiny arrangements in place.

Vision and strategy

An Interim Strategic Plan was published in October 2021 setting out how ESS intended to carry out its role in the interim period until its final Strategic Plan was approved by the Scottish Parliament. The final Strategic Plan covering the period 2022-2025 was approved in November 2022. This was prepared following extensive consultation with a wider range of stakeholders including:

- All public authorities in relation to whom ESS has functions under the Continuity Act; and
- A wide range of organisations in the public, private and third sector with an interest in the work of ESS.

The plan clearly sets out the vision and mission statement of ESS, supported by the following strategic outcomes:

1. Taking action to ensure compliance and effectiveness.
2. Investigating the most important environmental concerns.
3. Monitoring and evaluating environmental performance and change in Scotland.
4. Engaging and communicating effectively about our role and how it raise concerns.
5. An effective and efficient organisation.

ESS plan to measure its impact through the use of both quantitative and qualitative measures. which we have considered further on page [28](#). The Strategic Plan is supported by an annual Business Plan setting out key priorities and outputs to be delivered in year one of the Strategic Plan.

3.10 Wider scope requirements (continued)

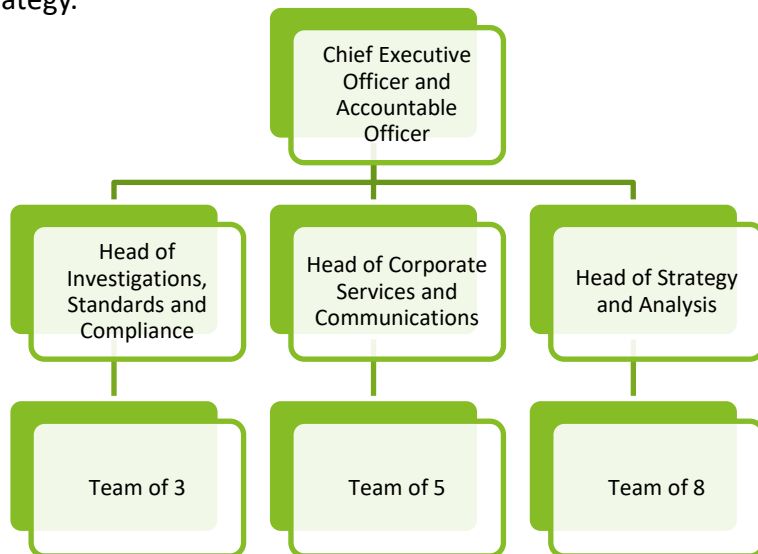
Vision, leadership and governance

Leadership

An Interim Chief Executive was in post from October 2021 to June 2022, with a permanent Chief Executive appointed from June 2022.

The Executive Team comprise the Chief Executive and three Heads of Service, as summarised below. The full complement of staff is 24, however, as discussed on page [19](#), difficulty and delays with recruitment have resulted in ESS not yet being resourced at this full complement. The Executive Team have all been recruited through external recruitment process and bring with them significant experience from other areas of the public sector.

It is positive to see plans are in place to develop a People Strategy.



The Board consisted of five Board members at 31 March 2023, appointed by Scottish Ministers, with the approval of the Scottish Parliament. A further two Board members have been appointed after the year-end to build the breadth of experience and help prepare for succession planning. All Board members received on-Board training and receive one-to-one appraisals from the Board chair. In line with best practice, there are plans in place to conduct a self assessment of the Board, as a group, as part of its away day later in 2023. The current Board have been in place before the vesting of the organisation, therefore have considerable knowledge and experience which has been valuable in the first 18 months of operation.

Governance and scrutiny arrangements

The Scottish Government Framework Agreement was signed in October 2021. This sets out the broad framework within which the ESS operates and defines key roles and responsibilities which underpin the relationship between ESS and the Scottish Ministers.

The Board standing orders were first approved in July 2021, and most recently updated in May 2022. A clear governance structure is in place, with the Board being supported by the Audit and Risk Committee (ARC), and both the Board and ARC supported by the Executive Team.

The ARC also provide oversight and scrutiny of the risk management activity. An updated Risk Register was reviewed by the ARC in June 2023, with updates provided on the work being done to mitigate the strategic risks.

3.11 Wider scope requirements (continued)

Vision, leadership and governance

Governance and scrutiny arrangements (continued)

In line with best practice, the ARC has carried out an annual self-assessment of its effectiveness, using the Scottish Government handbook. The outcome of this will then be considered as part of the Committee development session scheduled for December 2023.

We have reviewed meetings attendance from the past year and confirm that there has been well attended. In addition, from review of the minutes and observation at meetings, we can confirm that there is sufficient scrutiny and challenge exercised by members during the meetings.

Transparency of reporting

All Board and ARC minutes are publicly available through the ESS website. In line with a number of other public sector bodies, consideration should be given to publishing the Board papers to accompany the minutes to enhance the openness and transparency. Consideration should also be given to holding Board meetings in public.

The ESS website includes a comprehensive suite of information including links to strategies and plans, thereby demonstrating openness and transparency of decision making and performance information (which is considered further on page [25](#)).

Deloitte view – Vision, leadership and governance

The approved Strategic Plan sets out a clear vision for ESS. During its first 18 months of operation, an experience leadership team have been put in place, both at the Executive and non-Executive level.

Effective governance and scrutiny arrangements are in place, underpinned by clear governance documents and demonstrated through high attendance and effective scrutiny and challenge at Board and ARC meetings.

ESS is also open and transparent. This could be further enhanced by publishing Board papers on line alongside the minutes currently published and considering holding some Board meetings in public.

3.12 Wider scope requirements (continued)

Use of resources to improve outcomes



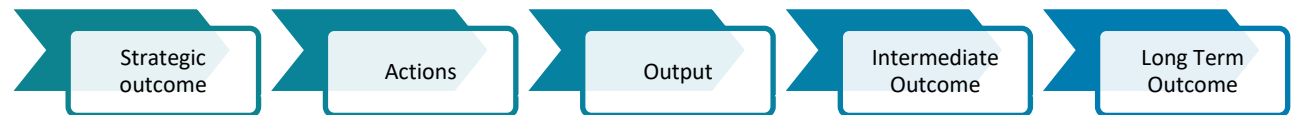
Significant risks identified in Audit Plan

In our Audit Plan we highlighted that as a new organisation established in 2021, there is a risk that ESS does not have well established performance management arrangements in place to demonstrate that resources are being directed and improved outcomes are in place, and that reporting is not timely, reliable, balanced and transparent.

Performance management framework

ESS monitor its performance against a set of performance and management indicators (PMIs) spanning its actions, outputs and intermediate and long term outcomes.

The Strategic Plan sets out a comprehensive approach to assessing performance, founded upon a “logic model” that sets out how the resources that it deploys and the actions that it takes bring about changes to Scotland’s policy and regulatory environment which, ultimately, leads to improvements to environmental quality and public health.



The above approach recognises that the outcome of ESS’ work is unlikely to be seen in the short term, but ensures processes are in place to capture the actions and outcomes that are expected to impact on both the intermediate and long term outcomes.

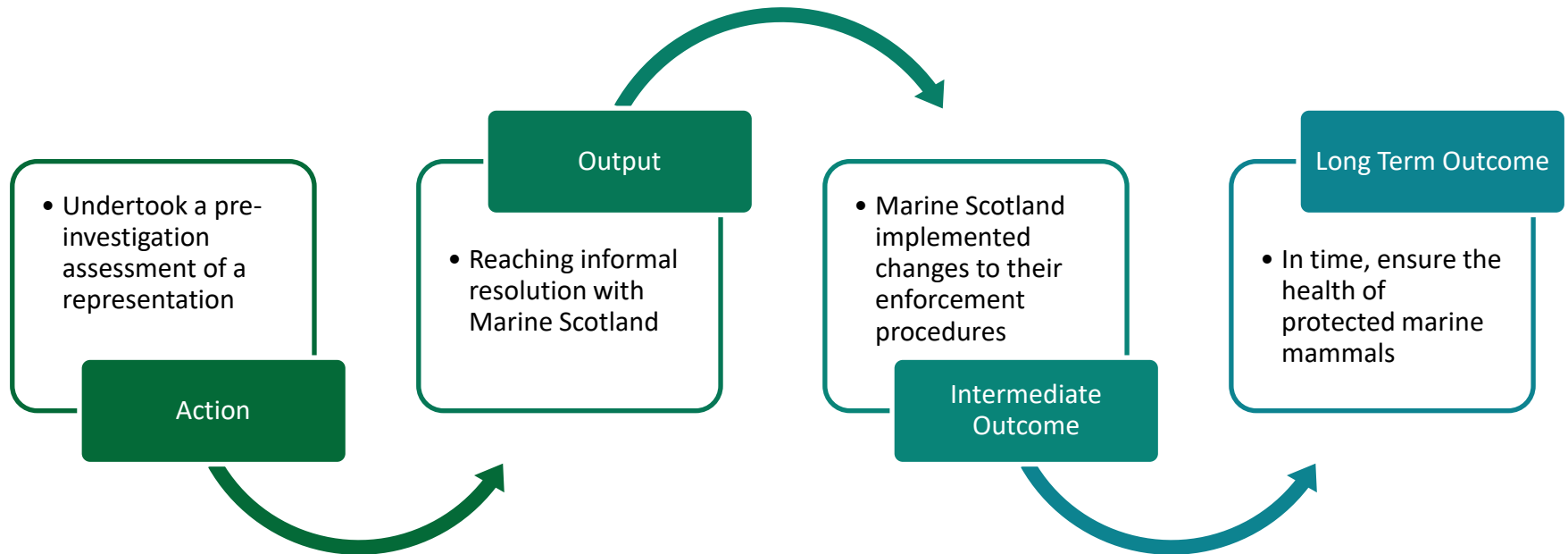
As highlighted in his blog “Christie 10-years on” [Blog: Christie 10-years on | Audit Scotland \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk/blog/christie-10-years-on/), the Auditor General for Scotland noted that Christie challenged us to make a shift towards prevention and deliver improved long term outcomes for individuals and communities. But we still measure the success of public services by short term, service specific measures. Public bodies need to rethink radically how we measure success and hold organisations to account for their performance. The approach being taken by ESS, as set out above, is a good example of how outcomes can be measured.

3.13 Wider scope requirements (continued)

Use of resources to improve outcomes

Performance management framework (continued)

The Strategic Plan sets out a useful example of how the logic model links to the work that it has undertaken to date. An example being in relation to the consideration of the regulations of Acoustic Deterrent Devices.



Deloitte view –Use of resources to improve outcomes

ESS has a clear performance management framework, and in line with best practice, have a clear approach to assessing its performance and impact on long term outcomes. We will continue to monitor how this is implemented in practice during the course of our audit appointment.

3.14 Wider scope requirements (continued)

Best value

Requirements

The Scottish Public Finance Manual (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value (BV).

Ministerial guidance to Accountable Officers for public bodies sets out their duty to ensure that arrangements are in place to secure Best Value in public services. As part of our wider scope audit work, we have considered whether there are organisational arrangements in place in this regard.

The duty of BV in Public Services is as follows:

- To make arrangements to secure continuous improvement in performance whilst maintaining an appropriate balance between quality and cost; and in making those arrangements and securing that balance;
- To have regard to economy, efficiency, effectiveness, the equal opportunities requirements, and to contribute to the achievement of sustainable development.
- BV characteristics have been recently regrouped to reflect the key themes which will support the development of an effective organisational context from which public services can deliver key outcomes and ultimately achieve best value:
 - Vision and Leadership
 - Governance and Accountability
 - Use of resources
 - Partnership and collaborative working
 - Working with Communities
 - Sustainability
 - Fairness and equality

Conclusions

ESS has a number of arrangements in place to secure best value. As noted elsewhere within this report, the Strategic Plan provides a clear vision and has specific focus on some of the BV characteristics including partnership and collaboration, sustainability and a focus on continuous improvement. An experienced leadership team have been put in place during the first 18 months of operation. Governance and scrutiny arrangements are effective.

Financial sustainability remains a key risk, as is the case across the public sector. This is recognised by the Board and leadership team, with plans in place to develop a Medium Term Financial Strategy.

Deloitte view – Best Value

ESS has sufficient arrangements in place to secure best value. It has a clear understanding of areas which require further development. Financial sustainability remains a key risk.

3.15 Wider scope requirements (continued)

Climate change

Risks identified in Audit Plan

Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impact of climate change.

The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work. For the 2022/23 audit, we have provided responses to a series of questions supplied by Audit Scotland to gather basic information on the arrangements for responding to climate change in each body. These are summarised below.

Question	ESS position
1. What targets has the body set for reducing emission in its own organisation or in its local area?	Within its Sustainability Plan: Phase 1 (2022-2025), ESS sets itself a target to reduce emissions by 75% by 2030 as part of Phase 1 of the plan.
2. Does the body have a climate change strategy or action plan which sets out how the body intends to achieve its targets?	<p>ESS has a Sustainability Plan covering the period 2022-2025. The aim of Phase 1 of the Plan includes understanding its emissions and defining a baseline measure, understanding the sources of emissions so that it can collectively implement sustainable solutions to reduce its emissions, incorporate sustainability into relevant policies and understand its impact on biodiversity and include practical solutions for improving biodiversity outcomes, where it has the influence to do so.</p> <p>The Plan sets out detail under the following key activities on how it intends to achieve its targets:</p> <ul style="list-style-type: none">• the influence and impact of its work• Travel and transport• Office based emissions• Working practices and staff engagement

3.16 Wider scope requirements (continued)

Climate change

Question	ESS position
3. How does the body monitor and report progress towards meeting its emissions targets internally and publicly?	The Plan sets out how ESS plan to demonstrate and report in the work it is doing to achieve its ambitions. This includes embedding carbon reduction and sustainability in all annual reports and working with the Carbon Trust to look at calculating the carbon footprint of all published Corporate Reports, ESS Events and overall Organisational footprint. It also plans to carry out a review of the Plan every 6 months.
4. Has the body considered the impact of climate change on its financial statements?	No specific consideration has been given to the impact of climate change on the financial statements. Given the type of public sector organisation, based in one main office site, the expected impact on the financial statements is minimal.
5. What are the areas of the financial statements where climate change has, or is expected to have, a material impact?	As above, given the type of public sector organisation, the expected impact on the financial statements is minimal. Areas that are being considered around hybrid working, travel and transport and waste management are likely to have an impact on the ongoing annual costs recognised in the financial statements.
6. Does the body include climate change in its narrative reporting which accompanies the financial statements and is consistent with those financial statements?	ESS has included a section on “Environment and Sustainability” within the Annual Report and Accounts setting out how it plans to meet the net zero objective by 2045, with a link to the Sustainability Plan. In future years, ESS should consider reporting on actual performance and progress to date once baseline data is established.

Deloitte view – Climate change

As a public sector body with one office site, and as a consequence relatively low carbon emissions, the opportunities for emissions reductions are limited. The Strategic Plan has a clear commitment on managing its impact of climate change and ESS’ role in Scotland achieving its ambitious targets for the environment, nature and climate change. It has agreed a detailed Sustainability Plan and the Annual Report and Accounts also includes a section on those plans. It is therefore clear that ESS is committed to take action to meet the Scottish Government’s ambitious targets.

3.17 Wider scope requirements (continued)

Cyber risk

Area	Management actions	Impact on ESS's Annual Report and Accounts	Impact on our audit
Cyber risk	<p>ESS recognise cyber risk as part of its wider strategic risk around Business Continuity register which is monitored by the ARC and Board.</p> <p>In response to the strategic risk, internal audit has included plans as part of the 2023/24 Internal Audit Plan to carry out a piece of assurance work focussing on cyber security.</p>	<p>Reference to the strategic risk and the mitigating action in place is reported within the Performance Report within the Annual Report and Accounts.</p>	<p>We have obtained an understanding the business and its internal controls in relation to cyber including assessing the maturity and coverage of the entity's cyber risk management programme.</p> <p>We obtained an understanding of the relevant laws and regulations in relation to the entity.</p>

4.1 Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit and Risk Committee and ESS discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report and Accounts.
- Our internal control observations.
- Other insights we have identified from our audit.

The scope of our work

Our observations are developed in the context of our audit of the Annual Report and Accounts.

We described the scope of our work in our audit plan.

Use of this report

This report has been prepared for ESS, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.


What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to ESS.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the Annual Report and Accounts and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.



Deloitte LLP
Glasgow | 26 September 2023

Appendices



5.1 Action Plan

The following recommendations have arisen from our 2022/23 audit work:

Recommendation	Management Response	Priority	Responsible Person	Target Date
<p>1. Review of year-end prepayments and accruals</p> <p>Our testing highlighted several errors within the year-end prepayments and accruals balances. Although not all above our reporting threshold, the cumulative impact on accruals was above our reporting threshold. Controls should be implemented whereby the calculations and classifications of these adjusting entries should be reviewed in detail by a second person to mitigate the risk of error within the annual report and accounts.</p>	<p>Controls will be implemented to review the calculations and classifications of prepayments and accruals to mitigate for the risk of error in the Annual Report and Accounts going forward.</p>	Medium	Head of Corporate Services and Communications	October 2023
<p>2. Review of bank reconciliation and balances at year-end</p> <p>Our audit testing identified that cash had been incorrectly disclosed in the initial version of the draft Annual Report and Accounts. This was due to the incorrect identification of a cash transaction as a reconciling item.</p> <p>It is recommended that the controls around the bank reconciliation be strengthened to ensure that the review effectively identifies any errors.</p>	<p>The treatment of the payroll transfer to the ESS Bank Account within the Annual Report and Accounts has been amended in the 2021-2023 Annual Report and Accounts, and will be correctly identified as a reconciling item going forward. Reconciliation of the bank account will also be strengthened.</p>	Low	Head of Corporate Services and Communications	October 2023

5.2 Action Plan

Recommendation	Management Response	Priority	Responsible Person	Target Date
<p>3. Financial sustainability</p> <p>We would recommend that the next stage in the development of a finance strategy should set out contextually more detail around the assumptions and risks impacting the medium term and how ESS propose to address the potential funding gaps, based on Audit Scotland publication of best practice.</p>	<p>A medium-term finance strategy report is due to be presented to the next Audit and Risk Committee meeting scheduled for 4 December 2023.</p>	Medium	Head of Corporate Services and Communications	February 2024
<p>4. Vision, leadership and governance</p> <p>Consideration should be given to publishing the Board papers to accompany the minutes to enhance the openness and transparency. Consideration should also be given to holding Board meetings in public.</p>	<p>This is an existing longer term matter arising for the Board of ESS to consider. A paper will be presented to the Board on good practice in this area for consideration in the financial year 2023/24.</p>	Low	Head of Corporate Services and Communications	March 2024

5.3 Audit adjustments

Corrected misstatements

The following misstatements have been identified up to the date of this report which have been corrected by management. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

		Debit/(credit) SOCNE £	Debit/(credit) in net assets £	Debit/(credit) prior year reserves £	Debit/(credit) Equity £	If applicable, control deficiency identified
Accruals	[1, 2]	-	(27,873)	-	-	Slide 36
Cash	[1]	-	25,836	-	-	Slide 36
Equipment expenditure	[2]	2,037	-	-	-	Slide 36
Total		2,037	(2,037)	-	-	

[1] This misstatement occurred due to incorrect identification of a transaction as a cash reconciling item. This resulted in a cash understatement of £25,836 and a corresponding accrual understatement.

[2] This misstatement relates to the omission of two transactions from the year-end accruals balance. As a result, both accruals and office equipment/computer equipment were understated by £2,037.

6.1 Our other responsibilities explained

Fraud responsibilities and representations



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the Annual Report and Accounts as a whole are free from material misstatement, whether caused by fraud or error.

Required representations:

We have asked ESS to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the Annual Report and Accounts may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.

We have also asked ESS to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error and their belief that they have appropriately fulfilled those responsibilities.



Audit work performed:

In our planning we identified the risk of fraud in operating within expenditure resource limits and management override of controls as key audit risks.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the Annual Report and Accounts.

We have reviewed the paper prepared by management for the Audit and Risk Committee on the process for identifying, evaluating and managing the system of internal financial control.

We will explain in our audit report how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.

Concerns:

No issues or concerns have been identified in relation to fraud

7.1 Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of ESS and our objectivity is not compromised.

Fees The expected fee for 2022/23, as communicated by Audit Scotland in December 2022 is analysed below:

	£
Auditor remuneration	47,600
Audit Scotland fixed charges:	
• Pooled costs	3,160
• Audit support costs	1,680
Total expected fee	52,440

Non-audit services In our opinion there are no inconsistencies between the FRC's Ethical Standard and ESS's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Relationships We have no other relationships with ESS, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.



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