



Food Standards Scotland

Final report to the Audit and Risk Committee, Board and the Auditor General for Scotland on the 2022/23 audit

Issued on 27th November 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 financial statements.
- 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 (“ARC”) of the Food Standards Scotland (“FSS”) for the 2022/23 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 procedures, we have issued an unmodified audit report.

The Performance Report and Accountability Report comply with the statutory guidance and proper practice and are consistent with the Annual Accounts and our knowledge of FSS. 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.

A summary of our work on the significant risks is provided in the dashboard on page [9](#). FSS met its financial targets for 2022/23, achieving an underspend of £270,000 against its budget.

One corrected misstatement in excess of our reporting threshold of £27,000 has been identified which is included within the Appendix to this report.

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:

- Completion of internal quality control procedures;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2023.

Conclusions from wider scope audit work

Financial management – effective budget setting and monitoring arrangements in place. Reporting to the Board could be enhanced by providing more details and direction on key areas where input and challenge is required.

Financial sustainability – financial balance has been achieved in 2022/23, however there is a budget gap for 2023/24, therefore there remains a risk that FSS is not financially sustainable in the short-term. A tactical approach has been taken to manage the budget, with a comprehensive prioritisation exercise demonstrating FSS' openness and transparency around its funding position and impact on delivery of its Strategy. While significant areas of uncertainty remain, it is important that a comprehensive Financial Strategy be developed, using scenario analysis to quantify the impact of the areas of uncertainty.

Vision, leadership and governance – FSS' current Strategy clearly sets out the organisations vision. Work is ongoing to develop the new Corporate Plan which will be effective from 2024/25, to build on the work that was done as part of the prioritisation exercise.

The Leadership and governance arrangements have seen a period of change, with changes in non-executive Board member well managed. Temporary changes to the Leadership Team structure were also implemented in the latter part of 2022/23 and will be reviewed as part of the updating of the Corporate Plan. We will continue to monitor progress with this during our audit appointment to assess the effectiveness of the leadership team.

Use of resources to improve outcomes – FSS has a detailed performance management framework in place. This could be simplified and streamlined to remove the need for multiple layers of reporting.

FSS has continued to perform well during 2022/23, recognising the financial challenges it has faced and has been open and transparent about what it can achieve. Regular reporting on performance is provided to the Finance and Business Committee (FBC) and a key set of Strategic Performance Indicators (SPIs) were developed and monitored during the year to report against the FSS strategy.

1.3 Partner introduction (continued)

The key messages in this report (continued)

Conclusions from wider scope audit work (continued)

Use of resources to improve outcomes (continued)

- While the reporting format is based on strategic outcomes and goals, and expenditure is analysed by strategic outcome, these outcomes are high level. It is positive to see the development of the Strategic Performance Indicators (SPIs) dashboard and plans to use 2022/23 as baseline for future reporting. We will continue to monitor the progress with this during our audit appointment.
- **Best value** - FSS has sufficient arrangements in place to secure best value, with a Best Value Framework approved in 2022/23. It has a clear understanding of areas which require further development. Financial sustainability remains a key risk.
- **Climate change** – Recognising the nature of the organisation, it is clear that FSS is committed to take action to meet the Scottish Government’s ambitious targets in relation to sustainability and climate.
- **Cyber risk** – Cyber security has been a high priority for FSS, with management acting quickly to address the findings raised by internal audit during the year.

Next steps

An agreed Action Plan is included on pages [42 to 49](#) of this report, including a follow-up of progress against prior year actions.

Added value

Our aim is to add value to FSS 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 FSS promote improved standards of governance, better management and decision making, and more effective use of resources. This is provided throughout the report.

Pat Kenny
Lead audit partner








Annual Report and Accounts Audit



2.1 Quality indicators

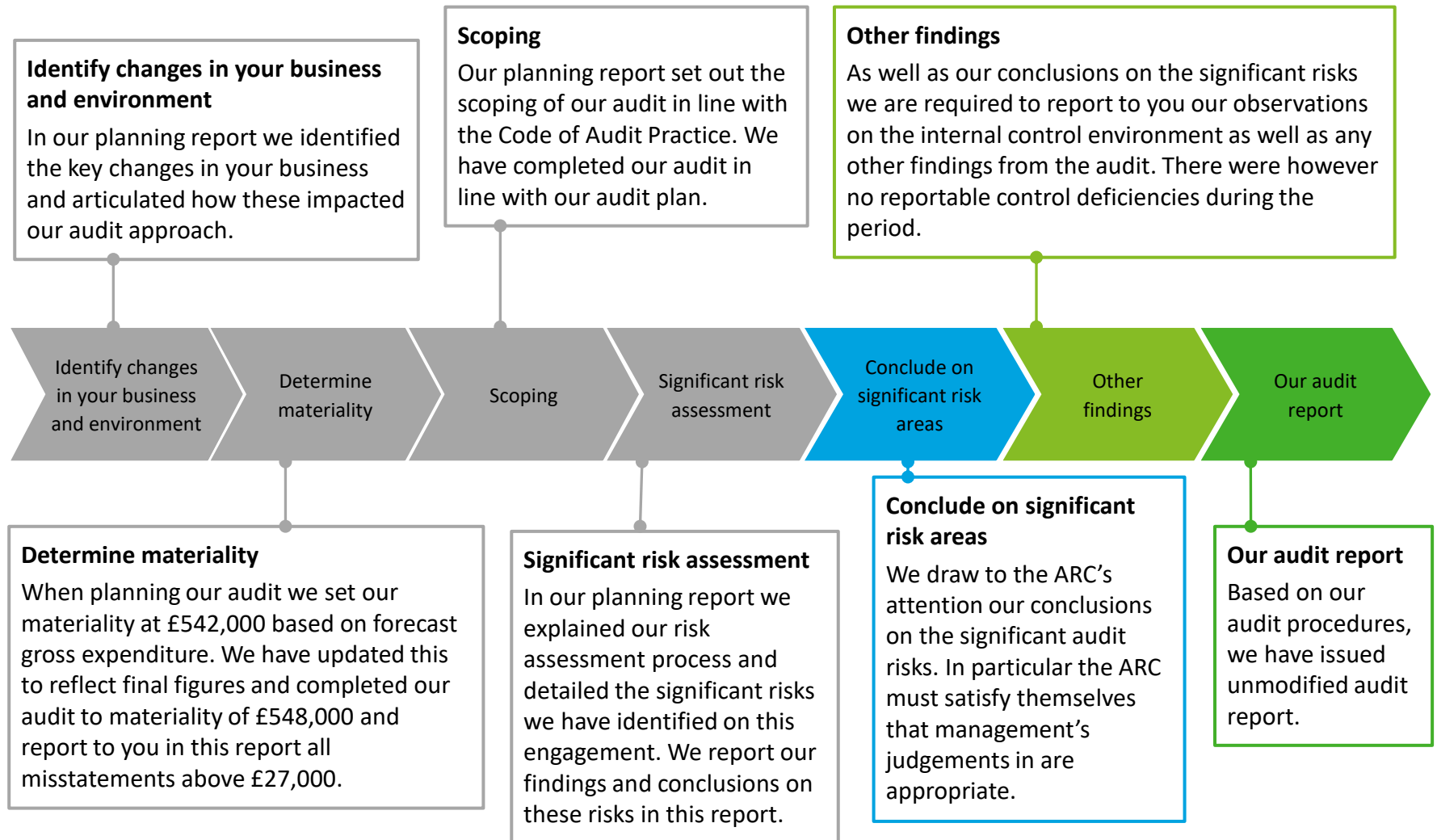
Impact on the execution of our audit

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.

| Area | Grading | Reason | Further detail |
|--|---|--|-------------------------|
| Timing of key accounting judgements |  | Information was provided by the requested deadline and covered the points required. | N/A |
| Adherence to deliverables timetable |  | Management provided deliverables within agreed timelines. | N/A |
| Access to finance team and other key personnel |  | The audit team always had access to the finance team and key personnel from beginning through to the end of the audit process. | N/A |
| Quality and accuracy of management accounting papers |  | The majority of working papers provided were of a good quality. Some areas required resubmission following clarification of exact requirements but this did not impact on audit quality or timelines of the audit. | N/A |
| Quality of draft Annual Report and Accounts |  | Quality of draft was generally of a high standard, however, areas of non-compliance were noted with regard to aspects of IFRS 16 disclosures mainly due to this being the first year of implementation. | N/A |
| Response to control deficiencies identified |  | There were no reportable control deficiencies. | N/A |
| Volume and magnitude of identified errors |  | One error was identified relating to IFRS 16 implementation however this has been subsequently corrected. | Page 40 |










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 approved budget |  |  | Satisfactory |  |
| Completeness of Fee Income |  |  | 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 financial statements 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.

We have reviewed accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, we have:

- Evaluated whether the judgments and decisions made by management in making the accounting estimates included in the Annual Report and Accounts, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. From our testing we did not identify any indications of bias.
- Performed a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the Annual Report and Accounts of the prior year.

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.

2.3.3 Significant risks (continued)

Operating within the expenditure resource limits



Risk identified and key judgements

In accordance with Practice Note 10 (Audit of Annual Accounts of public sector bodies in the United Kingdom), in addition to the presumed risk of fraud in revenue recognition set out in ISA (UK) 240, auditors of public sector bodies should also consider the risk of fraud and error on expenditure. This is on basis that most public bodies are net spending bodies, therefore the risk of material misstatement due to fraud related expenditure may be greater than the risk of material misstatement due to fraud related to revenue recognition.

We consider this fraud risk to be focused on how management operate within the resource budget set by the Scottish Government. The risk is that FSS 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 cut-off and 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 FSS 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 audit procedures, we confirm that FSS has performed within the limits set by Scottish Government, achieving an underspend of £270,000 and therefore is in compliance with the financial targets in the year.

2.3.4 Significant risks (continued)

Completeness of fee income



Risk identified and key judgements

ISA (UK) 240 states that when identifying and assessing the risks of material misstatements due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give risk to such risks.

We have assessed the income streams for FSS and concluded that the risk of a material misstatement due to fraud in relation to the Net Parliamentary Funding is limited given the funding can be agreed to confirmations supplied.

We have therefore pinpointed our significant risk on fee income, being income from official controls charged to industry (£4.5m in 2022/23). Income is based on a discounted full-cost recovery model. We have pinpointed the risk to the accuracy and cut-off of this fee income and the existence of receivables as management may be incentivised to understate the income recognised and allocate to future years given the current year projected underspend.



Deloitte response and challenge

Our work in this area included the following:

- Evaluated the design and implementation of controls around recognition of fee income;
- We focused our testing on the basis of the rates charged and the year end cut-off arrangements, testing the accuracy of fee income recognised at the year end and the existence of receivables at the year end.

Deloitte view

Based on our testing performed, we have concluded that fee income has been recorded appropriately within the Annual Report and Accounts and is complete and accurate. Controls in place around recognition of income were found to be designed and implemented satisfactorily.

2.5 Other Areas of Audit Focus

Defined benefits pension scheme

Background

FSS participates in the London Pension Fund Authority Pension Fund, which is a defined benefit scheme.

The pension balance has moved from a liability position to an asset position in 2022/23. In 2021/22, there was a pension liability of £5.4m whereas in 2022/23, there was a pension asset of £0.672m.



Deloitte response

- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work;
- We reviewed and challenged the assumptions made by Barnett Waddingham;
- We have obtained assurance from the auditor of the pension fund over the controls for providing accurate data to the actuary;
- We assessed the reasonableness of the FSS share of the total assets of the scheme with the Pension Fund Annual Accounts;
- We have reviewed and challenged the calculation of the impact of the McCloud and Goodwin cases on pension liabilities;
- We have assessed whether the recognition of the asset is in line with standards and within the rules of the pension scheme; and
- We reviewed the disclosures within the accounts against the FReM.

| | FSS | Comments |
|---|-----------|------------|
| Discount rate (% p.a.) | 4.8% | Reasonable |
| CPI Inflation (% p.a.) | 2.9% | Reasonable |
| Pension increase (CPI)(% p.a.) | 2.9% | Reasonable |
| Salary increase (% p.a.) | 3.9% | Reasonable |
| Mortality - Life expectancy of a male/ female pensioner from age 65 (currently aged 65) | 19.5/22.5 | Reasonable |
| Mortality - Life expectancy of a male/ female pensioner from age 65 (currently aged 45) | 20.6/24.5 | Reasonable |

Deloitte view

An adjustment of £4.2m was recorded to cap the pension asset at £0.672m, as the initial report from the actuary had incorrectly omitted the cap. Deloitte agrees with the final balance in the accounts.

We have concluded that the net pension asset in relation to the defined benefit pension scheme is fairly stated.

2.6 Other significant findings

Financial reporting findings

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

Qualitative aspects of your accounting practices:

FSS'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:

No significant matters discussed with management.

Regulatory change

IFRS 16, Leases, came into effect on 1 April 2022, therefore 2022/23 is the first year of implementation. This required adjustments to recognise on balance sheet arrangements previously treated as operating leases.

We tested the completeness of leases identified on transition. FSS has one lease, being its office accommodation. We tested the transactions to assess accuracy of the Right of Use Asset and lease liability. We identified that the right of use asset and lease liability were understated resulting in associated adjustments in the depreciation and interest expense. Additionally, no separate disclosures for Right of use asset and liabilities or transitional adjustments were identified. Adjustments agreed with management are noted in the Appendix to this report.

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 FSS 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.

2.7 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 financial statements is 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 financial statements 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 [16](#).

2.8 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 FSS's performance, both financial and non-financial. It also sets out the key risks and uncertainties faced by FSS. | <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.</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.</p> |

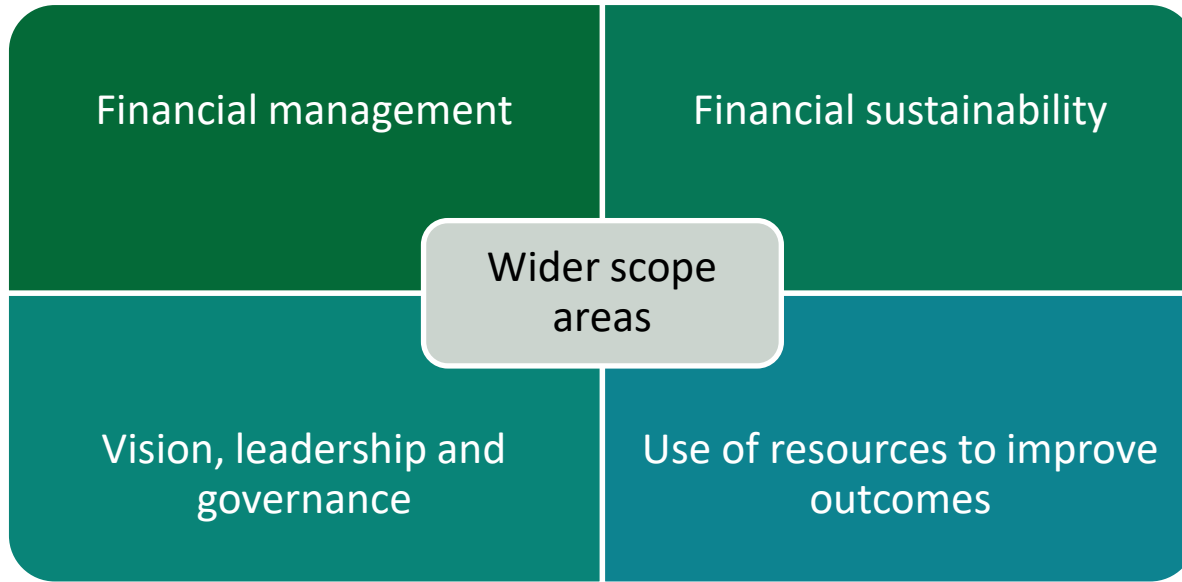
Wider scope audit



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.



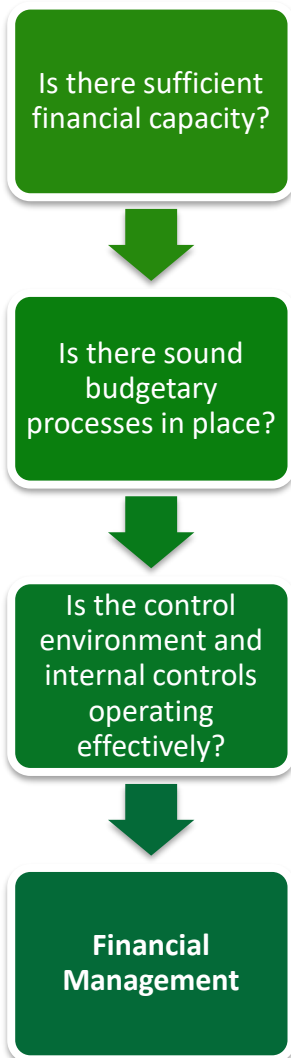
In its planning guidance, Audit Scotland has also highlighted the following national or sectoral risks that the Auditor General and Accounts Commission wish auditors to consider at all bodies during the 2022/23 audits:

- Climate change.
- Cyber security.

Our audit work has considered how FSS 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.

3.2 Wider scope requirements (continued)

Financial management



Significant risks identified in Audit Plan

We did not identify any significant risks in relation to financial management during our planning work. We therefore restricted our audit work to reviewing the budget monitoring to the Board during the year to assess whether financial management and budget setting has continued to be effective.

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, FSS' budget allocation appears as distinct line 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 FSS. However, given the Board has ultimate responsibility for FSS, in accordance with the Framework Agreement, the Board needs to assure itself that procedures are in place to ensure the propriety and probity of public expenditure.

After receiving the allocation, FSS has flexibility to determine how that money is spent and is split at a high-level between staffing costs, admin costs, programme costs and capital expenditure. A paper was noted by the Board in March 2022, setting out the indicative budget allocation of the resource budget confirmed within the Scottish Government budget of £22.6 million. A further update was provided to the Board in June 2022 following refinement by the Executive team and confirmation of additional resource, as summarised in the table on the following page. The initial budget allocation was over-allocated by £0.9m, and revised to an over-allocation of £1.9m in the June 2022 update. Within the budget papers, it is noted that the Executive Team have factored a 13% vacancy assumption based on the current levels.

FSS has reported an underspend of £270,000 (1%) at the end of the year against its updated budget allocation of £26.2 million. The key reasons for the variance was largely as a result of underspends in staff costs, offset by overspends in programme costs. At the end of quarter 2, FSS was reporting an underspend of £1.3 million as a result of the removal of several projects to reduce expenditure and underspends in staff cost due to a hold on recruitment given the initial over-allocation of budget and lack of additional funding. As a result of seeing the increased underspend, projects were reassessed, as part of the strategic prioritisation exercise discussed further on page [25](#).

3.3 Wider scope requirements (continued)

Financial management (continued)

Current year financial performance (continued)

The budget papers to the Board are set out in a series of narrative sections describing the assumptions and key risks. The format of the reporting could be improved through the use of more tables and charts to demonstrate the impact of each of the assumptions and risks and help direct the Board to the areas of most significance which need more scrutiny and challenge. In addition, while there is no specific requirement in the Framework Agreement for the Board to approve the budget, as the Board has ultimate responsibility for FSS, we would expect there to be clearer direction of the Board's required input and challenge of the budget. Currently the Board is only asked to "note" the budget.

As noted below, the amounts allocated within the approved budgets were in excess of the funding available. While this has been closely monitored throughout the year, resulting in an underspend being achieved at the end of the year, best practice is for options to be clearly set out as to how management propose to make the savings required. These options should set out the potential implications so that any decisions can be made in a timely manner. This has partly been considered as part of the prioritisation exercise discussed further on page [25](#), however, we would recommend that this is part of the formal budget setting process to demonstrate how the Board intends to achieve a balanced position.

| 2022/23 Budget | March 2022 budget (£m) | June 2022 budget (£m) | Final budget (£m) | Actual Outturn (£m) | Variance (£m) |
|---|------------------------|-----------------------|-------------------|---------------------|---------------|
| Resource budget | 22.6 | 22.6 | 22.6 | | |
| Additional funding | | 0.3 | 0.3 | | |
| Total funding | 22.6 | 22.9 | 22.9 | 22.7 | (0.2) |
| Total allocated | 23.50 | 24.8 | | | |
| (Over)/under allocated | (0.85) | (1.9) | | | |
| Annual Managed Expenditure (AME) budget | 0.4 | 0.4 | 0.4 | 0.3 | (0.1) |
| IFRS 16 technical change | | | 2.9 | 2.9 | - |
| Total | 23.9 | 25.2 | 26.2 | 25.9 | (0.3) |

3.4 Wider scope requirements (continued)

Financial management (continued)

Current year financial performance (continued)

The Senior Management Team, Board and the FBC regularly review progress against budget through the year, with quarterly reporting to the Board. Any variances arising during the year are clearly reported and there is a clear link between the financial information reported in the year and the Annual Report and Accounts.

Finance capacity

The finance team has continued to be led by the Director of Corporate Services and the Head of Finance and Procurement during the year. The team operated part of the year (from July to February) with the Financial Accountant post vacant as a result of the recruitment freeze. This post was filled in February 2023. The team continue to face the challenge of retention of staff, however, this is being managed through the use of temporary staff. We have not identified any risks with the teams capacity and capability that would impact on the financial management of FSS.

Internal controls and internal audit

FSS relies upon the financial systems provided by the Scottish Government, in particular the general ledger, HR and Payroll systems. A detailed Framework Agreement is in place, which was signed in 2021. As part of this, FSS use the services of the Scottish Government's internal audit team.

We have assessed the internal audit function, including its nature, organisational status and activities performed. 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.

The 2022/23 Internal Audit Plan was approved by the ARC in March 2022 and comprised four piece of assurance work covering information security and cyber resilience, FSS Audit Assurance Branch, Procurement Arrangements and People Strategy, along with two advisory piece of work. The plan included 126 audit days. Detailed reports are provided to the Committee for each project. The audit on the People Strategy was not completed in the year and has been deferred and included in the 2023/24 Plan as part of a wider review of HR, Workforce Planning and People Strategy.

Standards of conduct for prevention and detection of fraud and error

We have assessed FSS' arrangements for the prevention and detection of fraud and irregularities. This has included specific considerations in response to the Audit Scotland 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.

3.5 Wider scope requirements (continued)

Financial management (continued)

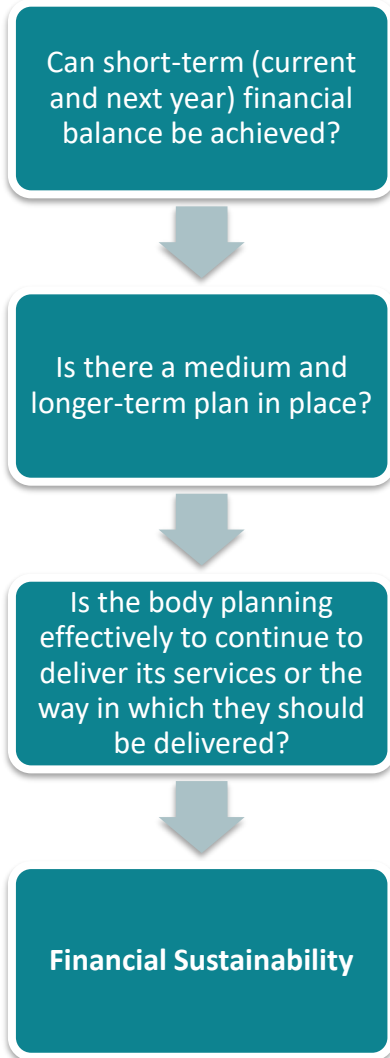
Deloitte view – financial management

FSS continues to have effective budget setting and monitoring arrangements in place, ending the year with small underspend. This is supported by an experienced Head of Finance and Procurement and a robust internal audit function, as well as appropriate arrangements for the prevention and detection of fraud and error. While there have been changes in the senior finance team during the year, this is being actively managed.

The reporting to the Board could be enhanced by incorporating more detail on the assumptions and risks at the time of setting the budget. This should also include a clearer direction on the areas that FSS is looking for input and challenge from the Board.

3.6 Wider scope requirements (continued)

Financial sustainability



Significant risks identified in Audit Plan

In our audit plan we identified that there was a significant risk that FSS does not have sufficient plans in place to manage its finances sustainably, deliver its statutory functions and meet its objectives set out within its Corporate Plan, over the medium-to-longer term. This was as a result of the following factors:

- The impact of leaving the EU and actual experience post-exit is bringing significant financial and staffing pressures on pre-existing and ongoing operational delivery.
- The June 2022 Scottish Government announcement relating to the spending review significantly impacted FSS, with a real term cut of spending.
- The impact of external policy pressures, including decisions to deregulate by UK Government in pursuit of EU Exit Benefits, legislation lost, within restricted timelines.
- Potential changes in relation to Scottish Veterinary Services.

We have considered these aspects on the following pages.

2023/24 budget setting

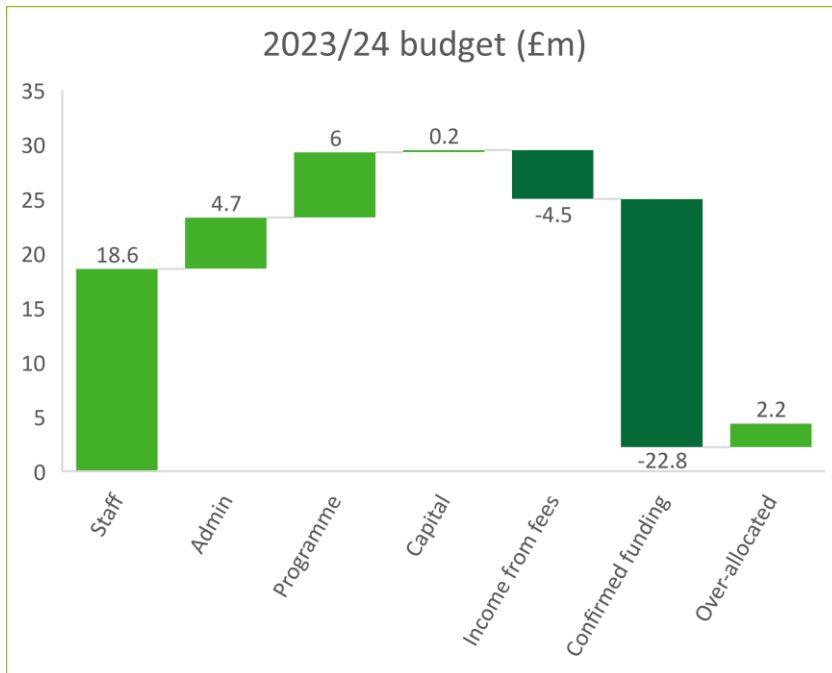
As explained on page [20](#), currently the Board is only asked to “note” the budget. While there is no specific requirement in the Framework Agreement for the Board to approve the budget, as the Board has ultimate responsibility for FSS, we would expect there to be clearer direction within the budget papers on the Board’s required input and challenge of the budget.

In a similar approach to 2022/23, discussed on page [19](#), a paper was considered by the Board in March 2023 setting out the financial approach to 2023/24. This confirmed the baseline resource allocation within the Scottish Budget Bill of £22.6m, being the same as 2022/23. It was estimated that this represented a real term cut of approximately £2m. An update was provided in June 2023 confirming the allocations, as summarised in the chart on the following page.

3.7 Wider scope requirements (continued)

Financial sustainability

2023/24 budget setting (continued)



As illustrated above the budget is “over-allocated” by £2.2m, i.e. the budget is not balanced. While management plan to monitor this closely during the year, there are currently no plans in place to set out options as to how these efficiencies will be achieved. There remains a risk that financial balance cannot be achieved. It is important that these are developed to ensure sufficient consideration of any potential impact on delivery, should savings need to be made.

As discussed on page [20](#), the format of the reporting to the Board could be improved to help direct the Board to the areas that require greater scrutiny and challenge. It is positive to see final budget allocation analysed by strategic outcome and goals, which is in line with good practice. However at present, the reports are at a very high level and could be enhanced by incorporating areas such as:

- Analysis of budget bids versus final budget allocations to increase transparency over the Strategic Leadership Teams prioritisation work.
- Further analysis to support the 7.5% vacancy assumption (increased from 5% in the March 2023 paper), including basis of assumption and impact if this was to vary in the year using scenario analysis.
- Scenario analysis and options to address the risk that the final pay settlement agreed is greater than the 2% assumption included in the budget.
- Savings plans to set out how the £2.2m gap will be managed, including what impact these options will have on delivery of objectives.

3.8 Wider scope requirements (continued)

Financial sustainability

2023/24 budget setting (continued)

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 FSS as follows.

Savings targets

- As discussed on page [24](#), while FSS has a funding gap, there are currently no efficiency savings plans in place. This should therefore be considered as part of the development of the FSS budget to demonstrate how this target is being achieved.
- [FSS is in the early stages of digital transformation which is expected to drive efficiencies. We have considered this further under “Medium-to-long term financial planning” on page 28.](#)

Use of shared services

FSS currently have a number of shared service agreements in place including the Procurement, HR and finance functions with Scottish Government.

FSS has also recently gone to the market to recruit a Data Analyst to support the digital transformation work which is a co-funded post with the Scottish Government’s Marine Analytical Unit to ensure sufficient analytical oversight and to support learning and development.

Medium-to-long term financial planning

FSS developed a medium term Financial Management Plan for the period 2022-26, following the approval of the Corporate Strategy 2021-26. This was considered by the SLT, but has not been considered by the Board and is somewhat superseded by the work that was done, and approved by the Board in December 2022 to re-prioritise its priorities for 2023/24. This included some scenario analysis, mainly in relation to variations in funding and cost scenarios for different increases in pay costs and changes in other expenditure, however, did not provide overall pictures for these different scenarios.

In December 2022, the SLT and the Board recognised that there was a need to take a tactical approach to managing its budget, with a need to re-set and re-plan. This was as a result of the following:

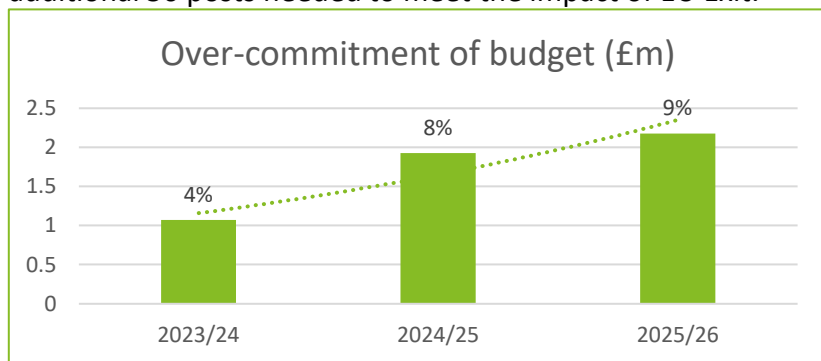
- A business case was submitted to Scottish Government outlining the rationale for additional funding of £2.9m to fund a further 56 staff to deliver work as a result of EU Exit that was not planned for or expected in the original business case setting out the financial impact of EU Exit. This funding was not approved.
- The recruitment freeze put in place by FSS as additional funding from the Scottish Government was not approved, leading to concerns about the health and well-being of the organisation and its staff.
- As a result of the above, there was a recognition that FSS could not continue to deliver what it proposed in its 2021-26 Corporate Strategy.

3.9 Wider scope requirements (continued)

Financial sustainability

Medium-to-long term financial planning (continued)

The re-prioritisation work demonstrates FSS' openness and transparency and is a positive step in recognising that action was required to ensure that resources were being deployed to the correct areas. The financial plan identified the following increasing over-commitment of budget if prioritisation work was not progressed. These figures did not take into account the significant vacancies that were being carried which are resulting in reduced costs (295 posts filled in December 2022) or the additional 56 posts needed to meet the impact of EU Exit.



The prioritisation of functions and tasks was assessed against a set of FSS organisation descriptors, principles and associated weightings. Other factors were then taken into account, such as interdependencies with other functions, contractual requirements, whether the function is an organisational enabler, produces an efficiency or seeks to address a FSS strategic risk.

Following the assessment, functions/tasks were split into the functions proposed as “must do”, “stopped”, “paused”, to “continue with an exit strategy or scaled appropriately” and “continue as provide corporate support”.

FSS confirmed that no external consultation was required as the proposals didn't change its statutory obligations and nothing proposed to be stopped posed a direct risk to public health. Scottish Government Ministers were given the opportunity to have any observations to inform the Board's consideration.

A further update was considered by the Board in March 2023 looking at the remaining 2023/24 and proposed 2024/25 deliverables that are recommended as stopped, paused on scaled back.

As part of the prioritisation work, the organisation structure was reviewed and a reconfiguration agreed for an initial period of six months. This is expected to stay in place until the end of 2023 at the latest. The changes are expected to create the initial capacity at a senior level to allow a full review of the impact of the prioritisation work and consideration of the implications of decisions made, with a view to looking to develop a more sustainable structure and ways of working. This was communicated to all staff in January 2023 along with a series of “Q&As”, and the Board advised in February 2023. This change in structure is expected to cost around £14,000 as a temporary re-configuration cost until full implementation which is likely to be £300,000 as a full year cost.

3.10 Wider scope requirements (continued)

Financial sustainability

Medium-to-long term financial planning (continued)

While the re-prioritisation work is a positive step given the funding challenges and ongoing uncertainty, it is not clear within the papers to the Board whether the decisions made are sufficient to reduce the funding gap identified in the financial plan. At a high level, the paper sets out that the prioritisation exercise results in 29 FTE no longer being required from 1 April 2023, with a financial impact of £1.5m. This alone does not cover the funding gap for 2023/24 and 2024/25.

While we recognise that there remains significant areas of uncertainty around the remit of FSS, including the Retained EU Law Bill and the Scottish Veterinary Service, it is important that the Board has a clear picture of the financial challenges that it faces clearly articulated in an approved Financial Plan, including how it then plans to address this with a clear action plan. We therefore recommend that a comprehensive Financial Strategy be developed, aligned to the updated Corporate Plan and Workforce Plan. Scenario analysis can be used to quantify the impact of the particular areas of uncertainty.

Audit Scotland's report in June 2014 [Scotland's public finances – A follow-up audit: Progress in meeting the challenges \(audit-scotland.gov.uk\)](#) 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 medium-to-long term 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 |

3.11 Wider scope requirements (continued)

Financial sustainability

Medium-to-long term financial planning (continued)

As part of the re-prioritisation exercise, data and digital transformation was identified as one of the priority areas and a presentation was provided to the Board in October 2022. This recognised that digital transformation is key to FSS' ability to work smarter, but also requires the organisation to upskill staff so that it can make the best of digital capability. As part of the organisation restructure, a new Head of Digital post was created within the Corporate Services Directorate.

A Digital and Data Governance Steering Board (DDGSB) has recently been established, with its Terms of Reference agreed on 30 June 2023. The primary purpose of the DDGSB is to provide strategic direction and facilitate the use and development of appropriate digital and data systems and solutions aligned to the strategic goals of FSS. The DDGSB will report six monthly to the Executive Management Board and annually to the FBC and FSS Board. The DDGSB will also report to the SAFER Programme Board at each of its meetings.

The DDGSB and the associated digital transformation work remains at early stages, with plans in place to develop guidance on how FSS business areas can present their digital initiatives and requirements. It is important that as part of this development, any business cases for digital transformation are supported with an analysis of the expected benefits of each projects – both from a financial perspective but also how it will improve outcomes. A benefits realisation tool then needs to be developed to allow FSS to monitor the success of the projects and help inform the medium-to-longer term financial planning.

Seven priority areas:

- The Regulatory Strategy and Scottish Authorities Food Enforcement Rebuild (SAFER) programme
- Food crime and incidents
- Data and digital transformation
- Official Controls (OC) for food and feed
- Scottish Veterinary Service (SVS)
- Retained European Union Law (REUL)
- Diet and nutrition

3.12 Wider scope requirements (continued)

Financial sustainability

Deloitte view – Financial sustainability

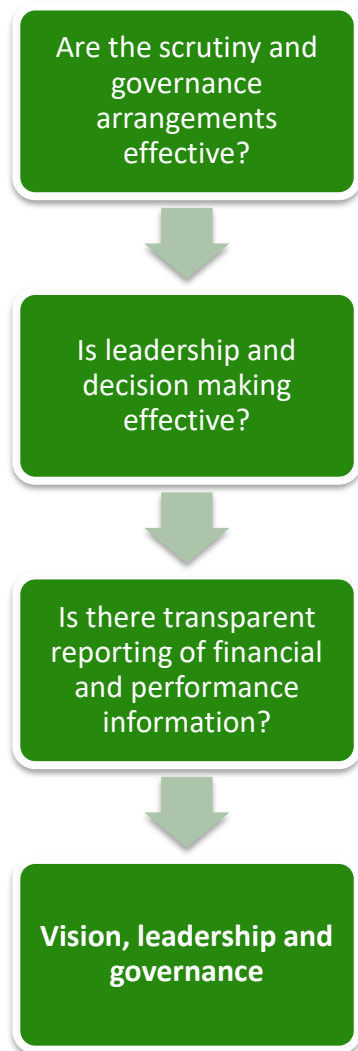
FSS has achieved financial balance in 2022/23, however, the internally allocated budget for 2023/24 is in excess of the confirmed funding. This will be reviewed by management at the mid-year point to assess any further action required. There, however, remains a risk that FSS is not financially sustainable in the short-term. It is important that this is continually monitored and action taken as required during the year. As part of the annual budget setting process, FSS should clearly set out its plans to achieve the savings required so that they can be appropriately planned and implemented. In addition, at present the budget papers considered by the Board are at a very high level and could be enhanced by including more details, such as quantifying assumptions, scenario analysis, to direct the Board in the key areas that require input and challenge.

Management and the Board has recognised the need to take a tactical approach to managing its budget given the flat cash funding settlement, the increasing workload as a result of EU exit and the Scottish Government recruitment freeze. The re-prioritisation exercise is a good example of how FSS is being open and transparent about its funding position and what that means in terms of its strategy. It is, however, not clear whether the prioritisation actions agreed are sufficient to address the funding gap over the medium term. While we recognise that there remains significant areas of uncertainty around the remit of FSS, a comprehensive Financial Strategy should be developed, aligned to the updated Corporate Plan and Workforce Plan. Scenario analysis can be used to quantify the impact of the particular areas of uncertainty.

FSS is at early stages of digital transformation. It is important that as part of this development, any business cases for digital transformation are supported with an analysis of the expected benefits of each project – both from a financial perspective but also how it will improve outcomes. A benefits realisation tool then needs to be developed to allow FSS to monitor the success of the projects and help inform the medium-to-longer term financial planning.

3.13 Wider scope requirements (continued)

Vision, leadership and governance



Significant risks identified in Audit Plan

In our audit plan, we identified an increased risk around the effectiveness of the governance and leadership arrangements in place as a result of a number of changes in the Board during the year including a new Board Chair and new ARC Chair. In addition, a revised temporary senior management team structure was agreed following the approval of the prioritisation work at the Board meeting in December 2022.

Vision and strategy

FSS' current Strategy "Healthy, Safe, Sustainable: Driving Scotland's Food Future" covers the period 2021-2026. This sets out the organisations vision, mission along with its aims and statutory objectives as defined in Food (Scotland) Act 2015.



The Strategy then goes on to set out the five strategic outcomes which underpin the vision and contribute to the Scottish Government's National Outcomes.

The Corporate Plan 2021-2024 supports the Strategy and sets out the priorities over the three year period, along with six goals that are intended to contribute to the strategic outcomes. As discussed on page [25](#), as a result of the prioritisation exercise, FSS has considered the impact of this on the Corporate Plan and will be taken into account as the new Corporate Plan is developed over the remainder of 2023/24.

3.14 Wider scope requirements (continued)

Vision, leadership and governance

Leadership

As part of the prioritisation work discussed on page [25](#), FSS undertook to review its organisational structure, resulting in a temporary SLT structure put in place from 1 February 2023, for an initial period of 6 months. The rationale for this change was the need to drive efficiency and effectiveness on the agreed priorities, whilst presenting development opportunities. The new structure was intended to create capacity and increase diversity of expertise at a senior level to improve resilient and strategic focus.

We recognise that this structure is temporary and plans are in place to review as part of the updating of the Corporate Plan. We will continue to monitor progress with this during our audit appointment to assess the effectiveness of the leadership team.

A number of changes were made to the Board during the year including a new Board Chair and new ARC Chair.

A comprehensive induction pack was provided to the new members of the Board with separate sessions held with key members of staff.

In line with good practice, an annual self-assessment of the Board, and the newly established FBC should be carried out, to identify any areas for further support and development.

This is in accordance with the Scottish Government “On Board” guidance for members of statutory boards. [On Board: A Guide for Members of Statutory Boards \(www.gov.scot\)](http://www.gov.scot)

Governance and scrutiny arrangements

The Scottish Government Framework Agreement was revised and updated in 2021. This sets out the strategic relationship and a number of shared principles between FSS, the Scottish Government and the Scottish Parliament.

It also describes FSS’ financial and wider accountability and its approach to staffing and organisational matters and therefore forms a key part of the governance and accountability framework within which FSS operates.

The ARC continues to be a key element of the governance arrangements in place. In line with good practice, the Committee carries out an annual self-assessment of its effectiveness, the outcome of which was reviewed by the ARC in November 2022.

The ARC also provide oversight and scrutiny of the risk management activity. An updated on the Strategic Risk Register and the Strategic Issues Register is provided to each meeting.

3.15 Wider scope requirements (continued)

Vision, leadership and governance

Governance and scrutiny arrangements (continued)

As a change to the governance arrangements in 2022/23, the Board introduced a FBC “to give high level oversight of financial and operational matters at Board level and support the translation of policy into effective results through a process of constructive challenge”.

Oral updates are provided to each Board meeting from both the ARC and FBC. The openness and transparency of these meetings could be further enhanced by publishing the minutes on the FSS website, alongside the Board minutes.

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

Transparency of reporting

All Board minutes and papers are publicly available through FSS’ website. Board meetings also continue to be held in public in line with good practice. As noted on the previous page, this could be further enhanced by publishing minutes of the Board committees.

The FSS website includes a comprehensive suite of information including links to strategies and policies and annual report and accounts, thereby demonstrating openness and transparency of decision making and performance information.

Deloitte view – Vision, leadership and governance

FSS’ current Strategy clearly sets out the organisations vision, mission along with its aims and statutory objectives as defined in Food (Scotland) Act 2015. Work is ongoing to develop the new Corporate Plan which will be effective from 2024/25, to build on the work that was done as part of the prioritisation exercise.

The Leadership and governance arrangements have seen a period of change, with changes in non-executive Board members, including the Chair of the Board and the Chair of the ARC and new FBC introduced. The transition has been well managed. The Board, and the newly established FBC, should carry out an annual self-assessment, similar to that in place for the ARC

Changes to the Leadership Team structure were also implemented in the latter part of 2022/23. We recognise that this structure is temporary and plans are in place to review as part of the updating of the Corporate Plan. We will continue to monitor progress with this during our audit appointment to assess the effectiveness of the leadership team.

FSS continues to be open and transparent.

3.16 Wider scope requirements (continued)

Use of resources to improve outcomes

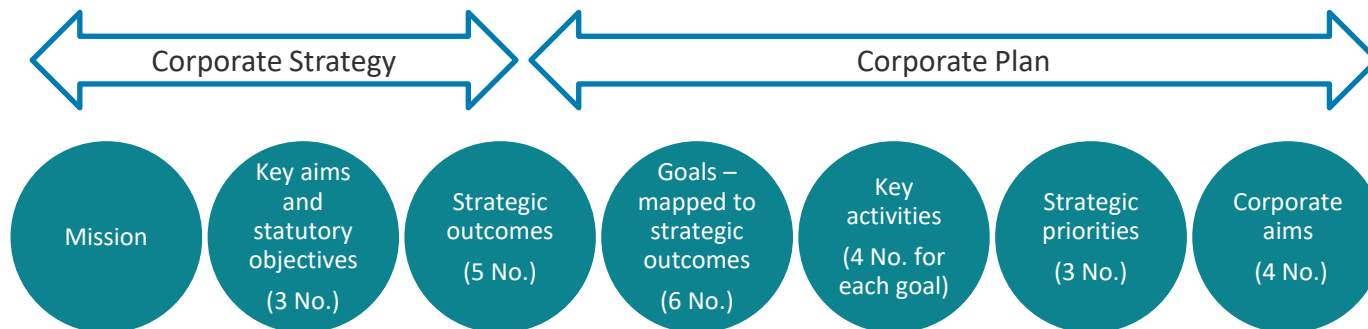


Significant risks identified in Audit Plan

In our audit plan we highlighted that due to significant delays in recruitment, FSS has a high number of vacancies, resulting in a risk around its ability to deliver on its operation services. In addition, linked with the financial sustainability risk, there is a risk that performance management systems are not sufficient to demonstrate how resources are being directed to improve outcomes.

Performance management framework

FSS had historically monitored its performance in accordance with its strategic outcomes, goals and deliverables set out within its Corporate Plan. As explained on page 30, the Corporate Strategy 2021-26 sets out the three high level aims and statutory objectives of FSS. The more detailed Corporate Plan 2021-24 goes on to set out its five strategic outcomes, with delivery of these based on six goals, each of which is supported by four key activities. The overall framework is complex and while details are provided within both the Corporate Plan and the Annual Report and Accounts to illustrate how the goals contribute to the strategic outcomes, consideration should be given to streamlining the arrangements to allow a clearer link between the activities (and associated SPIs) and the Corporate Strategy and remove the multiple layers of reporting. We have illustrated the complex nature of the current structure below.



3.17 Wider scope requirements (continued)

Use of resources to improve outcomes

Performance management framework (continued)

The current performance management framework operates at three distinct levels:

- Strategically reporting against SPIs (discussed further opposite), considered by the FBC.
- Performance against the Corporate Plan deliverables, also considered by the FBC.
- Business Delivery and Performance Dashboard, considering more operational performance at the Executive Management Board.

As noted on page [32](#), publishing the minutes and papers from the FBC would enhance FSS' openness and transparency of its performance.

The Strategic Plan includes a page setting out how FSS's outcomes contribute to the Scottish Government's National Performance Framework, which is in line with good practice. However, this is currently at a very high level.

As highlighted in his blog "Christie 10-years on" [Blog: Christie 10-years on | Audit Scotland \(audit-scotland.gov.uk\)](#), 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. However 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.

During 2022/23, a key set of SPIs were developed to report against the FSS Strategy. These allowed a more focus report on progress towards FSS strategic outcomes complementing the already established Corporate Plan deliverables and Performance monitoring slide deck. These have been reported to the FBC quarterly during 2022/23, with this year being used as a baseline for reporting in future ARAs.

The FSS Board and Management Short Life Working Group has been reconvened to reflect on the strategic indicators to ensure they are still appropriate and consider the target and trend setting.

The Annual Report and Accounts (ARA) includes detailed narrative of the work that has taken place across the year, linked to the goals and strategic outcomes. This demonstrates the vast amount of varied work ongoing across the organisation. However, the current reporting format makes it difficult to see how the activities are impacting on the strategic outcomes, due to the lack of targets (where relevant) and trend information. The SPIs provide years of trend information which enables Board and EMB members to examine, monitor and scrutinise strategic performance and how trends are being positively or negatively affected by FSS activity.

Inclusion of a performance dashboard, similar to that considered by the FBC quarterly, is planned from 2023/24. The dashboard will be used in conjunction with the current reporting on the corporate plan to provide an overview of the delivery of the strategic outcomes.

3.18 Wider scope requirements (continued)

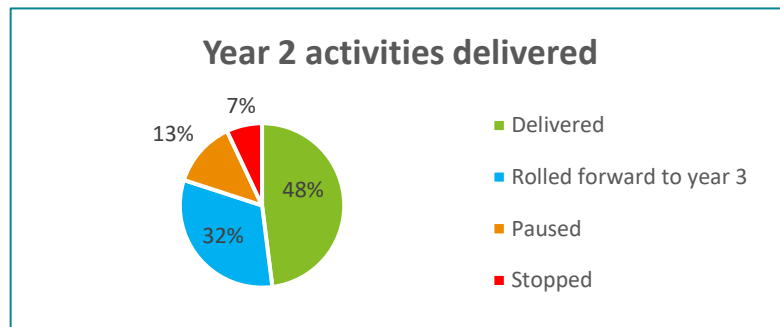
Use of resources to improve outcomes

Performance management framework (continued)

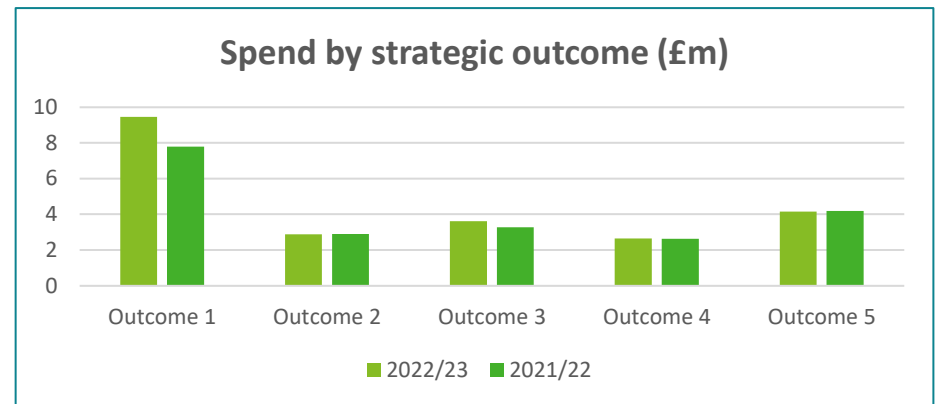
This is a positive step and essential to help demonstrate where outcomes are being achieved or where performance is below expectation and requires further action. We will continue to monitor the progress with this during our audit appointment.

Performance data

A summary of the performance reported in the ARA is summarised below. The status of year 2 activities is consistent with the prioritisation exercise discussed on page [25](#) and has been transparently reported.



It is also positive to see that the expenditure incurred by FSS is analysed by strategic outcome, which helps demonstrate how the resources are focused, as illustrated opposite. However, the lack of reporting outcome based SPIs makes it difficult to see whether the investment is having the expected results in terms of improved outcomes. This is an area that the FSS should consider where reporting can be enhanced to demonstrate the impact the work that it is doing.



Deloitte view –Use of resources to improve outcomes

FSS has a detailed performance management framework in place. This could be simplified and streamlined to remove the need for multiple layers of reporting.

FSS has continued to perform well during 2022/23, recognising the financial challenges it has faced and has been open and transparent about what it can achieve. Regular reporting on performance is provided to the FCB and a key set of SPIs were developed and monitored during the year to report against the FSS strategy. While the reporting format is based on strategic outcomes and goals, and expenditure is analysed by strategic outcome, these outcomes are high level. It is positive to see the development of the SPIs dashboard and plans to use 2022/23 as baseline for future annual reporting. We will continue to monitor the progress with this during our audit appointment.

3.19 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

FSS has a number of arrangements in place to secure best value and a Best Value Framework was approved during 2022/23. As noted elsewhere within this report, the Corporate Strategy provides a clear vision and has specific focus on some of the BV characteristics including partnership and collaboration, fairness and equality and a focus on continuous improvement. The Strategic Leadership has seen a period of temporary change during 2022/23, in addition to changes at Board level which have been managed well.

Financial sustainability remains a key risk, as is the case across the public sector. FSS has taken a tactical approach to budget setting, carrying out a prioritisation exercise so there is clear visibility on what activities have been paused or stopped, whilst maintaining its statutory responsibilities. It is important that a Medium Term Financial Strategy is developed.

Deloitte view – Best Value

FSS 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.

3.20 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 | FSS position |
|--|---|
| 1. What targets has the body set for reducing emission in its own organisation or in Its local area? | Within its Sustainability Plan, FSS has set a number of actions to show how it will contribute to the overall Scottish Government net zero target by 2045. This includes a specific target to reduce energy use by 2.5% per year at Pilgrim House. |
| 2. Does the body have a climate change strategy or action plan which sets out how the body intends to achieve its targets? | <p>The Sustainability Plan recognises that the food environment is at the centre of many of today's global sustainability challenges and opportunities, and the concept of sustainability has become increasingly important to the people of Scotland. As the independent, public sector food body for Scotland, FSS is well placed to contribute towards a regulatory environment where businesses and consumers can contribute and support Scotland meeting the Scottish Government's targets of net zero by 2045.</p> <p>The plan identifies specific areas and actions where FSS can make a difference to improve environmental sustainability through its policies and business practices.</p> <p>A Carbon Management Plan is currently being developed, aimed to reflect the priorities featuring across the Sustainability Plan.</p> |

3.21 Wider scope requirements (continued)

Climate change

| Question | FSS position |
|--|--|
| 3. How does the body monitor and report progress towards meeting its emissions targets internally and publicly? | FSS actively monitors and reports on its environmental performance, where climate change data is calculated and reported. This is published annually in the Sustainable Scotland Network (SSN) climate change report. |
| 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, investment in electric vehicles, energy providers 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? | FSS has included a section on “Environmental Matters” within the Annual Report and Accounts setting out its achievements to date and plans for the development of a Carbon Management Plan. |

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. However, as the independent public sector food body for Scotland, FSS is well placed to positively contribute to the wider industry. The Corporate Plan has a clear commitment on sustainability, with a detailed Sustainability Plan in place, and Carbon Management Plan being developed. The Annual Report and Accounts also includes a section on achievements to date. It is therefore clear that FSS is committed to take action to meet the Scottish Government’s ambitious targets.

3.22 Wider scope requirements (continued)

Cyber risk

| Area | Management actions | Impact on FSS's Annual Report and Accounts | Impact on our audit |
|------------|--|---|--|
| Cyber risk | <p>FSS does not recognise cyber risk as part of its strategic risk register. It does, however, have a named SLT member responsible for organisational cyber resilience arrangement. Structures and reporting lines are in place within the FSS Digital Team for monitoring and management of cyber security incidents.</p> <p>Internal Audit carried out a review of cyber security and resilience, reporting to the ARC in September 2022. This concluded limited assurance, with 1 high, 6 medium and 2 low level findings. We are pleased to note that management acted quickly to implement all the agreed recommendations.</p> <p>In line with Audit Scotland's recommendation, FSS has applied the lessons learned from the SEPA cyber attack.</p> | Reference to the progress made with the recommendations from the Internal Audit review have been included within the Performance Report and the Governance Statement. | <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. Internal Audit's September 2022 report to the AR has informed this work.</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 the Board 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.
- 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 FSS, 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.

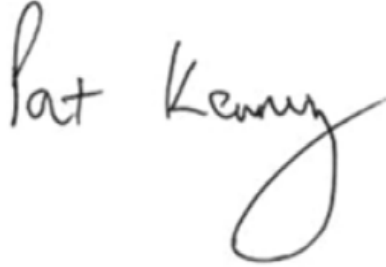
What we don't report

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

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 financial statements 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 | 27 November 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. Financial management/sustainability</p> <p>The format of the budget reporting could be improved by including details such as:</p> <ul style="list-style-type: none">• the use of more tables and charts to demonstrate the impact of each of the assumptions and risks and help direct the Board to the areas of most significance which need more scrutiny and challenge.• A clearer direction of the Board’s required input and challenge of the budget.• Analysis of budget bids versus final budget allocations to increase transparency over the Strategic Leadership Teams prioritisation work.• Further analysis to support the vacancy assumption, including basis of assumption and impact if this was to vary in the year using scenario analysis.• Scenario analysis and options to address the risk that the final pay settlement agreed is greater than the assumption included in the budget.• Savings plans to set out how the budget gap will be managed and how the 3% efficiency target is expected to be achieved, including what impact these options will have on delivery of objectives. | <p>Agreed. Will look to incorporate details highlighted in the two budget reports for the Board.</p> | <p>Medium</p> | <p>Head of Finance and Procurement</p> | <p>28 Feb 2024</p> |

5.2 Action Plan (continued)

| Recommendation | Management Response | Priority | Responsible Person | Target Date |
|---|---|---------------|--|-------------------------|
| <p>2. Financial sustainability</p> <p>A comprehensive Financial Strategy should be developed, aligned to the updated Corporate Plan and Workforce Plan. Scenario analysis can be used to quantify the impact of the particular areas of uncertainty. In developing this, FSS should consider the important features of a financial strategy, as set out in Audit Scotland’s report in June 2014 Scotland's public finances – A follow-up audit: Progress in meeting the challenges (audit-scotland.gov.uk).</p> | <p>Agreed. Will draft in line with new Corporate Plan and Workforce Plan.</p> | <p>Medium</p> | <p>Head of Finance and Procurement</p> | <p>31 March 2024</p> |
| <p>3. Financial sustainability</p> <p>As part of this development of the digital transformation programme, any business cases should be supported with an analysis of the expected benefits of each projects – both from a financial perspective but also how it will improve outcomes. A benefits realisation tool then needs to be developed to allow FSS to monitor the success of the projects and help inform the medium-to-longer term financial planning.</p> | <p>Agreed</p> | <p>Medium</p> | <p>Director of Corporate Services / Interim Head of Digital Transformation</p> | <p>31 December 2023</p> |

5.3 Action Plan (continued)

| Recommendation | Management Response | Priority | Responsible Person | Target Date |
|---|--|-----------------|--|--------------------|
| 4. Vision, leadership and governance A formal process should be introduced to periodically assess the Board and Finance and Business Committee effectiveness through self-assessments. | Agreed. The Board has previously carried out self-assessments and looking to do that during this financial year. | Low | Head of Private Office | 31 March 2024 |
| 5. Vision, leadership and governance Consideration should be given to publishing the minutes of the FBC and ARC Committee on the FSS website, alongside the Board minutes. | Agreed. Consideration will be given to the publishing of committee minutes. | Low | Head of Private Office | 31 December 2023 |
| 6. Use of resources to improve outcomes Consideration should be given to streamlining the performance management framework to allow a clearer link between the activities (and associated KPIs) and the Corporate Strategy. | Agreed | Low | Director of Corporate Services/ Head of Corporate Support | 31 March 2024 |

5.4 Action Plan

We have followed up the recommendations made in by the previous auditors. We are pleased to note that two recommendations are fully implemented, two are ongoing and one is partially implemented.

| Recommendation | Management Response | Management update 2022/23 |
|---|--|---------------------------------|
| <p>1. Payment to incorrect supplier</p> <p>Food Standards Scotland should review its accounts payable processing with a view to strengthening the control environment.</p> | <p>This error was due to a misunderstanding that two suppliers were collaborating on a project. The error took place at the purchase order (PO) stage when the lower value costs for one supplier were included in the total value of the second supplier's costs and the invoice matched to this PO. The team have been made aware of the issue that has arisen and are reviewing processes to ensure this unusual circumstance doesn't happen again.</p> <p>Responsible officer: Head of Finance and Procurement</p> <p>Revised date 30 October 2022</p> | <p>Fully implemented</p> |

5.5 Action Plan (continued)

Recommendation

2. Medium and Longer-Term Planning

Food Standards Scotland has not updated its 2018/19-2020/21 Financial Management Plan 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.

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.

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.

The FMP and longer-term financial plan also need to be aligned to other key corporate documents. This includes the workforce plan that was approved in April 2022 following the advisory work by internal auditors.

Management Response

Work on developing the medium and long-term financial management plan was put on hold when the new business case for further funding to deal with the impact of leaving the EU was not approved by Scottish Government. Significant work is underway to review, and if necessary refresh, the priorities and deliverables for the organisation based on the funding in place during the spending review period. The Executive Leadership Team and the Board met in August to focus on planning for next year and to deal with budget challenges. A prioritisation workshop is taking place at the end of September with the senior leaders in the organisation. Work will continue alongside this to develop the financial management plan and reflect the outcome of these events.

Responsible officer: Head of Finance and Procurement

Revised date 31 December 2022

Management update 2022/23

Financial strategy considered on page [25](#).

The financial management plan for 2022-2026 was drafted and issued to ELT in October in 2022. High level budget allocations were presented to the Board in the FSS Re-prioritisation Exercise paper.

The staffing assumptions within this are not aligned to the workforce plan as additional budget for these posts was not approved during 2022/23.

A new plan will be setup for 2023 -2027 when the results of the prioritisation work is finalised, results of SVS/REUL are known and FSS structure confirmed.

Partially implemented – see updated recommendation on page [42](#).

5.6 Action Plan (continued)

Recommendation

3. Performance Targets

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.

There is a risk that performance is not adequately measured or monitored when there is no set target to assess performance against

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 board level from the 2021/22 reporting year.

Management Response

Food Standards Scotland has implemented a performance reporting dashboard and have agreed a set of key Strategic Priority Indicators (SPIs) with the FSS Board for ongoing monitoring and scrutiny at Executive Leadership Team (ELT) and Finance and Business Committee meetings. A baseline assessment of the SPIs will be undertaken during the final quarter of 2022/23 before performance targets are considered between ELT and FSS Board members.

Responsible officer: Director of Corporate Services

Revised date: 31 July 2023

Management update 2022/23

SPIs considered on page [34](#).

Food Standards Scotland has implemented a performance reporting dashboard and have agreed a set of key Strategic Priority Indicators with the FSS Board for ongoing monitoring and scrutiny at ELT and Finance and Business Committee Meetings.

A baseline assessment of the SPIs will be undertaken during the final quarter of 2022/23 before performance targets are considered between ELT and FSS Board members

In progress

Revised date: 31 December 2023.

5.7 Action Plan (continued)

Recommendation

4. *Equalities Monitoring*

The Board should ensure that adequate and up to date training regarding equalities issues is provided.

It should also consider developing key performance indicators relating to equalities issues.

Management Response

Training was delivered in the last financial year and there is an ongoing commitment to deliver training as required (e.g. on the appointment of new board members). A new Board Finance and Business Committee has been formed and going forward Equality and Diversity actions, including KPIs, will be part of the People Strategy presented to the committee

Responsible officer: Director of Corporate Services

Revised date 31 March 2023

Management update 2022/23

This has been completed. Training was delivered in the last financial year and there is an ongoing commitment to deliver training as required e.g. on the appointment of new board members. That has been progressed.

A new Board Finance and Business Committee has been formed and going forward Equality and Diversity actions, including KPIs, will be part of the People Strategy presented to the committee. Equality, Diversity and Inclusion is the Golden thread running through the People Strategy. Equality Metrics and Actions were included in the Equalities Mainstreaming Report, these actions are monitored through the People Board and the FBC have regular progress updates. Equality Metrics are presented every 6 months to SLT and FBC as part of the HR KPI and Metrics pack. An Equalities steering Group has been established and a progress paper is due in the summer 2023

Fully Implemented

5.8 Action Plan

Recommendation

5. Shared Service

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.

Management Response

The Scottish Government has embarked upon a Shared Services Transformation Programme which FSS is engaged in. The HR element of the implementation planning has been rescheduled to go live in October 2023. The Scottish Government has stated that there will be no review of SLAs until after these services are implemented.

FSS has considered the process for escalating issues with SG HRSS and regular engagement now takes place with senior staff in both organisations.

Responsible officer: Director of Corporate Services

Agreed date 31 March 2024

Management update 2022/23

The Scottish Government has embarked upon a Shared Services Transformation Programme which FSS is engaged in. The HR element of the implementation planning has been rescheduled to go live in October 2023. The Scottish Government has stated that there will be no review of SLAs until after these services are implemented.

FSS has considered the process for escalating issues with SG HRSS and regular engagement now takes place with senior staff in both organisations.

In Progress

Agreed date 31 March 2024

6.1 Audit adjustments

Corrected misstatements

The following misstatements have been identified 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 |
|--------------------------------------|-----|------------------------------|--------------------------------------|---|-------------------------------|---|
| IFRS 16 Corrections | [1] | | | | | N/A |
| - ROU Asset | | | 420,791 | | | |
| - Lease liability | | | (420,791) | | | |
| - ROU asset Depreciation expense | | 1,063 | | | | |
| - ROU asset Accumulated Depreciation | | | (1,063) | | | |
| - ROU interest expense | | 3,998 | | | | |
| - ROU interest liability | | | (3,998) | | | |
| Total | | 5,061 | (5,061) | | | |

[1] A number of issues were identified in the recognition and presentation of the first time adoption of IFRS 16. These are as follows:

- The right of use asset and lease liability were understated as one year of the cashflows was not factored in the computation.
- This resulted in the understatement of depreciation expense, accumulated depreciation, lease interest expense and liability for the right of use asset.
- There was no separate disclosure or note for right of use assets and lease liabilities in the annual report and accounts.
- IFRS 16 also requires the note for the ROU asset to show the transitional adjustment at 1 April 2022- This was not included.
- These occurred because this was a new standard and there were challenges relating to interpretation and application of the new standard.

6.1a Audit adjustments

Corrected misstatements

The following misstatements have been identified 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 |
|------------------------------|------------------------------|--------------------------------------|---|-------------------------------|---|
| Pension Cap Adjustment | [2] | | | | N/A |
| - Pension Asset | | (4,171) | | | |
| - Other Comprehensive Income | 4,171 | | | | |
| Total | 4,171 | (4,171) | | | |

[2] The initial IAS 19 report received by FSS from the actuary did not incorporate a cap on the recognition of the pension asset. This was challenged by the Deloitte pension specialist team, and the actuary provided FSS with an updated IAS 19 report which included a cap on the pension asset. Deloitte agree that the cap recognised at the balance sheet date is appropriate. FSS recorded an adjustment to reflect this cap, with the adjustment being recorded in Other Comprehensive Income. Deloitte agree with this posting.

7.1 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 financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations:

We have asked FSS to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements 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 FSS 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 management override of controls, operating within the fee income and operating within the revenue budget 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 financial statements.

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.

8.1 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 FSS, 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 | 54,330 |
| Audit Scotland fixed charges: | |
| • Pooled costs | 3,610 |
| • Audit support costs | 1,910 |
| • Sectoral cap adjustment | (11,120) |
| Total expected fee | 48,730 |

There are no non-audit fees.

Non-audit services In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Board'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 the Board, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.



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