



# Food Standards Scotland

Final Report to the Audit & Risk Committee, the Board and the Auditor General for Scotland on the 2023/24 External Audit

28 November 2024

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# 1.1 Engagement Lead 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 & Risk Committee (“the ARC”) of Food Standards Scotland (“FSS”) for the 2023/24 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 2024.

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

### **Conclusions from our testing**

Based on our completed 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 Report and 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 sections of the of the Remuneration and Staff report subject to audit 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](#). The Board met its financial targets for 2023/24, achieving a surplus of £0.3m

No material errors have been identified and there are no misstatements in the current year. We have not identified any misstatements in excess of our reporting threshold based on our procedures performed.

## 1.2 Engagement Lead introduction (continued)

### The key messages in this report (continued)

#### Status of the Annual Report and Accounts audit

All areas of audit testing have been completed.

#### Conclusions from wider scope audit work

- **Financial management** – appropriate budget setting and monitoring arrangements in place.
- **Financial sustainability** – financial balance has been achieved in 2023/24 and funding confirmed for 2024/25, however there remains a gap between the funding confirmed and the expected costs to deliver the services. Consequently, there remains a risk that FSS is not financially sustainable.
- **Vision, leadership and governance** – the new Corporate Plan effective from 2024/25 recognises the significant financial challenges facing the organisation, and clearly sets out the vision of the organisation. Following a period of change in 2022/23 the leadership team has remained consistent in 2023/24. We will continue to monitor progress against the new Corporate Plan during our audit appointment.
- **Use of resources to improve outcomes** – a clear performance management framework is in place. FSS has continued to perform well during 2023/24, actively managing its performance and taking appropriate action and recognising the risks that remain. Regular reporting on performance is provided to the Finance and Business Committee (FBC) and a key set of Strategic Performance Indicators (SPIs) continue to be monitored during the year to report against FSS strategy.

# 1.3 Engagement Lead introduction (continued)

## The key messages in this report (continued)

### Conclusions from wider scope audit work (continued)

**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.

**Climate change** – Recognising the nature of FSS as a public sector body with one office site and as a consequence relatively low carbon emissions, 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 continued to be a high priority for FSS, with the Board regularly analysing key risks and developments in the space throughout the year.

### Next steps

A follow up analysis of the prior year actions is included on page [42](#) of this report.

### 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.

**Mo Ramzan**  
Engagement Lead

# Annual Report and Accounts Audit










## 2. Quality indicators

### Impact on the execution of our audit

 Lagging  Developing  Mature

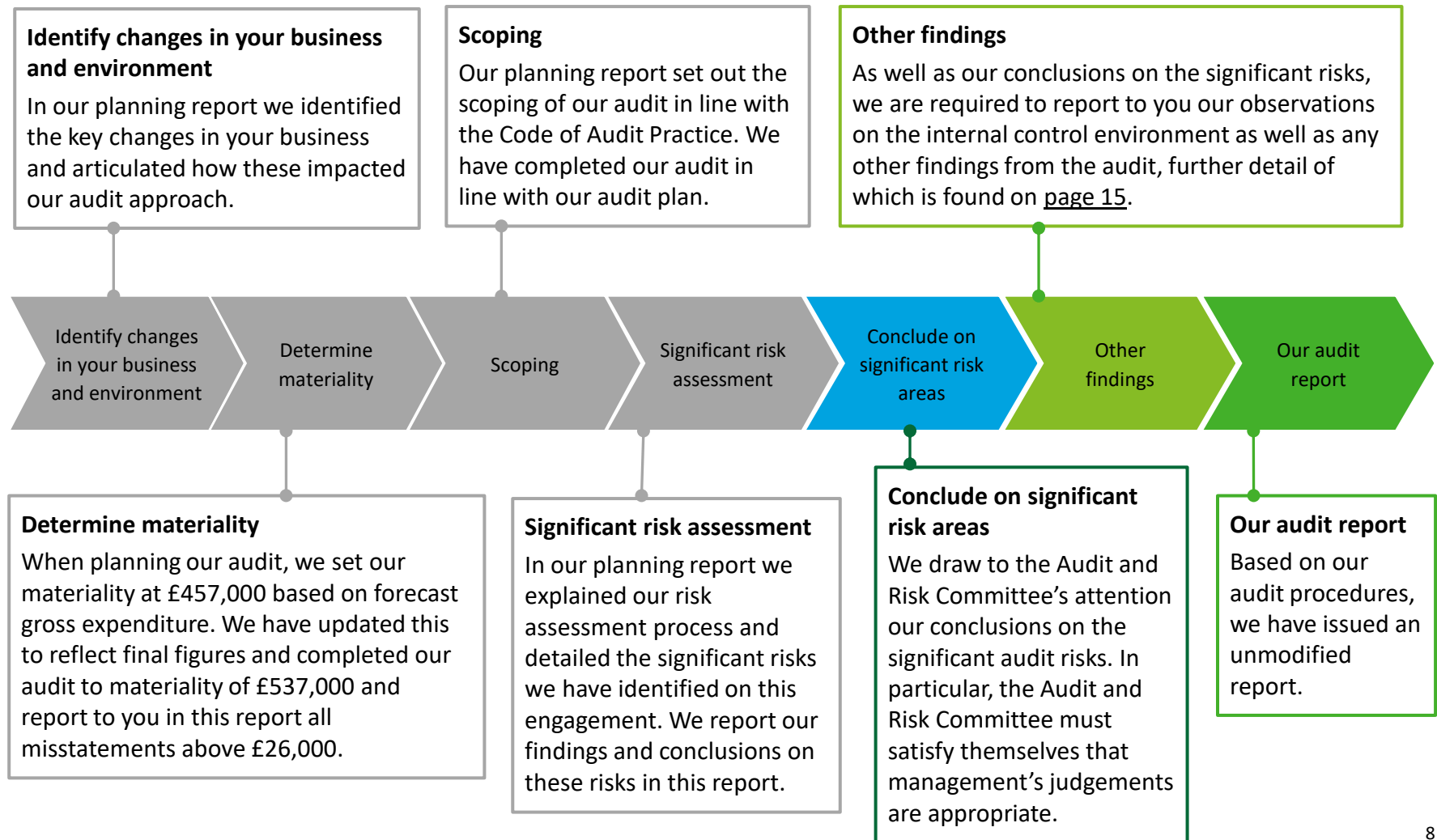
Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to 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		Deliverables and responses to follow ups provided promptly.	N/A
Adherence to deliverables timetable		Management provided deliverables within agreed timelines.	N/A
Access to finance team and other key personnel		Finance team have been accessible throughout, with the audit team informed of holidays in advance of audit fieldwork.	N/A
Quality and accuracy of management accounting papers		The majority of working papers provided were of a good quality. Some areas however 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 the first draft was generally of a high standard. Review comments were addressed promptly and change logs provided.	N/A
Response to control deficiencies identified		No control deficiencies have been noted.	N/A
Volume and magnitude of identified errors		No misstatements above our reporting threshold have been noted from the results of our procedures.	N/A



### 3. Our audit explained

We tailor our audit to your business and your strategy









# 4.1 Significant risks

## Significant risk dashboard

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

**Controls approach adopted**  
 Assess design & implementation

**Controls conclusion**  
Satisfactory  
Not Satisfactory

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

## 4.2 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. A summary of the key estimates and judgements considered is provided on the next page; and
- 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.

## 4.5 Significant risks (continued)

### Operating within the expenditure resource limits



#### Risk identified and key judgements

In accordance with Practice Note 10 (Audit of financial statements and regularity 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 expenditure resource limits 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 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 and letter;
- Performing focused testing of accruals and prepayments made at the year end; and
- Performing focused cut-off testing of invoices received and paid around the year end.

#### Deloitte view

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

Based on our testing performed, we confirm that FSS has performed within the limits set by Scottish Government as the final outturn was a surplus of £0.3m.

## 5. Your control environment and findings

### Control deficiencies and areas for management focus

#### **Deloitte comment on any control deficiencies and areas for management focus:**

We can confirm that no control deficiencies have been noted based on our audit procedures performed.

## 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, with 2022/23 being the first year of implementation and we did not identify any significant issues. There have not been any material regulatory changes in 2023/24.

#### **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 have obtained written representations from the Board on matters material to the Annual Report and Accounts when other sufficient appropriate audit evidence cannot reasonably be expected to exist.

# 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 than 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 15](#).

## 8. Your Annual Report and Accounts

We are required to provide an opinion on the sections of the Remuneration and Staff report subject to audit, 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 and have received a final version confirming compliance.</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 sections of the Remuneration and Staff Report subject to audit and confirmed that it has been prepared in accordance with the accounts direction.</p>



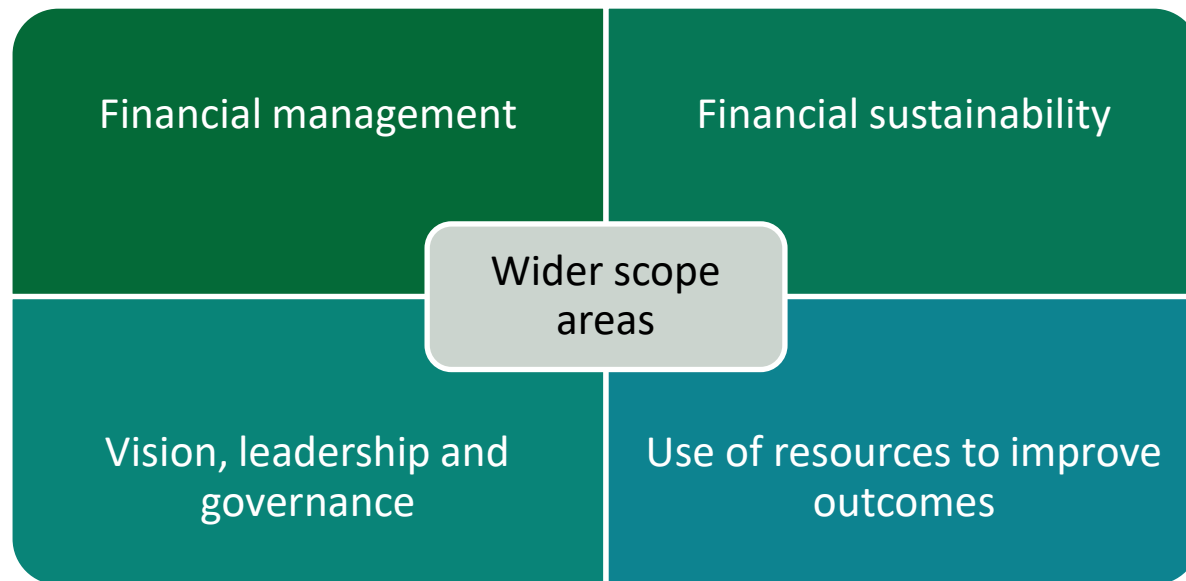
# Wider scope audit



# 9 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.



Our audit work has considered how the Board 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.

# 10.1 Wider scope requirements (continued)

## Financial management

Is there sufficient financial capacity?



Is there sound budgetary processes in place?



Is the control environment and internal controls operating effectively?



**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 a distinct line item 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 2023, setting out the indicative budget allocation of the resource budget confirmed within the Scottish Government budget of £23.2 million.

FSS has reported an underspend of £270,000 (1%) at the end of the year against the resource budget noted above.

## 10.2 Wider scope requirements (continued)

### Financial management (continued)

#### **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. We noted some vacancies in the prior year, which have now been filled. We have not identified any risks with the teams capacity and capability that would impact on the financial management of FSS.

#### **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.

#### **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 2023/24. The conclusions have helped inform our audit work, although no specific reliance has been placed on this work.

The 2023/24 Internal Audit Plan was approved by the ARC in March 2023 and comprised three pieces of assurance work covering allergen control, egg hygiene, and internal monitoring. Detailed reports are provided to the Committee for each project.

## 10.3 Wider scope requirements (continued)

### Financial management (continued)

#### **Deloitte view – financial management**

FSS continues to have appropriate budget setting and monitoring arrangements in place. This is supported by an experienced Head of Finance, Director of Corporate Services, and a robust internal audit function, as well as appropriate arrangements for the prevention and detection of fraud and error.

While there has been a change to the Head of Finance following the year end, and a permanent appointment subsequently made, time is needed for the new head of finance to be embedded within FSS. We have not identified any risks with the team's capacity that has impact on the operational financial management of FSS. There does remain a risk in relation to the capacity at a strategic level. We will continue to monitor this during our audit appointment.

# 11 Wider scope requirements (continued)

## Financial sustainability

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

### Significant risks identified in Audit Plan

In our audit plan we identified that there was a significant risk that FSS do 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.

FSS is also in the early stages of its Digital Transformation programme, which will require careful monitoring of the utilisation of the capital budget.

Is there a medium and longer-term plan in place?

### 2023/24 budget setting

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.

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

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. It was estimated that this represented a real term reduction of approximately £2m. An update was provided in June 2024 confirming the final allocations.

The 2024/25 budget is “over-allocated”, 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

Financial Sustainability

## 3.6 Wider scope requirements (continued)

### Financial sustainability (continued)

#### 2024/25 budget setting (continued)

The format of the reporting to the Board has been improved in the year 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.

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*

While FSS has a funding gap, savings plans have been incorporated into the budget reports to the Board following the recommendation from the 2022/23 audit report. This should therefore continue into future years to aid 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 24](#).



## 3.7 Wider scope requirements (continued)

### Financial sustainability (continued)

#### Use of shared services

FSS currently has 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.

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 reset the plan. This was as a result of the following:

- A business case was submitted to the 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.

## 3.8 Wider scope requirements (continued)

### Financial sustainability (continued)

#### Medium-to-long term financial planning

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 risk of increasing over-commitment of budget if prioritisation work was not progressed. 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 hear 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 or scaled back.

As part of the prioritisation work, the organisation structure was reviewed and a reconfiguration agreed, with the revised structure being in place throughout the year. 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.

## 11.2 Wider scope requirements (continued)

### Financial sustainability (continued)

#### Deloitte view – financial Sustainability

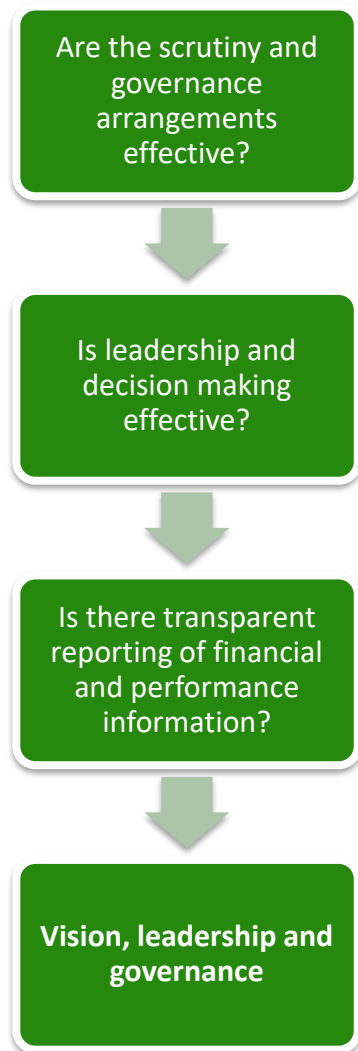
FSS has achieved financial balance in 2023/24, however, the internally allocated budget for 2024/25 is in excess of the confirmed funding. This will be reviewed by management at the mid-year point to assess any further action required. There, however, remains a risk that FSS is not financially sustainable 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 has improved their budget reports in 2023/24 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 combination of a flat cash funding settlement and increasing workload on the body. 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.

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 medium-to-longer term financial planning.

## 3.12 Wider scope requirements (continued)

### Vision, leadership and governance



#### Significant risks identified in Audit Plan

We did not identify any significant risks in relation to vision, leadership and governance during our planning work. We therefore focussed our audit work to reviewing the work of the Board and its Committees to assess whether the arrangements continue to operate effectively, including assessing whether there is effective scrutiny, challenge and informed decision making.

#### 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 effective from 2024/25 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 updated Corporate Plan and we will continue to monitor this over the course of our appointment.

## 3.13 Wider scope requirements (continued)

### Vision, leadership and governance

#### Leadership

As part of the prioritisation work, 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. Following a period of change in roles in 2022/23 there has been consistency in membership in 2023/24.

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 \(www.gov.scot\)](https://www.gov.scot/resources/consultations-petitions/Publications/2022/06/OnBoard-A-Guide-for-Members-of-Statutory-Boards.pdf)

#### Governance and scrutiny arrangements

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 2023.

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.

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.

## 3.14 Wider scope requirements (continued)

### Vision, leadership and governance

#### 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. A new Corporate Plan has been implemented effective from 2024/25 which builds on the work that was done as part of the prioritisation exercise.

The Leadership and governance arrangements have remained stable during the year following a period of change in 2022/23. 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.

## 3.15 Wider scope requirements (continued)

### Use of resources to improve outcomes



#### Significant risks identified in Audit Plan

As discussed under financial sustainability, there is a significant risk that FSS does not have sufficient plans in place to manage its finances sustainably.

Currently, FSS has a detailed performance management plan in place which operated effectively in 2023/24. FSS has continued to perform well, despite facing financial and budgetary pressures.

#### Performance management framework

FSS had historically monitored its performance in accordance with its strategic outcomes, goals and deliverables set out within its Corporate Plan. The Corporate Strategy 2021-26 sets out the three high level aims and statutory objectives of FSS. The more detailed Corporate Plan 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.



## 3.16 Wider scope requirements (continued)

### Use of resources to improve outcomes

#### Performance data

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 previously, 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.

During 2022/23, a key set of SPIs were developed to report against the FSS Strategy, which have been taken forwards into 2023/24. This allowed a more focussed report on progress towards FSS strategic outcomes complementing the new Corporate Plan deliverables and Performance monitoring slide deck. These have been reported to the FBC quarterly during 2023/24, and have featured as a key benchmark in the ARA which is an area of good practice.

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, has been incorporated in 2023/24. The dashboard is used in conjunction with the current reporting on the corporate plan to provide an overview of the delivery of the strategic outcomes.

## 3.17 Wider scope requirements (continued)

### Use of resources to improve outcomes

#### Performance data (continued)

##### **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 2023/24, 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 monitored during the year to report against the FSS strategy.

It is positive to see the development of the SPIs dashboard and continuous monitoring and reporting throughout the year. We will continue to monitor the progress with this during our audit appointment.

## 3.18 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. As noted elsewhere within this report, the updated Strategic Plan provides a clear vision and has specific focus on some of the BV characteristics including partnership and collaboration, sustainability and a focus on continuous improvement. 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 remained consistent during the year following a period of change in 2022/23.

Financial sustainability remains a key risk, as is the case across the public sector. We will continue to monitor the response and actions taken by FSS over the course of our appointment.

#### **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.

## 12. 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.

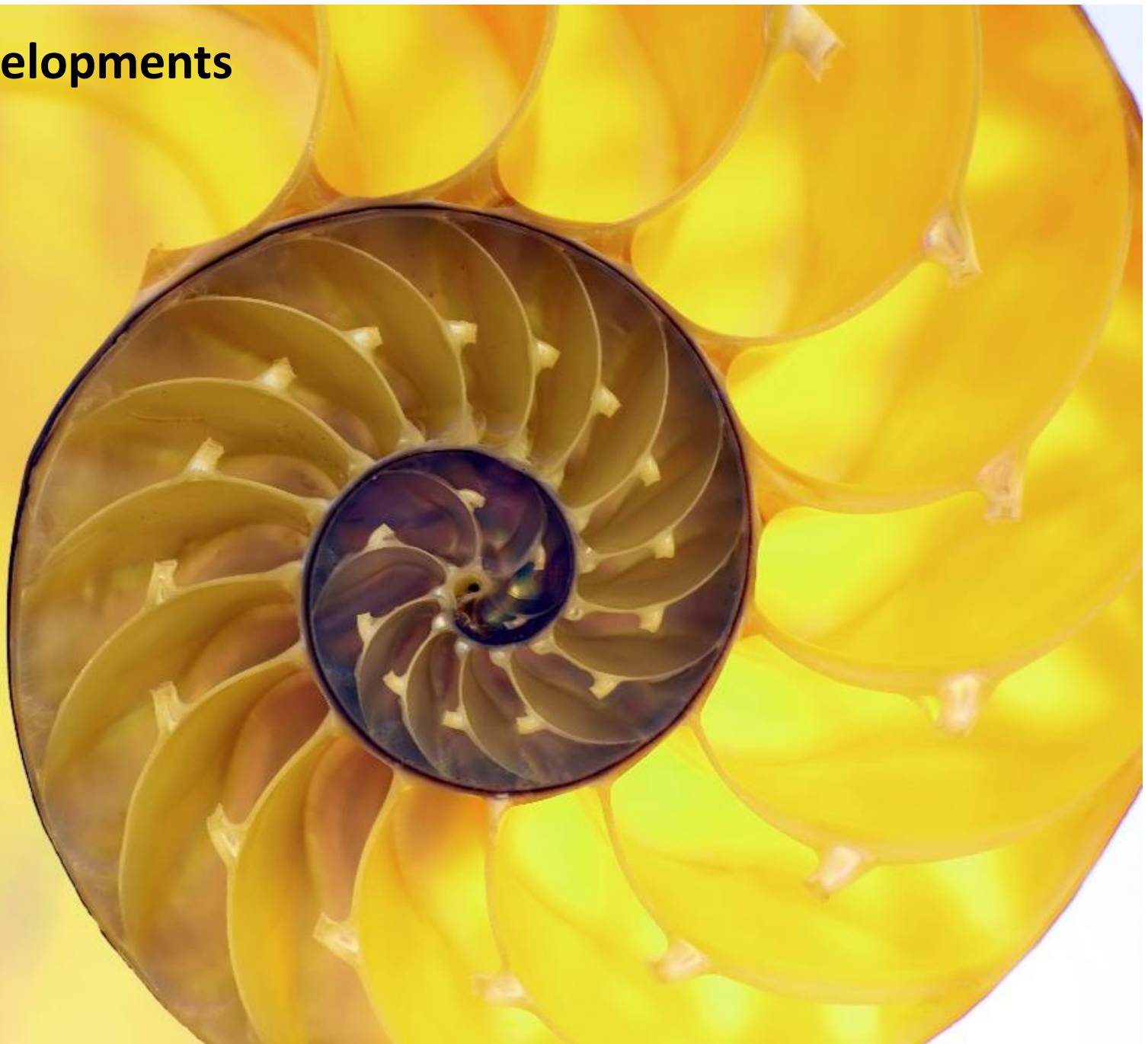
Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our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

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

**Deloitte LLP**

Birmingham | November 2024

# Sector developments



# 13.1 Sector developments

## Audit Scotland: The important role of a CFO

### Background and overview

As the challenges across the public sector intensify, the role of CFOs is increasingly in the spotlight. As CIPFA highlight, with existing frameworks on governance and decision-making being pushed to their limits, with public services becoming more complex, the CFO is expected to take an active leadership role, not just within the finance function, but across their organisation, sector and public services as a whole.

When budgets tighten, Audit Scotland highlight that often corporate, or 'back office' functions face the hit, to avoid immediately impacting front line services. Against this background, it is important that in the pursuit of back-office efficiencies, the effectiveness of the financial function is not put at risk.

This is an area of interest for Audit Scotland, and in this report it is outlined that they will be taking an interest in auditor conclusions on the resourcing of the finance function as part of their consideration of the 2023/24 annual accounts.



### Next steps

The full report is available at [The Important Role of a CFO \(Audit Scotland\)](#)

## 13.2 Sector developments

How collaborative leadership can create solutions to big global issues on government's future frontiers

### Background and overview

Infrastructure. Security. Health. Technology. The on-the-ground realities of homelessness. The infinite possibilities of space.

These are all big issues, bigger than any one organization can handle alone. Truly tackling the problems and opportunities inherent in these pressing societal concerns could take a concerted effort from all walks of society: Public agencies and private companies, nonprofits and academics, multinational foundations and community activists. But no matter what teams are assembled, government is expected to play a key role in constructing the scaffolding on which solutions are built.

In this publication, Deloitte speak to Bill Eggers and Don Kettl, authors of *Bridgebuilders: How Government Can Transcend Boundaries to Solve Big Problems*. They have more than 75 years of combined experience in the world of public management between them, and they have studies countless efforts to redesign government to make it more agile and responsive.

### Next steps

The full publication is available at [Government's Future Frontiers \(deloitte.com\)](https://www.deloitte.com/government/publications/government-s-future-frontiers)





# 13.3 Sector developments

## Government Trends 2023

### Background and overview

In the age of discontinuity, governments are moving from hierarchies to networks to enable intragovernment collaboration and nurturing collaborative public-private ecosystems to achieve shared outcomes.

This report outlines nine transformational trends that illustrate governments “bringing down walls” to deliver solutions. The trends outlined are:

- Fluid government workforce models
- Bridging the data-sharing chasm
- Tackling funding silos
- Tailored public services
- Back-office innovations improving mission performance
- Regulation that enables innovation
- Teaming up to deliver whole health
- End-to-end justice
- Security by network

### Next steps

The full publication is available at [Government Trends 2023 \(deloitte.com\)](https://www.deloitte.com/gt2023)



# Appendices



## 5.1 Follow Up Action Plan

The following recommendations were made in the 2022/23 audit, and an update of each is provided below:

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Recommendation	2023/24 Update	Current Status
<p data-bbox="79 404 633 431"><b>1. Financial management/sustainability</b></p> <p data-bbox="79 444 1039 508">The format of the budget reporting could be improved by including details such as:</p> <ul data-bbox="79 521 1039 1120" style="list-style-type: none"><li data-bbox="79 521 1039 625">• 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.</li><li data-bbox="79 632 1039 701">• A clearer direction of the Board’s required input and challenge of the budget.</li><li data-bbox="79 708 1039 776">• Analysis of budget bids versus final budget allocations to increase transparency over the Strategic Leadership Teams prioritisation work.</li><li data-bbox="79 783 1039 888">• Further analysis to support the vacancy assumption, including basis of assumption and impact if this was to vary in the year using scenario analysis.</li><li data-bbox="79 895 1039 999">• Scenario analysis and options to address the risk that the final pay settlement agreed is greater than the assumption included in the budget.</li><li data-bbox="79 1006 1039 1120">• 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.</li></ul>	<p data-bbox="1070 404 1580 508">Completed. The details Highlighted were incorporated in the budget reports for the Board.</p>	<p data-bbox="1590 404 1769 431"><b>Implemented</b></p>

## 5.2 Follow Up Action Plan (continued)

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### Recommendation

#### **2. Financial sustainability**

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 \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk/scotland-s-public-finances-a-follow-up-audit-progress-in-meeting-the-challenges).

### 2023/24 Update

Financial Management Plan 2024-26 was **Implemented** completed in May 2024. The details highlighted were incorporate in the plan.

### Current Status

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## 5.3 Follow Up Action Plan (continued)

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### Recommendation

#### **3. Financial sustainability**

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.

### 2023/24 Update

Business cases reflect the expected benefits as summarised below.

The major work items under the FSS-IT digital transformation programme covers the new Asset Management System, ODITS development, CLIO cloud migration and the IT Modern Apprentice. All these will bring improved efficiency, data accuracy, and real-time asset tracking, leading to faster data handling, fewer manual errors, and up-to-date information for decision-making across the organization. Centralized data access ensures that all stakeholders can collaborate effectively on asset-related tasks, while enhanced security provides role-based access and audit trails for compliance purposes. These are all achieved with significant reduction in implementation costs, initial investment in software, hardware and trainings.

Advanced reporting and analytics will aid decision-makers, and automated tracking improves auditability for internal and external reviews. These systems will also results in financial resource savings by eliminating the need for extensive procurement efforts. These benefits affect various departments, particularly asset management, IT, compliance, and decision-makers.

### Current Status

**Implemented**

## 5.4 Follow Up Action Plan (continued)

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Recommendation	2023/24 Update	Target Date
<p><b>4. Vision, leadership and governance</b> A formal process should be introduced to periodically assess the Board and Finance and Business Committee effectiveness through self-assessments.</p>	<p>Due to a number of new Board members appointed to the FSS Board, the decision was taken by the FSS Chair and CEO to postpone the Board effectiveness review in 2023, this was then undertaken in August 2024 and will be carried out annually going forward. The Audit and Risk Committee (ARC) held an effectiveness review at the November 2023 meeting and will continue to hold these on an annual basis (next review to take place at the November 2-024 meeting). Due to the Finance and Business Committee (FBC) being a relatively new committee it was deciding that a full reporting cycle take place before an effectiveness review was undertaken. This review was due to take place in September 2024 but due to availability of the Chair and CEO this will now take place at the meeting in December 2024.</p>	<b>Implemented</b>
<p><b>5. Vision, leadership and governance</b> Consideration should be given to publishing the minutes of the FBC and ARC Committee on the FSS website, alongside the Board minutes.</p>	<p>Due to the Chair of both Committees (ARC &amp; FBC) providing a verbal update at each open FSS Board meeting on the ARC and FBC meetings having taken place it was agreed not to publish the minutes of both committees on the FSS website</p>	<b>Implemented</b>

## 5.5 Follow Up Action Plan (continued)

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### Recommendation

#### ***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.

### 2023/24 Update

Business plan activities are now linked to our key FSS role and relevant strategic outcomes (as noted in our FSS Corporate Plan). **Implemented**

Work being undertaken to develop our performance management framework utilising PowerBi.

### Target Date

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## 14. Audit adjustments

### Corrected misstatements

We have not identified any corrected misstatements in excess of our reporting threshold based on the audit procedures that we have completed.



# 15. 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, completeness of fee income and operating within the revenue budget as key audit risks.

During the 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.

## 16. 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:

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**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.

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**Fees** The expected fee for 2023/24, as communicated by Audit Scotland in December 2023 is analysed below:

	£
Auditor remuneration	57,590
Audit Scotland fixed charges:	
• Pooled costs	5,810
• Sectoral cap adjustment	(11,780)
<b>Total expected fee</b>	<b>51,620</b>

There are no non-audit fees.

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**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.

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**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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