



Environmental Standards Scotland

Final report to the Audit and Risk Committee, the Board and the Auditor General for Scotland for the year ended 31 March 2024.

Final report issued on 23th September 2024

Contents

01 Final report

Partner Introduction	<u>3</u>
----------------------	--------------------------

Annual Report and Accounts

Quality indicators	<u>7</u>
--------------------	--------------------------

Our audit explained	<u>8</u>
---------------------	--------------------------

Significant risks	<u>9</u>
-------------------	--------------------------

Your control environment and findings	<u>12</u>
---------------------------------------	---------------------------

Other significant findings	<u>15</u>
----------------------------	---------------------------

Our audit report	<u>16</u>
------------------	---------------------------

Your Annual Report and Accounts	<u>17</u>
---------------------------------	---------------------------

Wider scope audit

Overview	<u>19</u>
----------	---------------------------

Financial management	<u>20</u>
----------------------	---------------------------

Financial sustainability	<u>23</u>
--------------------------	---------------------------

Vision, leadership and governance	<u>27</u>
-----------------------------------	---------------------------

Use of resources to improve outcomes	<u>30</u>
--------------------------------------	---------------------------

Best value	<u>32</u>
------------	---------------------------

<i>Audit quality and our system of quality management</i>	<u>33</u>
--	---------------------------

<i>Purpose of our report and responsibility statement</i>	<u>34</u>
--	---------------------------

02 Sector Developments

Role of a CFO	<u>36</u>
---------------	---------------------------

Collaborative Leadership	<u>37</u>
--------------------------	---------------------------

Government Trends	<u>38</u>
-------------------	---------------------------

03 Appendices

Action plan	<u>40</u>
-------------	---------------------------

Audit adjustments	<u>46</u>
-------------------	---------------------------

Our other responsibilities explained	<u>50</u>
--------------------------------------	---------------------------

Independence and fees	<u>51</u>
-----------------------	---------------------------

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 & Risk Committee (“the Committee”) of Environmental Standards Scotland (“ESS”) 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 audit work completed to date, we expect to issue an unmodified audit report.

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

The auditable parts of the Remuneration and Staff report have been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page [9](#). ESS has substantially achieved its financial targets for 2023/24, achieving a surplus of £474k.

Two material errors have been identified to date of this report which have been corrected for by management in the updated annual report and accounts and has no further impact on the ESS results. These misstatements were in excess of our reporting threshold of £2,200. These misstatements have resulted in control deficiencies which are further discussed on slides [12](#) - [14](#).

Two disclosure errors have been identified in the remuneration and staff report and cash flow statement which have been corrected for by management in the updated annual report and accounts. These disclosure errors have resulted in control deficiency as discussed further on slides [12](#) - [14](#).

1.2 Partner introduction (continued)

The key messages in this report (continued)

Status of the Annual Report and Accounts audit

Outstanding matters to conclude the audit include:

- Receipt of signed management representation letter; and
- Our review of events since 31 March 2024.

Conclusions from wider scope audit work (see slides [19](#) - [32](#) for full details)

- **Financial management** – ESS continues to have effective budget setting and monitoring arrangements in place. While an underspend has been reported in the year, this is due to non-use of contingency costs, for example the office retrofit. This position has been closely monitored throughout the year by ESS.

- **Financial sustainability** – ESS has substantially achieved financial balance in 2023/24 and has confirmed funding for 2024/25 with an approved balanced budget, therefore is financially sustainability in the short term.

While work has improved in developing a medium-term outlook, it is recommended that a long-term plan should be in place, and so further work is required to be able to demonstrate that ESS is financially sustainable over the medium to longer term.

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

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

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 – A clear performance management framework is in place, and in line with best practice, there is a clear approach to assessing its performance and impact on long term outcomes. ESS is reviewing its Strategic Plan and in addition to this, is having its Performance Management Indicators (PMIs) reviewed by its Internal Audit Function. We will continue to monitor how the performance framework is implemented in practice during the course of our audit appointment.

Best Value –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).

As part of our wider scope audit work, we have noted that the arrangements are in place to secure BV. However, as reflected in the financial sustainability above, we note that the sustainability remains a key risk in the longer term.

Next steps

An agreed Action Plan is included on slides [40](#) - [45](#) of this report, including a follow up of progress against prior year actions.

Added value

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

We have also included our “sector developments” on slides [35 – 38](#) where we have shared our research and informed perspective and best practice from our work across the wider public sector that are specifically relevant to ESS.

Pat Kenny
Lead audit partner

Annual Report and Accounts Audit









2.1 Quality indicators

Impact on the execution of our audit

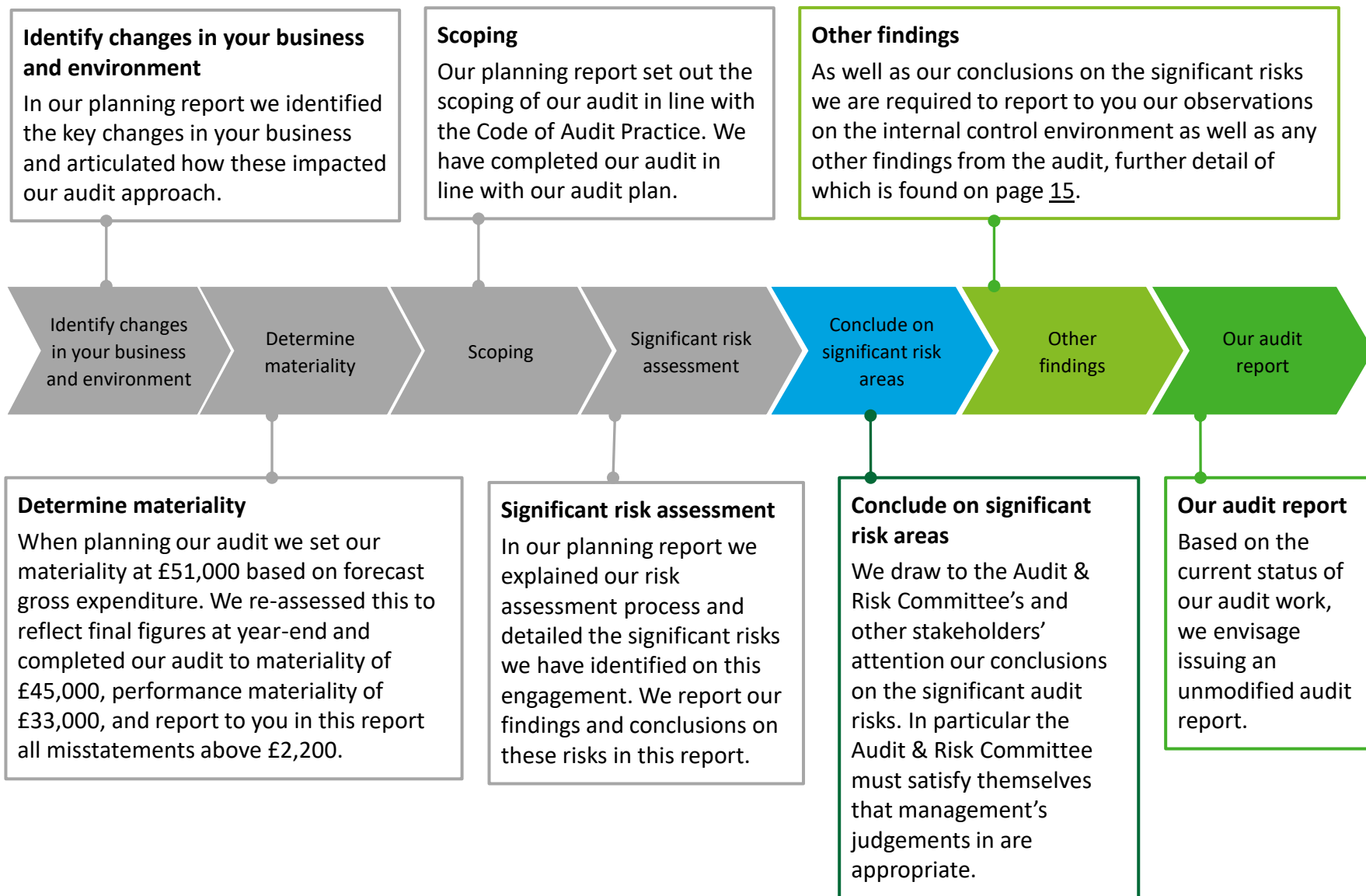
 Lagging
  Developing
  Mature

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	N/A	Not applicable as the Annual Report and Accounts do not contain any key accounting judgements or estimates	N/A
Adherence to deliverables timetable		All deliverables were provided within agreed upon timeframes. All follow up requests and queries were dealt with appropriately.	N/A
Access to finance team and other key personnel		All key members of staff were available throughout the audit. No issues were encountered.	N/A
Quality and accuracy of management accounting papers		N/A - as no accounting papers were applicable in the current year audit.	N/A
Quality of draft Annual Report and Accounts		Overall, the quality of the annual report and accounts was generally of a good standard. The review comments were addressed promptly and change logs provided.	46 - 49
Response to control deficiencies identified		We noted three control deficiencies as part of audit testing due to identification of material misstatements and disclosure errors during the course of our audit. Management has acknowledged the control deficiencies and worked with the audit team to update their accounts in respect of the issues noted.	12 - 14
Volume and magnitude of identified errors		Two material errors in the financial statements and two disclosure errors in the remuneration & staff report, and cash flow statement were identified during the course of our audit. These have been corrected for by management in the updated annual report and accounts.	46 - 49







2.2 Our audit explained

We tailor our audit to your business and your strategy



2.3 Significant risks

Significant risk dashboard

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

Controls approach adopted




 Assess design & implementation

Controls conclusion

Satisfactory

Not Satisfactory

Consistency of judgements with Deloitte's expectations

-  Consistent
-  Improvement required
-  Inconsistent

2.4 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:

- Considered and evaluated the overall control environment and 'tone at the top';
- 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;
- Tested journal entries and other adjustments made at the end of a reporting period; and
- Tested journal entries and other adjustments throughout the period including using Spotlight Data Analytic tools.

Accounting estimates and judgements.

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

Significant and unusual transactions

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

Deloitte view

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

2.5 Significant risks (continued)

Operating within the expenditure resource limits



Risk identified and key judgements

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

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

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



Deloitte response and challenge

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

- Evaluating the design and implementation of controls around monthly monitoring of financial performance;
- Obtaining independent confirmation of the resource limits allocated to ESS by the Scottish Government;
- Performing focused testing of accruals and prepayments made at the year-end to verify their completeness and existence; and
- Performing focused cut-off testing of invoices received and paid around the year-end to verify the cut-off assertion of accruals.




Deloitte view


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

Based on our testing to date, we confirm that ESS has performed within the limits set by Scottish Government achieving a surplus of £474k over the year and therefore is in compliance with the financial targets set for the period.

2.6 Your control environment and findings




Control deficiencies and areas for management focus


-  Low priority
-  Medium Priority
-  High Priority

Observation	Priority	Deloitte recommendation	Management response and remediation plan
<p>Lease liabilities and Right of Use (ROU) Asset</p> <p>Note for the below finding ii), management confirmed that they followed the guidance provided by the Scottish Government for their lease computations. However, upon our review the calculations were not consistent with those required as per International Financial Reporting Standards (IFRS) 16 leases.</p> <p>i) Duplication of Lease liabilities within trade and other payables and non-current liabilities</p> <p>As part of our audit testing, the audit team identified that the original lease liability of £760k was incorrectly included in trade and other payables whereas the same was also included in non-current liabilities, resulting in duplication of lease liability on the face of the balance sheet. For further details see slide 46.</p> <p>ii) Non-compliance with the requirements of IFRS 16 Leases</p> <p>The audit team identified material errors in the management's lease computations for ROU asset and associated lease liabilities due to the change in approach/methodology utilised by management and as required by IFRS 16. For further details see slide 47.</p>		<p>Management should strengthen their existing review process to ensure that the financial statements are reviewed for accuracy against the underlying source data to avoid the risk of material errors in the financial statements.</p> <p>In addition, where management receive and follow guidance, they should review it to ensure it complies with relevant accounting standards for their reporting purposes.</p>	Please see Action Plan at slides 40 – 43 for management response.

2.7 Your control environment and findings – Cont'd




Control deficiencies and areas for management focus


-  Low priority
-  Medium Priority
-  High Priority

Observation	Priority	Deloitte recommendation	Management response and remediation plan
<p>Cash flow statement</p> <p>Incorrect presentation of ROU asset and lease liabilities within the Cash Flow Statement</p> <p>Through our review and testing of the financial statements, the treatment of the lease cashflow within the cash flow statement was incorrectly presented. For further details see slide 49.</p> <p>This incorrect treatment of lease related cash flow within the cash flow statement was due to the lack of proper review control in place to ensure that the cash flow statement is reviewed against the relevant technical guidance.</p>		<p>It is recommended that management should strengthen the review process in place to ensure cash flow statement is reviewed against the relevant technical guidance such as <i>International Accounting Standard (IAS) 7 Statement of Cash Flows</i>. This will assist in mitigating the risk of material errors on the face of the cash flow statement.</p>	<p>Please see Action Plan at slides 40 – 43 for management response.</p>

2.8 Your control environment and findings – Cont'd

Control deficiencies and areas for management focus

-  Low priority
-  Medium Priority
-  High Priority

Observation	Priority	Deloitte recommendation	Management response and remediation plan
<p>Remuneration and staff report</p> <p>We identified the following disclosure errors within the remuneration and staff report, which management have corrected for.</p> <p>We note for the first two errors, management received the information at a late stage (in relation to pensions data), resulting in a short turnaround for producing the report.</p> <p>These were in relation to:</p> <ul style="list-style-type: none">• Three salary bandings were not updated to reflect actual salaries of individuals• One instance of an incorrect calculation of accrued pension benefits• One material classification error between social security costs and salaries & wages• A material duplication of Board/Committee fees and expenses in the salaries and wages line of the report <p>For more details, refer to slide 49.</p>		<p>It is recommended that a more thorough review control be designed and implemented to ensure that remuneration report is reviewed against the underlying source data and correct calculations for accrued pension benefits are followed. This will ensure that the risk for these errors is mitigated moving forward, leading to increased efficiency in the audit.</p>	<p>Please see Action Plan at slides 40 – 43 for management response.</p>

3.1 Other significant findings

Financial reporting findings

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

Qualitative aspects of your accounting practices:

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

Significant matters discussed with management:

There were no significant matters discussed with management other than the applicability of IFRS 16 to the current period's Annual Report and Accounts. The audit team identified material errors in management's lease computations as they did not comply with IFRS16. We note that management confirmed they completed the computations in line with guidance that they had received from the Scottish Government. For details on the nature and quantification of error, refer to slides [46](#) – [48](#) below.

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 audit risks identified (as discussed further on slides [9](#) to [11](#)), no reliance was placed on the work of internal audit and we performed all work ourselves.

Further consideration of internal audit is discussed under our wider scope conclusions on slide [21](#).

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

3.2 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.



Our opinion on the Annual Report and Accounts

Our opinion on the financial statements is expected to be unmodified.



Going concern

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

Practice Note 10 provides guidance on applying ISA (UK) 570 Going Concern to the audit of public sector bodies. The anticipated continued provision of the service is more relevant to the assessment 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 performed 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 slide [8](#).

4. Your Annual Report and Accounts

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

	Requirement	Deloitte response
The Performance Report	The report outlines ESS's performance, both financial and non-financial. It also sets out the key risks and uncertainties faced by ESS.	<p>We have assessed whether the Performance Report has been prepared in accordance with the Accounts Direction. We have also read the Performance Report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit and is not otherwise misleading.</p> <p>We provided management with comments and suggested changes which management have updated in the revised draft.</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. However, disclosure errors were identified the details of which are provided on slide 49.</p>

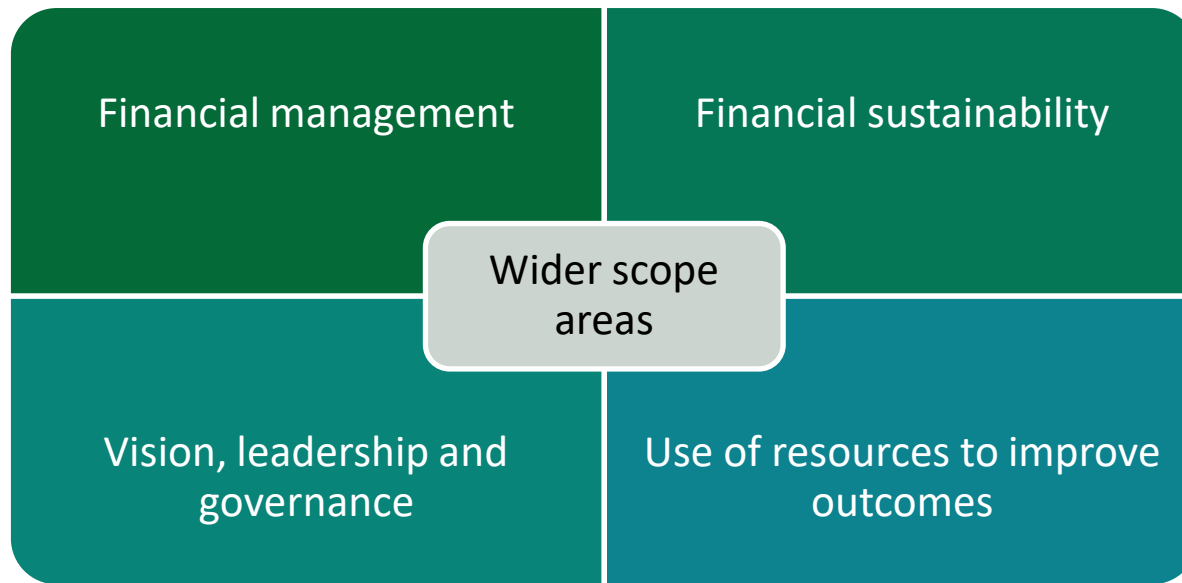
Wider scope audit



5.1 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.



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

5.2 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

In our Audit plan, we did not identify any significant risks in relation to financial management.

Current year financial performance

As a Non-Ministerial Office (NMO) of the Scottish Administration, working alongside but separate from the Scottish Government and accountable directly to the Scottish Parliament, ESS' budget allocation appears as distinct 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 ESS. However, given the Board has ultimate responsibility for ESS, the Board needs to assure itself that procedures are in place to ensure the propriety and probity of public expenditure.

After receiving the allocation, ESS has flexibility to determine how that money is spent and is split at a high-level between staff and non-staff costs. The 2023/24 budget was presented to the Board for noting at its meeting in March 2023. Regular reports are provided to the Board and the Audit and Risk Committee on the budget position, with these reports evolving to include more detail as the organisation has developed.

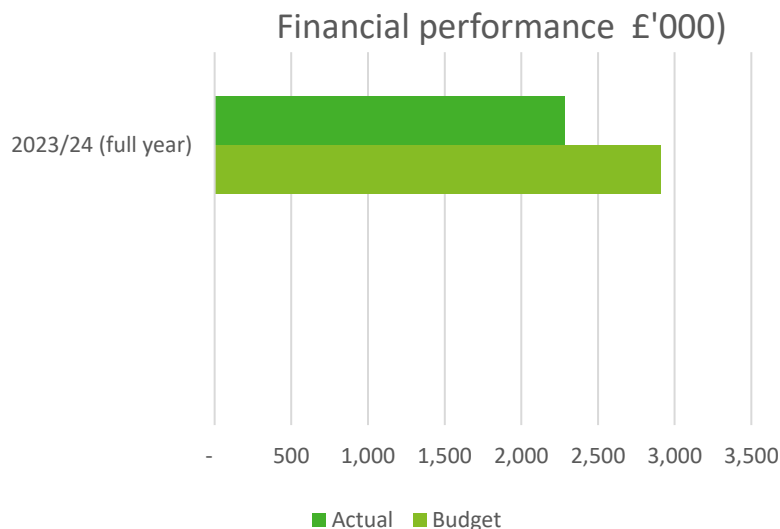
5.3 Wider scope requirements (continued)

Financial management (continued)

Current year financial performance (continued)

ESS has reported a significant underspend against its budget allocation for the year, as illustrated below. The key reasons for this underspend is largely as a result of maintaining contingencies and office retrofit costs. ESS thereby aim to return money where they can and have appropriate savings plans in place in addition to this.

This position has been regularly reported to the Board and Scottish Government.



Finance capacity

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

The implementation of the new Scottish Government ledger system from late 2024 will result in further changes to the work of the team. We have not, however, identified any risks with the teams' capacity that has impact on the operational financial management of ESS. We will continue to monitor this during our audit appointment.

Internal controls and internal audit

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

5.4 Wider scope requirements (continued)

Financial management (continued)

Internal controls and internal audit (continued)

We have assessed the internal audit function, including its nature, organisational status and activities performed. The agreed 2023-24 internal audit plan set out plans to provide an assurance review of corporate governance in ESS to provide a benchmark of the elements of a sound and robust corporate structure.

We have reviewed all internal audit reports published throughout 2023/24. Internal Audit provided recommendations to ESS but none of these recommendations or findings were rated higher than 'medium'. The conclusions have helped inform our audit work, although no specific reliance has been placed on this work.

Standards of conduct for prevention and detection of fraud and error

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

Deloitte view – financial management

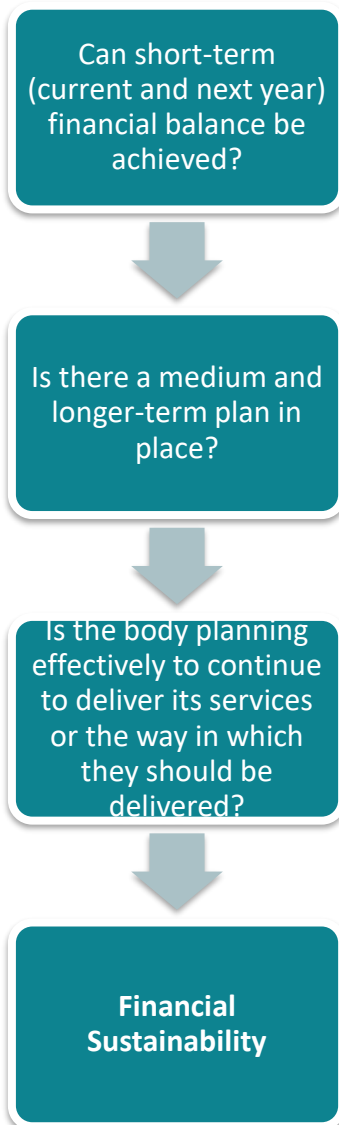
ESS has established sound financial management arrangements during its second year of operation, with timely financial reporting which has evolved during the year.

While a significant underspend was reported in the year, this was largely as a result of maintaining contingencies and office retrofit costs.

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

5.5 Wider scope requirements (continued)

Financial sustainability



Significant risks identified in Audit Plan

In our audit plan we highlighted that there is a risk that medium to long term financial planning arrangements are not adequate to ensure the financial sustainability of the organisation.

2024/25 budget setting

ESS' budget allocation appears as distinct lines items in the Annual Scottish Budget Bill. The confirmed budget allocation for 2024/25 is £3.02 million. The breakdown of this budget was presented to the Board in February 2024 for approval and had been reviewed in detail by the Audit and Risk Committee in advance of the Board. This provided a granular detail of the proposed budget allocations and assumptions applied and how this compared to previous year costs, demonstrating that a balanced position is expected to be achieved.

The paper clearly set out the assumptions applied and the key risks, the main one being that without careful planning, ESS could again see an underspend position in 2024/25.

To mitigate for this, it is planned that at each Committee and Board meeting an update will be provided not only on expenditure to date, but also projected spend going forward to the year-end. In addition, the teams will be able to provide a verbal update on plans that are in place to deliver on all areas of the budget, where it is harder to ensure full utilisation.

5.6 Wider scope requirements (continued)

Financial sustainability (continued)

Medium-to-long term financial planning

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

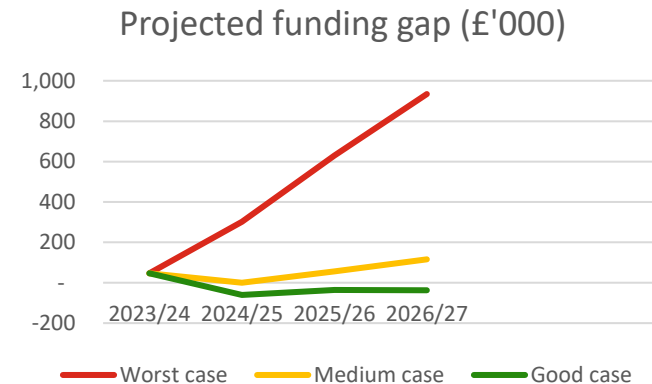
Savings targets

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

Use of shared services

ESS currently has a shared service agreement in place with Scottish Government for the finance system. It has also shared the office space with other public sector entity.

The Executive Team has prepared a 4-year profile in their budget, where they have projected for future staff costs from pay award projections, and operational costs from OBR increases. Deloitte have analysed the potential of different scenarios against this 4-year forecast of the financial position of ESS, applying worst case (10% decrease in funding each year), medium case (flat cash funding for 4 years) and good case (OBR inflation increases) scenarios. The impact of this is illustrated below, with the funding gap ranging from a £38k surplus to a £934k deficit by 2027/28.



ESS have recognised the following areas to plan for potential future funding gaps:

- Planned gaps in recruitment where there is turnover
- Putting on hold fixed-term appointments once completed
- Opportunities for collaboration with Consumer Scotland
- Maximising the use of office space at Thistle House

5.7 Wider scope requirements (continued)

Financial sustainability (continued)

Medium-to-long term financial planning (continued)

Strategic planning, financial planning and workforce planning are intrinsically linked and critical to the future success of any organisation. It is therefore positive to see the continued analysis on the projected position over the next 4 years through the development of the Medium-Term Financial Strategy.

ESS recognises that due to the high proportion of its costs being salaries, there is the potential that their costs will increase in the medium to long term, more than the funding that they may receive. For this reason, ESS is taking a precautionary approach to its planning. This includes the use of fixed term contracts to maintain an element of flexibility and ensuring that the impact of any Board decisions on the future financial position are clearly thought through.

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

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

5.8 Wider scope requirements (continued)

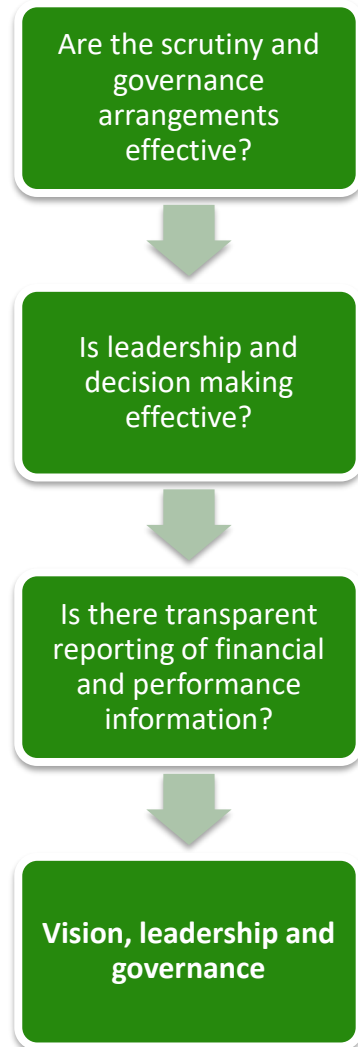
Financial sustainability

Deloitte view – Financial sustainability

ESS has achieved financial balance in 2023/24 and has confirmed funding for 2024/25 with an approved balanced budget, therefore is financially sustainability in the short term. While work has continued in developing a medium-term outlook, further work is required to fully develop this to be able to demonstrate that ESS is financially sustainable over the medium to longer term – stretching further than 4 years in the future. We have recommended that, as ESS develop its Medium-Long Term plan for 4-10 years, reference is made to Audit Scotland's publication which sets out the important features of a financial strategy.

5.9 Wider scope requirements (continued)

Vision, leadership and governance



Significant risks identified in Audit Plan

In our audit plan, we did not identify any significant risks relating to vision, leadership and governance.

Vision and strategy

An Interim Strategic Plan was published in October 2021 setting out how ESS intended to carry out its role in the interim period until its final Strategic Plan was approved by the Scottish Parliament. The final Strategic Plan covering the period 2022-2025 was approved in November 2022 and still relevant in 2023/24. This was prepared following extensive consultation with a wider range of stakeholders including:

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

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

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

ESS plan to measure its impact through the use of both quantitative and qualitative measures. The Strategic Plan is supported by an annual Business Plan setting out key priorities and outputs to be delivered in year one of the Strategic Plan.

5.10 Wider scope requirements (continued)

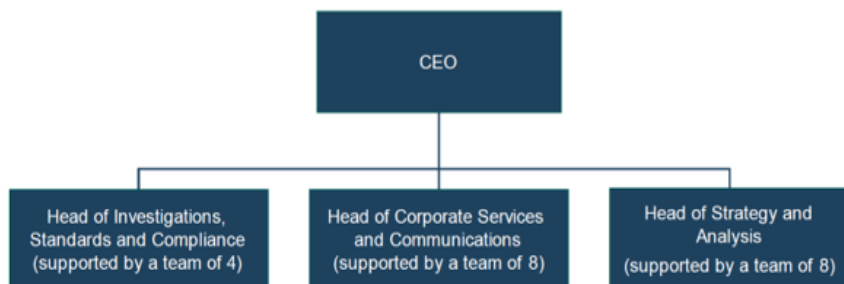
Vision, leadership and governance

Leadership

ESS has had a permanent Chief Executive appointed since June 2022. Scottish Ministers are currently looking to appoint a permanent Chair of the organisation in this financial year.

The Executive Team comprise the Chief Executive and three Heads of Service, as summarised below. The full complement of staff is 24. The Executive Team have all been recruited through external recruitment process and bring with them significant experience from other areas of the public sector.

It is positive to see that there has been the development of a People Strategy, and an Equality and Diversity Policy.



The Board consisted of seven Board members at 31 March 2024, appointed by Scottish Ministers, with the approval of the Scottish Parliament. All Board members received on-Board training and received one-to-one appraisals from the Board chair. Over 70% of the current Board have been in place before the vesting of the organisation, therefore have considerable knowledge and experience which has been valuable in the early years of ESS.

Governance and scrutiny arrangements

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

The Board standing orders were first approved in July 2021 and are updated annually. A clear governance structure is in place, with the Board being supported by the ARC, and both the Board and ARC supported by the Executive Team.

The ARC also provide oversight and scrutiny of the risk management activity. An updated Risk Register was reviewed by the ARC in June 2024, with updates provided on the work being done to mitigate the strategic risks.

5.11 Wider scope requirements (continued)

Vision, leadership and governance

Governance and scrutiny arrangements (continued)

In line with best practice, the ARC has carried out an annual self-assessment of its effectiveness, using the Scottish Government handbook. We have reviewed meetings attendance in the current year and confirmed that they have been well attended. In addition, from review of the minutes and observation at meetings, we can confirm that there is sufficient scrutiny and challenge exercised by members during the meetings.

Transparency of reporting

All Board and ARC minutes are publicly available through the ESS website. The Board have considered the option of holding its meetings in public. However, the decision was made that due to the nature of ESS's scrutiny work, that this would not go ahead.

ESS are still very open and transparent despite this, with publishing draft minutes on their website within fifteen days of meetings and publishing regular progress updates on their investigation reports online.

The ESS website includes a comprehensive suite of information including links to strategies and plans, thereby demonstrating openness and transparency of decision making and performance information.

Deloitte view – Vision, leadership and governance

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

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

ESS is also open and transparent. This could be further enhanced by holding board meetings publicly and publishing board papers online alongside the minutes currently published. Management and the Board have noted to re-consider this moving forward.

5.12 Wider scope requirements (continued)

Use of resources to improve outcomes



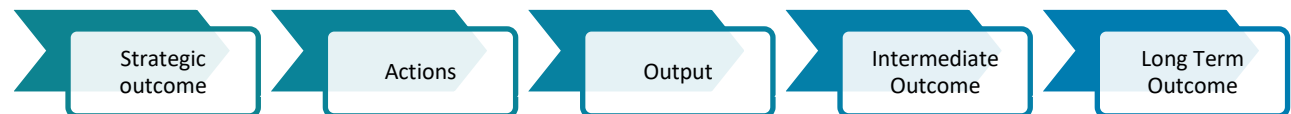
Significant risks identified in Audit Plan

In our Audit Plan did not identify any significant risks in relation to use of resources to improve outcomes.

Performance management framework

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

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



The above approach recognises that the outcome of ESS’ work is unlikely to be seen in the short term, but ensures processes are in place to capture the actions and outcomes that are expected to impact on both the intermediate and long-term outcomes. ESS are reviewing their Strategic Plan and in addition to this, are having their Performance Management Indicators (PMIs) reviewed by their Internal Audit Function. This will help ESS better measure their PMIs in terms of the outcomes against the work completed for each one.

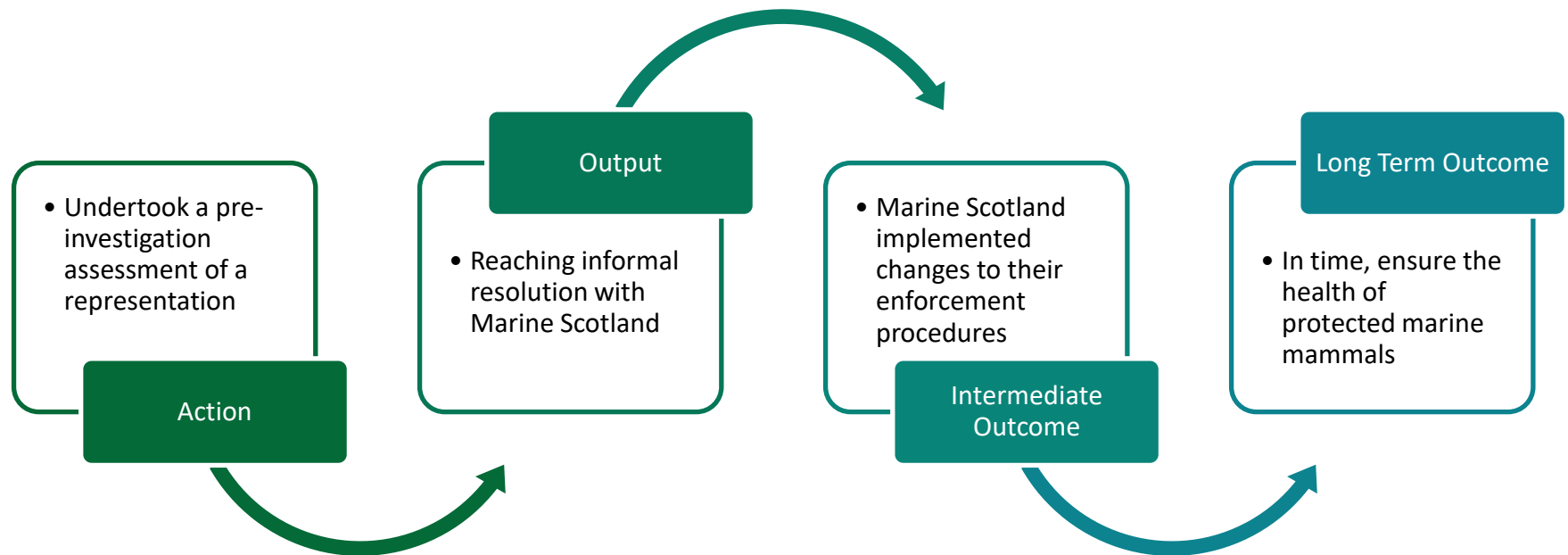
As highlighted in his blog “Christie 10-years on” [Blog: Christie 10-years on | Audit Scotland \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk/blog/christie-10-years-on), the Auditor General for Scotland noted that Christie challenged us to make a shift towards prevention and deliver improved long-term outcomes for individuals and communities. But we still measure the success of public services by short term, service specific measures. Public bodies need to rethink radically how we measure success and hold organisations to account for their performance. The approach being taken by ESS, as set out above, is a good example of how outcomes can be³⁰ measured.

5.13 Wider scope requirements (continued)

Use of resources to improve outcomes

Performance management framework (continued)

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



Deloitte view –Use of resources to improve outcomes

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

5.14 Wider scope requirements (continued)

Best value

Requirements

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

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

The duty of BV in Public Services is as follows:

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

Conclusions

ESS has a number of arrangements in place to secure best value. As noted on slide [27](#) within this report, the Strategic Plan provides a clear vision and has specific focus on some of the BV characteristics including partnership and collaboration, sustainability and a focus on continuous improvement. An experienced leadership team have been put in place during the first 2 years of operation. Governance and scrutiny arrangements are found to be effective.

Financial sustainability remains a key risk, as is the case across the public sector.

Deloitte view – Best Value

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

6. Audit quality and our system of quality management

Our commitment to audit quality

Audit quality is at the heart of everything we do and our system of quality management (SQM) supports our execution of quality audits.

The FRC recently promulgated ISQM (UK) 1, a standard that sets out a firm's responsibilities to design, implement and operate a system of quality management for audits, reviews of financial statements, and other assurance or related services engagements.

Led by senior UK leadership, Deloitte UK's ISQM (UK) 1 implementation activities reached successful completion on 15 December 2022.

Deloitte UK performed its first annual evaluation of its system of quality management as of 31 May 2023. This evaluation was conducted in accordance with ISQM (UK) 1 and we concluded our SQM provides the firm with reasonable assurance that the objectives of the SQM are being achieved as of 31 May 2023.

For further details surrounding the conclusion on the operating effectiveness of the firm's SQM, including results of the monitoring activities performed, please refer to the disclosures within Appendix 5 of our publicly available [transparency report](#).



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

- Results of our work on significant risks, key audit judgements and our observations on the quality of your Annual Report and Accounts.
- Wider Scope assessment including BV
- Our internal control deficiencies/observations along with recommendations

The scope of our work

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

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

Use of this report

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

What we don't report

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

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

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

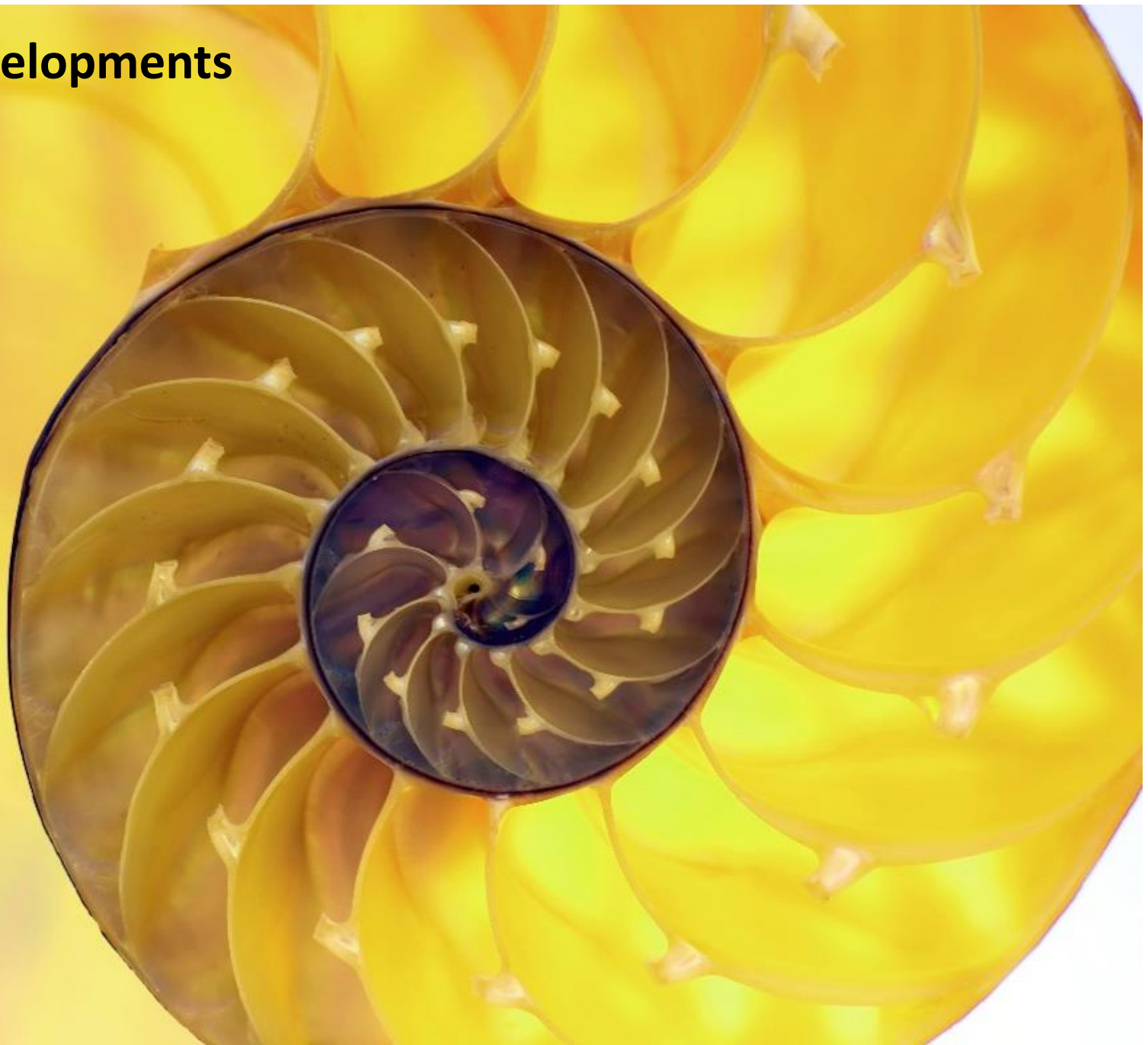
We welcome the opportunity to discuss our report with you and receive your feedback.



Deloitte LLP

Glasgow | 23 September 2024

Sector developments



8.1 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 \(Audit Scotland\)](#)

8.2 Sector developments

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

Background and overview

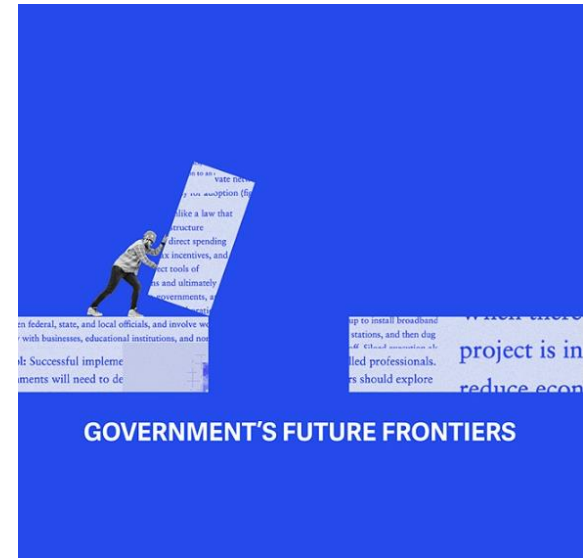
Infrastructure. Security. Health. Technology. The on-the-ground realities of homelessness. The infinite possibilities of space.

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 studied 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/future-frontiers)



8.3 Sector developments

Government Trends 2023

Background and overview

In the age of discontinuity, governments are moving from hierarchies to networks to enable intra-government 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



9.1 Action Plan

-  Low priority
-  Medium Priority
-  High Priority

The following recommendations have arisen from our 2023/24 audit work. :

Recommendation	Management Response	Priority	Responsible Person	Target Date
Lease liabilities and ROU Asset 1) Duplication of Lease liabilities within trade and other payables and non-current liabilities 2) Non-compliance with the requirements of International Financial Reporting Standards (IFRS) 16 Leases	A robust and thorough review process will be put in place, enhanced by a cross-reference to technical guidance.		Rebecca Peppiette	31 March 2025




For details on the control deficiencies noted above, refer to section [2.4](#) above.


Management should strengthen their existing review process to ensure that the financial statements are reviewed for accuracy against the underlying source data to avoid the risk of material errors in the financial statements.

In addition, where management receive and follow guidance, they should review it to ensure it complies with relevant accounting standards for their reporting purposes.

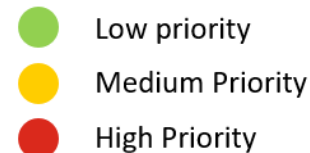
Note that the audit team was informed that management had used the guidance of Scottish Government's Finance Team for lease computations.

9.2 Action Plan – Cont'd

-  Low priority
-  Medium Priority
-  High Priority




Recommendation	Management Response	Priority	Responsible Person	Target Date
Cash flow statement 1) Incorrect presentation of ROU asset and lease liabilities within the Cash Flow Statement For details on the control deficiencies noted above, refer to section 2.4 above. It is recommended that management shall have a review process in place to ensure cash flow statement is reviewed against the relevant technical guidance such as <i>International Accounting Standard (IAS) 7 Statement of Cash Flows</i> . This will assist in mitigating the risk of material errors on the face of the cash flow statement.	A robust and thorough review process will be put in place, enhanced by a cross-reference to technical guidance. This point relates to the 'Lease liabilities and ROU Asset' recommendation set out in the previous page.		Rebecca Peppiette	31 March 2025



9.3 Action Plan – Cont'd



Recommendation	Management Response	Priority	Responsible Person	Target Date
<p>Remuneration and staff report</p> <p>We identified the following disclosure errors within the remuneration and staff report, which management have corrected for.</p> <p>We note for the first two errors, management received the information at a late stage (in relation to pensions data), resulting in a short turnaround for producing the report.</p> <p>These were in relation to:</p> <ul style="list-style-type: none">• Three salary bandings were not updated to reflect actual salaries of individuals• One instance of an incorrect calculation of accrued pension benefits• One material classification error between social security costs and salaries & wages• A material duplication of Board/Committee fees and expenses in the salaries and wages line of the report <p>For more details, refer to slide 49.</p>	<p>A robust and thorough review process will be put in place, enhanced by a cross-reference to technical guidance.</p>		Rebecca Peppiette	31 March 2025

9.4 Action Plan – Cont'd

-  Low priority
-  Medium Priority
-  High Priority

Recommendation	Management Response	Priority	Responsible Person	Target Date
Wider Scope 1) Financial Sustainability <p>While work has continued in developing a medium-term outlook, further work is required to fully develop this to be able to demonstrate that ESS is financially sustainable over the medium to longer term – stretching further than 4 years in the future. We have recommended that, as ESS develop its Medium-Long Term plan for 4-10 years, reference is made to Audit Scotland's publication which sets out the important features of a financial strategy.</p>	<p>A four-to-ten-year medium-long term plan will be developed for consideration by the Audit and Risk Committee.</p>		Rebecca Peppiette	31 March 2025
2) Vision, Leadership and Governance <p>We understand that ESS have made the decision not to publish all Board papers online, alongside the minutes at this stage, however, we recommend that this should be re-considered moving forward for better transparency.</p>	<p>The Board will be presented with this finding for consideration. The Board decision will be made publicly available through the minute.</p>		Rebecca Peppiette	31 March 2025

9.5 Action Plan – Cont'd

We have followed up on the recommendations made in 2022/23. We are pleased to note that three recommendations have been completed, and one recommendation has been partially implemented as documented below.

Recommendation	Management Response	Priority	Management update 2023/24	Audit Assessment 2023/2024
1. Review of year-end prepayments and accruals Our testing highlighted several errors and classifications of within the year-end prepayments and prepayments accruals balances. Although not all and accruals to above our reporting threshold, the mitigate for the risk of error cumulative impact on accruals was in the Annual Report and above our reporting threshold. Accounts going forward. Controls should be implemented whereby the calculations and classifications of these adjusting entries should be reviewed in detail by a second person to mitigate the risk of error within the annual report and accounts.	Controls will be implemented to review the calculations and classifications of prepayments and accruals to above our reporting threshold. Accounts going forward. Controls should be implemented whereby the calculations and classifications of these adjusting entries should be reviewed in detail by a second person to mitigate the risk of error within the annual report and accounts.	Medium	Improved processes have been put in place to review the calculations and classifications of prepayments and accruals.	We have reviewed the improved process in place as part of our audit testing and noted no errors to report in this area. Hence, the recommendation has been implemented.
2. Review of bank reconciliation and balances at year-end Our audit testing identified that cash had been incorrectly disclosed in the initial version of the draft Annual Report and Accounts. This was due to the incorrect identification of a cash transaction as a reconciling item. It is recommended that the controls around the bank reconciliation be strengthened to ensure that the review effectively identifies any errors.	The treatment of the payroll transfer to the ESS Bank Account within the Annual Report and Accounts has been amended in the 2021-2023 Annual Report and Accounts, and will be correctly identified as a reconciling item going forward. Reconciliation of the bank account will also be strengthened.	Low	The ESS Bank Account payroll information has been correctly set out within the 2023/24 Annual Report and Accounts. The reconciliation process for the payroll bank account has also been strengthened.	We have reviewed the improved process in place as part of our audit testing and noted no errors to report in this area. Hence, the recommendation has been implemented.

9.6 Action Plan – Cont'd

Recommendation	Management Response	Priority	Management update 2023/24	Audit Assessment
3. Financial sustainability We would recommend that the next stage in the development of a finance strategy should set out contextually more detail around the assumptions and risks impacting the medium term and how ESS propose to address the potential funding gaps, based on Audit Scotland publication of best practice.	A medium-term finance strategy report is due to be presented to the next Audit and Risk Committee meeting scheduled for 4 December 2023.	Medium	A medium-term finance strategy report was presented to the Audit and Risk Committee meeting 4 December 2023. This work is ongoing related to the review of the ESS Strategic Plan.	Although a medium-term finance strategy has been developed, the audit team has recommended on slide 43 that the finance strategy should cover medium to long term horizon beyond 4 years.
4. Vision, leadership and governance Consideration should be given to publishing the Board papers to accompany the minutes to enhance the openness and transparency. Consideration should also be given to holding Board meetings in public.	This is an existing longer-term matter arising for the Board of ESS to consider. A paper will be presented to the Board on good practice in this area for consideration in the financial year 2023/24.	Low	At its 24 November 2023 meeting the Board agreed during its private session that its meetings (and related papers) would not be held in public due to the nature of ESS' scrutiny work.	We recognise that Board has considered the recommendation and decided to not disclose the papers given the nature of the ESS scrutiny work. As the recommendation has been considered by ESS, therefore, this recommendation is now closed.

10.1 Audit adjustments

Corrected misstatements

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

	Debit/(credit) SOCNE £000	Debit/(credit) in net assets £000	Debit/(credit) prior year reserves £000	Debit/(credit) Equity £000	If applicable, control deficiency identified
Duplication of lease liabilities within trade and other payables and non-current liabilities					
As part of our audit testing, the audit team identified that the original lease liability of £760k was incorrectly included in trade and other payables whereas the same was also included in non-current liabilities, resulting in duplication of lease liability on the face of the balance sheet.		760		(760)	Refer to section 2.4
Note that the impact of above duplication was originally incorrectly addressed through adjusting the Scottish Government funding line within the equity statement.					

10.2 Audit adjustments – Cont'd

Corrected misstatements

Computation of ROU asset and lease liability

The present value calculations prepared by management incorrectly applied 1.46% as the adjusted interest rate for the determination of initial recognition of ROU asset and corresponding lease liability, which resulted in material difference of £71,935.73 in ROU based on our re-calculation and management's working as at 31st March 2024.

As a result, the depreciation and interest rate charge in the expenditure statement were incorrect by £3,127.64 and £7,483.67 respectively.

Due to the above, there was material net difference of £100,631.78 between lease liability determined by management and per our re-calculation. This error had knock-on impact on the classification of lease liability into current and non-current liability of (£29,209.56k) and £129,841.34 respectively.

Please see the following slide for further details.

For control implications please refer to section [2.6](#)

10.3 Audit adjustments – Cont'd

Corrected misstatements

	Debit/(credit) SOCNE £000	Debit/(credit) in net assets £000	Debit/(credit) prior year reserves £000	Debit/(credit) Equity £000	If applicable, control deficiency identified
The proposed corrections noted because of above are as follows:					
> Right of use asset Cr (£71,936)					
> Lease liability Dr £100,632k					
> Trade and other payables Cr (£33,052)	4.36	(4.36)			Refer to section 2.6
> Finance costs Dr £7,484					
> Depreciation charge Cr £3,128					
Net impact of above proposed journals noted is £4,356.					
Total	4.36	755.36		(760)	

Un-corrected misstatements

During the course of our audit, we did not identify any un-corrected misstatements.

10.4 Audit adjustments – Cont'd

Corrected disclosure errors

During the course of our audit, the following disclosure errors were identified in the remuneration and staff report which has now been corrected by management in the updated annual report and accounts.

Disclosure Title	Description of corrected disclosure errors	Amount (if applicable)
Cash flow statement	Through our review of the financial statements and testing of cash flow statement, the audit team noted that ROU asset of £718k and lease liabilities of £692k were incorrectly presented as cash flows within investing and financing activities of the cash flow statement, respectively.	ROU asset £718k Lease liabilities £692k
Remuneration and staff report	Incorrect salary bandings disclosed for Senior Management Team (SMT) As part of our audit testing, the audit team noted that the salary bandings for three SMTs were not updated to reflect the actual salaries of these individuals.	N/A – Salary bandings in the remuneration report
Remuneration and staff report	Incorrect calculation of accrued pension benefits As part of remuneration report testing, the audit team noted that the accrued pension benefits were incorrectly calculated for one individual in the SMT.	£8.6k
Remuneration and staff report	Incorrect classification of social Security Costs and Salaries & Wages Through our audit testing of payroll expenses, the audit team noted a material classification error of £49k in social security costs and salaries & wages in the staff cost section of the remuneration report.	£49k
Remuneration and staff report	Duplication of Board/Committee Fees in staff costs During our audit testing, the audit team noted a duplication of Board/Committee fees and expenses of £38k within the staff costs section of the remuneration report. Management had included the board fees within salaries and wages and had separately disclosed this under 'Board/Committee fees and expenses' within the staff cost section of the remuneration report.	£38k

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



Audit work performed:

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

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 detection of fraud, errors and other irregularities in the financial statements.

We have reviewed the paper prepared by management for the Audit & Risk Committee on the process for identifying, evaluating and managing the system of internal financial control. We will explain in our audit report (for all entities subject to audit) 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.

12. Independence and fees

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

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of ESS and our objectivity is not compromised.	
Fees	The expected fee for 2023/24, as communicated by Audit Scotland in December 2023 is analysed below:	
		£
	Auditor remuneration	48,260
	Audit Scotland fixed charges:	
	• Pooled costs	4,870
	• Audit support costs	-
	• Sectoral cap adjustment	-
	Total expected fee	53,130
	Due to additional work performed by Deloitte over IFRS 16 leases, we will be seeking additional fees. This is currently under internal negotiation.	
Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and ESS's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.	
Relationships	We have no other relationships with ESS, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.	



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