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Partner introduction

The key messages

Introduction

I have pleasure in presenting our report to the Audit and Risk Committee (“ARC”) of Environmental Standards Scotland (“ESS”) for the 2024/25 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 2025.

Conclusions from our testing

Our audit work is complete, and we have issued an unmodified audit report.

Based on our review of annual report and accounts, we have no significant matters to raise except a minor recommendation on page 14 in relation to performance summary presented in the report.

The auditable parts of the Remuneration and Staff report have been audited, and we have no significant matters to raise.

Based on the audit procedures performed, we have no material uncorrected misstatements or material disclosure deficiencies to report. A summary of the corrected misstatements and disclosure deficiencies is detailed on page 31 - 36.

Significant risk

In our planning report we identified operating within expenditure resource limits and management override of controls as significant risks, a summary of our work is presented on page 6 - 8.

Conclusions from our testing (continued)

Areas of audit focus

Change in IT system from SEAS to Oracle Fusion: No issues arose from our data migration testing. Refer to page 9 for further details.

Wider Scope

Overall effective budget setting and monitoring arrangements are in place. This includes budget holders proactively following up on deviation from budgets when variances occur and setting action plans. No significant or material deficiencies have been identified as part of our audit assessment. Refer to page 16-28 for further details.

Added value

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








Noel Simbarashe Jana
Engagement Leader

Quality indicators

Impact on the execution of our audit

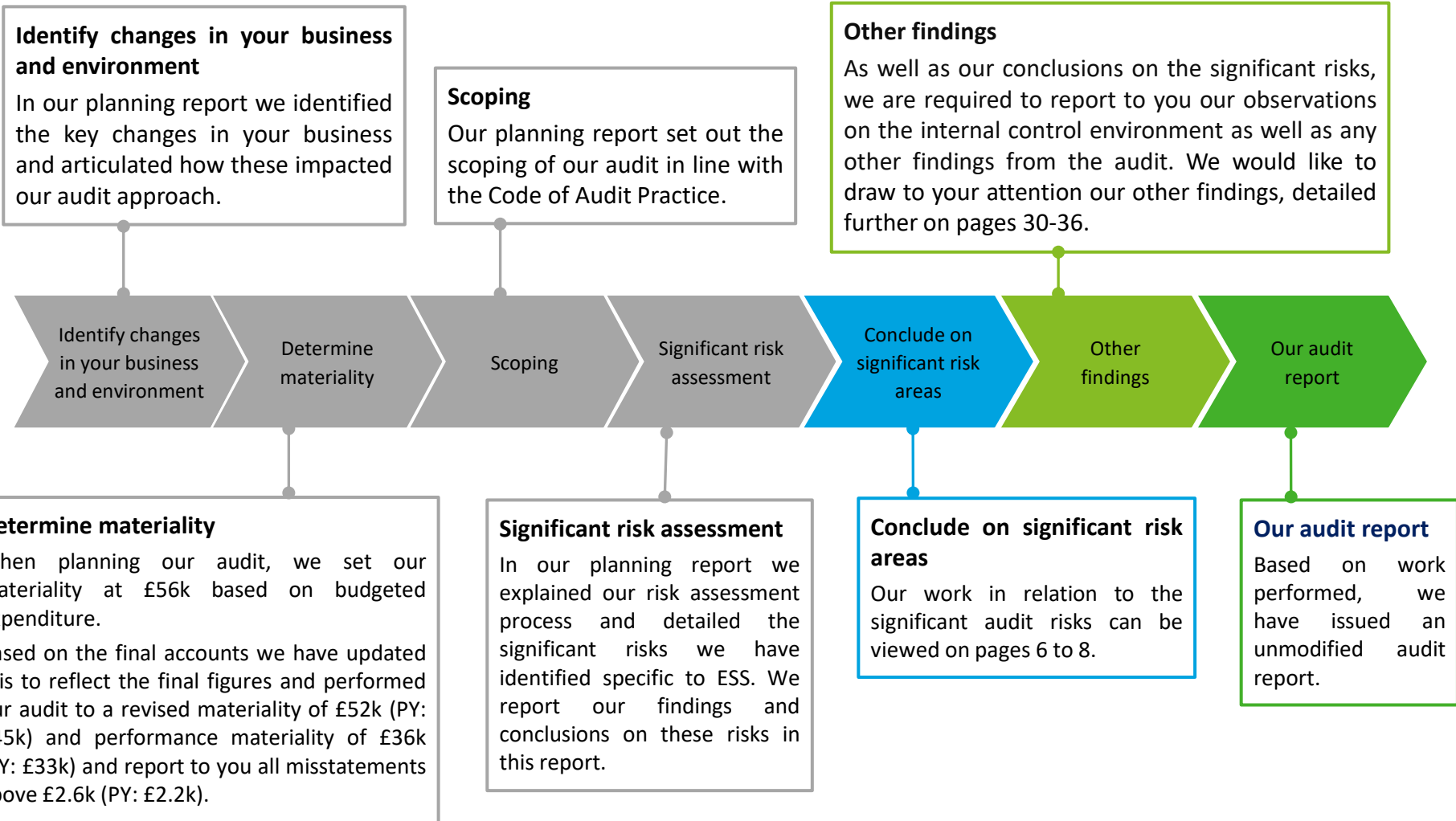
 Lagging
  Developing
  Mature

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		During our year-end testing of IFRS 16 leases it was identified that, on review, further information was required related to the determination of the lease term. After communication of this, management delivered timely the updates to critical judgement disclosure note in the annual report and accounts.	8
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.	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		The initial version of the draft Annual Report and Accounts was of good quality. We recommended some changes which have been corrected by management. On page 15, there is a minor recommendation to update information around performance and management indicators. This work is already underway by management as part of the review of ESS' Strategy 2026-2031.	15
Response to control deficiencies identified		We noted three control deficiencies as part of audit testing due to identification of 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.	35 - 37
Volume and magnitude of identified errors		During the course of our audit, we identified one material error and three errors above our minimum reporting threshold in the financial statements. We also identified two immaterial disclosure errors in the financial statements. These have been corrected for by management in the updated annual report and accounts.	31 - 34 4

Our audit explained


We tailor our audit to your business and your strategy






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

Consistency of judgements with Deloitte's expectations

-  Consistent
-  Improvement required
-  Inconsistent

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 organisation, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the financial statements and accounting records.

Deloitte response and challenge

In considering the risk of management override, we have performed the audit procedures that are set out in our planning report, specifically:

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;
- We have used our Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. Our analysis has covered all journals posted in the year.

Accounting estimates and judgements

During our verification of IFRS 16 leases it was identified that, on review, further information was required related to the determination of the lease term (related to the termination and extension options set out in the lease agreement). The critical judgement disclosure note of the accounting estimate (lease term) was thereafter reviewed for biases, which may represent a risk of material misstatement due to fraud. From our testing we did not identify any indication of bias.

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

Our testing has not identified any exceptions of management override of controls, hence satisfactory conclusion has been drawn in this respect.

Significant risks (continued)

Operating within the expenditure resource limits



Risk identified and key judgements

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

We consider this fraud risk to be focused on how management operate within the resource budget set by the Scottish Government. The risk is that 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 validity and completeness of accruals and the existence of prepayments made by management at the year end and invoices processed around the year end as this is the area where there is scope to manipulate the final results. Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of accruals and prepayments around the 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 the year-end accruals and prepayments process;
- Obtaining an independent confirmation of the resource limits allocated to ESS by the Scottish Government;
- Testing a sample of accruals and prepayments to supporting documentation to check whether they are valid liabilities, that the amount accrued is appropriately supported, and that the liability had been incurred as at 31 March 2025;
- Performing cut-off testing of a sample of invoices received and payments made around the year-end;
- Assessed budgetary process including regular monitoring of actual expenditure against budgeted expenditure.

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, we confirm that ESS has performed within the limits set by Scottish Government, achieving a surplus of £362,143 (approximately 12% of the revised budget). It is therefore in compliance with the financial targets for the year.

Area of audit focus

Change in IT system

Risk identified

In October 2024, ESS changed its finance and procurement systems from SEAS to Oracle Cloud as a result of a Scottish Government wide transformation programme. This has created an increased risk over completeness of data as data was migrated from SEAS to Oracle for the 2024/25 audit. Furthermore, because the transition occurred mid-year, ESS operated on two separate systems during this financial year.

Deloitte response and challenge

We have evaluated the results of our audit testing in the context of the transition to oracle. Our work in this area included the following:

- We performed walkthroughs of key controls and business processes over both systems (SEAS and Oracle), to ensure in the period both were designed appropriately and implemented correctly;
- We engaged our IT team to review the controls over the implementation process at Scottish Government level;
- We inquired from the finance team on the implementation process including challenges experienced and related impact on financial reporting; and
- We performed a reconciliation of data transferred, to ensure completeness and accuracy of the data transfer from SEAS to Oracle.

Deloitte view

In terms of procedures performed centrally on the review of controls over the implementation at Scottish Government level this was deemed effective.

As a result of above audit procedures performed, the audit team did not identify any material findings/reconciliation issues when the data was transferred from SEAS to Oracle mid-way during the year. Our IT specialist has also not reported any material findings to us in relation to implementation of new finance system that would otherwise impact our audit strategy/testing.

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 Annual Report and Accounts have been prepared in accordance with the Government Financial Reporting Manual (the “FReM”). We have provided comments on the annual report and accounts which have been addressed by management in the updated annual report and accounts except a minor recommendation as set out on page 14 of this report.

Significant matters discussed with management:

There have been no significant matters raised with management post our review of the final annual report and accounts.

Below are the findings from our audit surrounding your control environment.

Your control environment and findings

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

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

Liaison with internal audit




The audit team has reviewed the findings of the Internal Audit team, which has been used to inform our risk assessment. It should however be noted that we have not placed any reliance on the work of Internal Audit during the year.


Refer to next pages in this report for the control deficiencies identified and the action plan noted.

For corrected/un-corrected misstatements and disclosure deficiencies, refer to pages 30 - 33.

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>IFRS 16 leases</p> <p>Upon review of revisions agreed with ESS during the 2024/25 audit, further modifications have been required as set out below:</p> <p>i) Lease modification assessment</p> <p>Further modification was required to reflect updated lease rental charges and to reflect correct right of use asset and lease liabilities.</p> <p>ii) Classification of lease rentals paid during the year within the statement of cash flows</p> <p>Interest and principal repayments updated to correctly classify and present portions of the lease rentals within the cash flow statement.</p> <p>iii) Lease maturity analysis</p> <p>Lease maturity analysis was updated to reflect the cash outflows over the remainder of the lease term within the lease disclosure note in the financial statements.</p> <p>For further details including the values involved, refer to pages 30 – 33 of this report.</p>		<p>i), ii) and iii) Management should apply the requirements of relevant technical literature (in this case IFRS 16 leases and IAS 7 statement of cash flows) to ensure that the lease related accounting transactions, including lease modifications, are accounted and reported accurately in the financial statements.</p>	<p>Please see Action Plan on page 34 for management response.</p>

Your control environment and findings (continued)

Control deficiencies and areas for management focus

-  Low priority
-  Medium Priority
-  High Priority

Observation	Priority	Deloitte recommendation	Management response and remediation plan
<p>i) Incorrect classification of prepayment balance within accrued liabilities</p> <p>Accrued liabilities and prepayments have been updated in the annual report and accounts to ensure correct classification of £3,000 into prepayment. The correction has £nil impact on the balance sheet.</p>		<p>i) Existing review controls should be enforced to minimize such errors.</p>	<p>Please see Action Plan on page 35 for management response.</p>
<p>ii) Overstatement of staff costs – Reversal of FY23/24 holiday pay /flexi accrual from FY24/25</p> <p>During migration from SEAS to Oracle, the reversal of prior year holiday pay / flexi accrual of £59,378 was not adjusted correctly. This has been corrected for in the financial statements.</p> <p>For further details, refer to page 30 of this report.</p>		<p>ii) Staff costs recorded in the accounting system should be reconciled monthly to the payroll system. Where there are reconciling items, these should be investigated and correcting entries processed if required.</p>	

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 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 any 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.

Our opinion on matters prescribed by the Controller of Audit are discussed further on page 41.

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
<p>The Performance Report</p>	<p>The report outlines ESS's performance, both financial and non-financial. It also sets out the key risks and uncertainties faced by ESS.</p>	<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>The initial version of the draft Annual Report and Accounts was of good quality. We recommended some changes which have been corrected by management. We provided a minor recommendation to update information around performance and management indicators. This work is already underway by management as part of the review of ESS' Strategy 2026-2031.</p>
<p>The Accountability Report</p>	<p>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>	<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 quantitative parts of the Remuneration and Staff Report and confirmed that it has been prepared in accordance with the accounts' direction.</p>

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 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 Accounts.

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

Use of this report

This report has been prepared for the Board, 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.

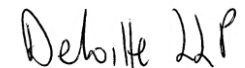
What we don't report

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

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

Aberdeen | 15 October 2025

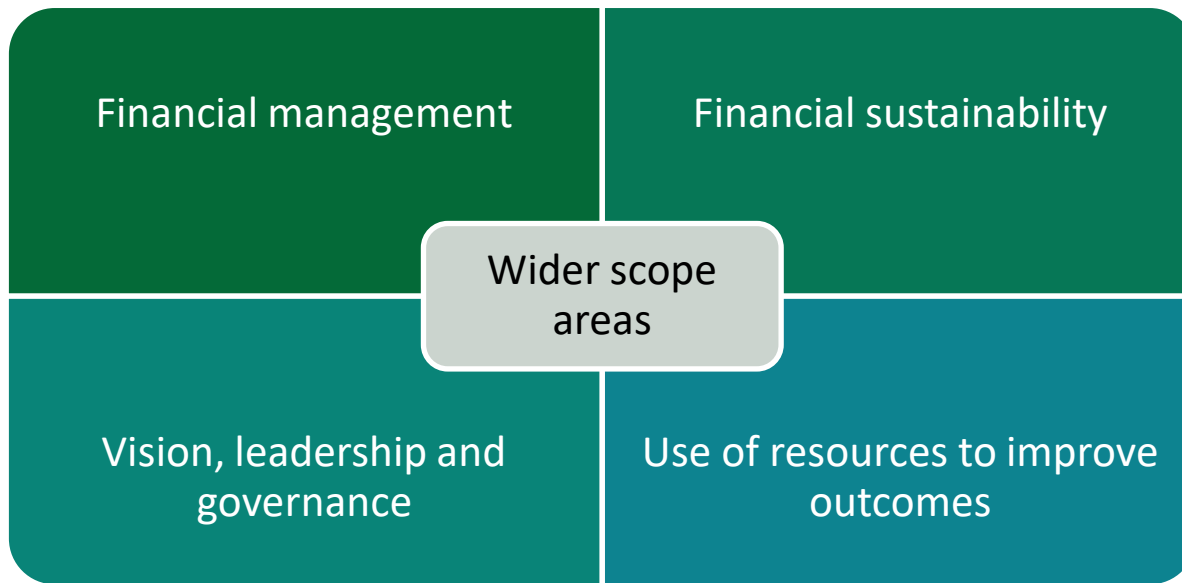
Wider scope audit



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.

Wider scope requirements (continued)

Financial management

Is there sufficient financial capacity?

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, ESS's budget is independently allocated within the Annual Scottish Budget Bill, reflecting its distinct operational status separate from, yet alongside, the Scottish Government. The Chief Executive, acting as Accountable Officer, is directly accountable to the Scottish Parliament for ESS's financial management. However, the Board, holding ultimate responsibility for ESS, must ensure robust procedures are in place to guarantee the propriety and probity of all public expenditure.

Is there sound budgetary processes in place?

Following budget allocation, ESS retains flexibility in determining expenditure, broadly categorized as staff and non-staff costs. The 2024/25 budget was presented to the Board in February 2024. The Board and Audit and Risk Committee receive regular monitoring reports on the overall financial performance of ESS.

Is the control environment and internal controls operating effectively?

Moreover, in the 2024/25 financial year, ESS received an initial budget allocation of £3,020,000. Following a call for public service reform savings, £100,000 was returned mid-year, revising the budget to £2,920,000. Operating costs totalled £2,557,857, resulting in a £362,143 underspend (approximately 12% of the revised budget) or £462,143 underspend against original budget (approximately 15% of the original budget). This underspend reflects unutilised allocations for judicial reviews, contingency, and expert advice.

Staff and related costs constituted the largest expenditure category at £1,886,944 (74% of total operating costs), a 20% increase from the previous year due to non-discretionary salary progression and pay awards. Given the small staff complement, ESS's budget is highly sensitive to changes in staffing levels and pay awards.

Financial Management

Budgetary process and governance over financial management

Furthermore, ESS demonstrates sound budgetary processes through clearly defined roles and responsibilities for budget management, as evidenced by the experience of its senior management team. The monthly budget vs actual expenditure review by the Executive Team and regular monitoring reports presented at ARC and Board meetings indicate effective tracking and reporting mechanisms.

Wider scope requirements (continued)

Financial management (continued)

Budgetary process and governance over financial management (continued)

Additionally, In response to the Scottish Government's 3% efficiency target, ESS has identified several areas for potential savings. These include managing planned recruitment gaps, exploring collaboration opportunities with Consumer Scotland, and reviewing office space utilisation. The Executive Team has communicated these strategies within a financial resilience planning, outlining how ESS aims to contribute to the efficiency target and address potential funding shortfalls.

We also note that a robust governance framework underpins ESS's financial management, ensuring compliance with the Scottish Public Finance Manual.

Finance capacity

Further, the finance team is led by the Head of Corporate Services and Communications, who is supported on daily basis by a permanent Financial Accountant, and Business & Finance Manager. These individuals share responsibility for all aspects of budget management, from preparation and execution to ongoing monitoring.

Implementation of new finance system – Oracle Fusion

ESS significantly upgraded its financial and procurement systems in October 2024, transitioning from the outdated SEAS system to the Scottish Government's new Oracle Cloud platform. This formed part of a broader government-wide modernization effort aimed at improving efficiency and transparency across public sector operations. The legacy SEAS system was no longer fit for purpose, and the upgrade to the Oracle Cloud platform offers substantial benefits, including a unified data source, streamlined processes, strengthened internal controls, and enhanced transparency in both financial and operational data. The platform's design is based on best-practice processes, initially derived from UK Government Global Design Principles and now aligned with the NOVA Functional Reference Model.

The in-year nature of this significant systems change required additional resources to be dedicated to data validation and reconciliation to ensure the accuracy and integrity of financial reporting throughout the year. To mitigate the inherent risks associated with such a large-scale system implementation, ESS undertook rigorous accounts preparation processes and worked closely with the external audit team to obtain additional assurance. This proactive approach ensured the reliability of financial information despite the complexities of the transition.

To support the ongoing stability and development of the Oracle Cloud platform, the Scottish Government established a dedicated central management team responsible for its maintenance, improvement, and governance. ESS continues to collaborate closely with this team, participating in a structured programme of quarterly updates to facilitate further system enhancements and ensure the long-term success of this crucial upgrade.

Wider scope requirements (continued)

Financial management (continued)

Standards of conduct for prevention and detection of fraud and error

ESS operates in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Scottish Public Finance Manual, maintaining a clear fraud policy and providing regular staff training and e-learning on fraud prevention, investigation, and whistleblowing procedures.

The Counter Fraud policy, outlining key responsibilities for compliance with the Scottish Public Finance Manual, designates the Chief Executive Officer as the Accountable Officer, with oversight from the Audit and Risk Committee and the Board. This robust framework, coupled with a commitment to continuous improvement in conduct and policy, fosters a culture of compliance within the organisation.

Internal controls and internal audit

The organisation also benefits from a well-functioning internal audit function, with management demonstrating a proactive response to their recommendations.

The Scottish Government Directorate for Internal Audit and Assurance (SGDIAA) provides internal audit services to ESS under a Memorandum of Understanding. SGDIAA representatives attend all Audit and Risk Committee meetings.

During the reporting period, SGDIAA issued a "reasonable" assurance opinion on ESS's overall financial controls. Furthermore, advisory reviews of ESS's performance reporting mechanisms and risk management procedures were conducted, resulting in a "reasonable" assurance opinion for both. The performance reporting review informed the development of a new performance measurement approach, integrated with the review of ESS's Strategic Plan.

Though we have reviewed the internal audit plans and reports, but we sought no reliance on them for the purpose of our audit strategy and testing except that they helped inform our risk assessment.

Deloitte view – financial management

Overall, ESS demonstrates strong financial management practices. The experienced leadership team, strong governance framework, and effective budget monitoring processes contribute to the organisation's financial stability. While a significant underspend occurred in 2024/25, primarily due to unutilized funds allocated for judicial reviews, management has taken proactive steps to address potential future funding challenges. The development and implementation of the financial resilience planning shows a forward-thinking approach to financial planning and risk mitigation.

Wider scope requirements (continued)

Financial sustainability

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



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



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



Financial Sustainability

Significant risks identified in Audit Plan

In our audit plan we highlighted that there is a risk that medium to long term financial planning arrangements are not adequate to ensure the financial sustainability of the organisation. There is a requirement set out in *Code of Audit Practice 2021, Para 64 Financial Sustainability* for ESS to develop a medium to long term financial plan (5 – 10 years).

2025/26 budget setting

The Scottish Government's 2025/26 budget allocated ESS a total core budget of £3.8 million. This represents a 3% increase in resource funding compared to the previous year. ESS has confirmed to the relevant committee that this funding level is sufficient for its operational needs in 2025/26. To mitigate potential underspends, a 2% staff vacancy rate was applied, contingency was reduced to 5% of non-staff costs, and the judicial review allocation was maintained. A further refinement, approved on January 20th, 2025, increased the expert advice line budget by £30,000 (from general contingency) to address anticipated increased demand.

Medium-to-long term financial planning

ESS has prepared a ten-year projection which focuses on staffing costs (the largest expense), incorporating pay band increments, known personnel changes, and pay award scenario planning (assuming current staffing levels, pay progression, and 3% annual pay awards). Other non-staff costs are estimated using supplier quotes, previous years' data, known activity changes, and Office for Budget Responsibility (OBR) inflationary assumptions.

Management acknowledges ongoing capacity challenges due to the expanding remit of ESS. The introduction of new responsibilities related to the Natural Environment Bill and climate change duties will necessitate additional staffing. Management is currently analysing the most cost-effective approach to staffing, balancing the need for additional personnel with the imperative to control salary costs.

Wider scope requirements (continued)

Financial sustainability (continued)

Medium-to-long term financial planning continued

Further, in response to the Scottish Government's 3% efficiency target, ESS has identified several areas for potential savings. These include managing planned recruitment gaps, exploring collaboration opportunities with Consumer Scotland, and reviewing office space utilisation. The Executive Team has communicated these strategies within a financial resilience planning, outlining how ESS aims to contribute to the efficiency target and address potential funding shortfalls.

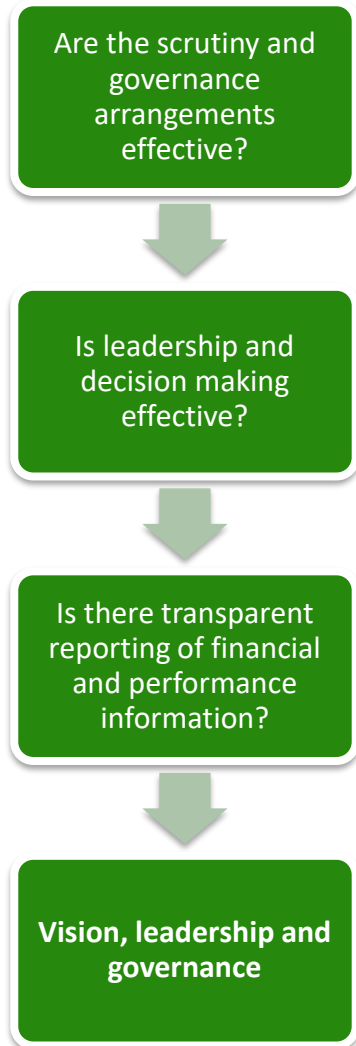
Deloitte view – Financial sustainability

ESS has achieved a substantial financial balance in 2024/25 with a 20% underspend noted against revised budget and has confirmed funding for 2025/26 with an approved balanced budget, therefore is financially sustainability in the short term. Following up on our prior year recommendation, ESS has now developed longer term financial plan beyond 5 years up to 10 years consistent with Audit Scotland's report, published in June 2014 Scotland's public finance.

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

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

ESS's vision and strategy, initially established at its inception, have been reassessed to incorporate evolving scope and risks for the period 2026-2031. The draft strategic report 2026-2031 clearly outlines overarching objectives, primary risks, and delivery methods.



The strategic objectives in this draft report covering 2026-2031 are set out as follows:

➤ Securing compliance and improving effectiveness

ESS uses statutory powers to secure compliance and improve the effectiveness of environmental law, prioritizing collaboration but employing enforcement, when necessary, with all actions publicly reported.

➤ Analysing and investigating environmental concerns

ESS investigates environmental concerns from the public and its own monitoring, using a structured process and seeking external expertise when needed, while ensuring transparency and appropriate referrals.

Wider scope requirements (continued)

Vision, leadership and governance

Vision and strategy continued

➤ Monitoring and scrutinising environmental performance

ESS monitors Scotland's environmental performance through collaboration, and active participation in consultations, expanding its scrutiny to include climate change and nature recovery targets.

➤ Engaging and communicating effectively

ESS communicates transparently and effectively, engaging broadly with stakeholders to enhance accountability, knowledge exchange, and understanding of its role.

➤ Being an efficient and effective organisation

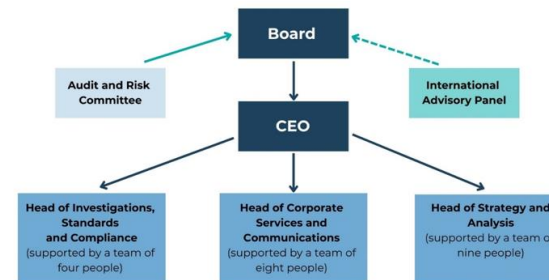
ESS maintains a skilled and diverse workforce, collaborates with other organizations, operates within relevant legislation and financial regulations, prioritizes spending, and reports annually on budget sufficiency and progress toward strategic objectives.

The above strategic priorities/objectives are aligned with stakeholder priorities, reflecting appropriate consultation with the Board, the Scottish Government, and the public, including engagement on the selection of environmental law focus areas. The strategic report and annual accounts are publicly available, further enhancing transparency. ESS also actively consults with local groups and the public to inform its goals and communicate its work.

Leadership

ESS has had a permanent Chief Executive appointed since June 2022.

The Executive Team comprise the Chief Executive and three Heads of Service, as summarised below. The full complement of staff is 25. The Executive Team have all been recruited through external recruitment process and bring with them significant experience from other areas of the public sector.



As of March 31, 2025, ESS has a six-member Board responsible for fulfilling the duties outlined in the Continuity Act. Board members are appointed by Scottish Ministers with parliamentary approval. The Board is supported by an Audit and Risk Committee, which provides detailed scrutiny and reports to the Board. To enhance engagement with European Union and international developments, an International Advisory Panel was established in February 2024, providing expert insights and advice.

Wider scope requirements (continued)

Vision, leadership and governance

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. The Committee and Board regularly reviews the ESS risk register, provide adequate level of scrutiny to ensure that risks are mitigated through proper remediation measures enforced.

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' scrutiny work, that this would not go ahead.

ESS are still very open and transparent despite this, with publishing draft minutes on their website 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

ESS demonstrates strong governance through a well-structured board, active Audit and Risk Committee, and International Advisory Panel, all operating with transparency aided by publicly available meeting minutes.

Strong leadership, proactive risk management, and stakeholder engagement ensure strategic alignment with government priorities and public needs. Finally, transparent reporting of financial and performance information is achieved through the use of KPIs, PMIs, and a Theory of Change approach, alongside publicly available strategic reports and progress updates.

However, we also note that ESS is in the process of revising their strategy for the period 2026-2031 and hence the PMIs and KPIs will be revised accordingly.

Wider scope requirements (continued)

Use of resources to improve outcomes

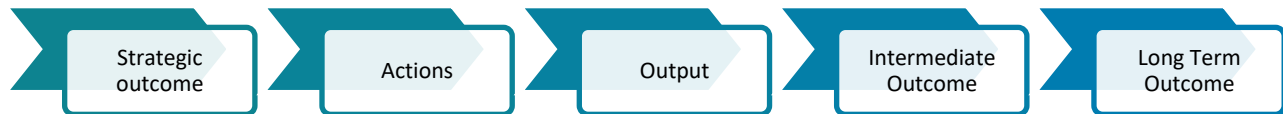


Significant risks identified in Audit Plan

In our audit plan we did not identify any significant risks in relation to use of resources to improve outcomes.

Performance management framework

In 2024/25, ESS monitored performance using a comprehensive set of indicators encompassing actions, outputs, and long-term outcomes. Its strategic plan uses a logic model to demonstrate how its resources and actions improve Scotland's policy and regulatory environment, ultimately enhancing environmental quality and public health.



ESS's approach acknowledges the long-term nature of its work, establishing processes to track actions and outcomes impacting both intermediate and long-term goals. 2024/25 internal audit of key performance indicators (KPIs) and performance management indicators (PMIs) informed the development of a refreshed approach for ESS's 2026-2031 strategy. Refer to above pages for information on draft strategy 2026-2031.

ESS regularly measures its organisational effectiveness using Performance Management Indicators (PMIs) and Key Performance Indicators (KPIs). PMIs encompass operational and management information related to investigations, analysis, engagement, staff strategy, business plan objectives, and governance/financial reporting compliance. These PMIs are organised under three KPIs: Performance, People, and Profile, enabling both qualitative and quantitative progress reporting.

Wider scope requirements (continued)

Use of resources to improve outcomes

Performance management framework (continued)

ESS employs an evaluation framework to assess both the impact of its work and its operational effectiveness. A Theory of Change approach demonstrates how scrutiny efforts contribute to improved environmental outcomes, outlining intended improvements to environmental law and regulation, the expected chain of events leading to improvements, key assumptions, and wider context. Specific indicators track environmental improvements in areas where ESS has intervened. To further enhance understanding, detailed case studies will be commissioned every three years to examine long-term outcomes and ESS's contribution to policy and regulatory changes.

Further, ESS communicates service improvements transparently through annual reports and regular updates to the executive team and board. While the performance framework provides structure, the actual impact of service improvements must be demonstrated through the data presented in these reports. ESS's considered approach to strategic planning, awareness of funding pressures, and prudent budgeting practices, including headroom for difficult-to-quantify expenses, further demonstrate a commitment to responsible resource management. The organisation's use of Standard Operating Procedures for Theory of Change analysis ensures projects are evaluated against their aims, with a focus on incorporating findings into future projects for long-term improvement. Finally, ESS actively involves the Scottish Government, the Board, and the public in both budget planning and strategic development, fostering collaborative decision-making.

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 note that ESS has developed a draft strategy for 2026-2031 which includes reassessing the performance framework in line with new strategy. We will continue to monitor how this is implemented in practice including assessing the revised performance indicators, during the course of our audit appointment.

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 page 23 – 25 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 with oversight and scrutiny provided by Board and ARC

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.

Appendices



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
IFRS 16 leases – incorrect classification of Q4 lease rental in accrued expenses instead of lease liabilities in FY24/25				
Accrued expenses relating to Q4 lease rental charge were updated to correct for overstatement of accrued expenses and understatement of lease liabilities, amounting to £21,905. The correction therefore has £nil impact on financial statements.	-	22 / (22)	-	-
IFRS 16 leases – modification in FY24/25				
Right of use assets and lease liabilities were updated following revision to lease rental charges in FY24/25. The correction has immaterial impact on the financial statements.	-	9 / (9)	-	-
Incorrect classification of prepayment balance within accrued liabilities				
Accrued liabilities and prepayments have been updated in the annual report and accounts to ensure correct classification of £3,000 into prepayment. The correction has £nil impact on the balance sheet.	-	3 / (3)	-	-
Overstatement of staff costs – Reversal of FY23/24 holiday pay /flexi accrual from FY24/25				
During migration from SEAS to Oracle, the reversal of prior year holiday pay / flexi accrual of £59,378 was not adjusted correctly. This has been corrected for in the financial statements.	(59)	-	-	59

Audit adjustments (continued)

Uncorrected Misstatements

The following uncorrected misstatement relates to FY23/24 financial statements. Given the immaterial nature of the error with £nil impact on the financial statements, as this represent just a classification error within the liabilities, no adjustment has been made to the prior year signed financial statements.

	Debit/(credit) SOCNE £000	Debit/(credit) in net assets £000	Debit/(credit) prior year reserves £000	Debit/(credit) Equity £000
IFRS 16 leases – incorrect classification of Q4 lease rental in accrued expenses instead of lease liabilities in FY23/24				
Accrued expenses relating to Q4 lease rental charge are overstated and lease liabilities are understated by £21,905 in the prior year financial statements.	-	22 / (22)	-	-

Audit adjustments (continued)

Corrected Disclosure Errors

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

Disclosure Title	Description of corrected disclosure errors	Amount (if applicable)
IFRS 16 Critical Judgement Note	A review of IFRS 16 lease arrangement/agreement required further information to be included in the critical judgement that was taken to determine the 10-year lease term. This ensured that the accounting policy notes represent a true and fair view of the underlying facts and circumstances involved in the lease arrangement.	N/A
IFRS 16 Maturity analysis	Lease maturity analysis was updated to reflect the cash outflows over the remainder of the lease term within the lease disclosure note in the financial statements.	N/A
IFRS 16 – cash flow statement	Interest and principal repayments updated to correctly classify and present portions of the lease rentals (interest of £25k and principal repayment of £62k) within the cash flow statement.	See the description column




Audit adjustments (continued)

Prior Year Disclosure Errors

During the course of our audit, the following uncorrected disclosure errors were identified relating to 2023/24 were identified.

Disclosure Title	Description of corrected disclosure errors	Amount (if applicable)
IFRS 16 – cash flow statement	The prior year cash flow statement contains an immaterial error in relation to classification and presentation of lease rental charges paid during prior year – interest of £4k and principal repayment of £10k.	See the description column

Action plan

-  Low priority
-  Medium Priority
-  High Priority

The following recommendations have arisen from our 2024/25 audit work:

Insight and Recommendation	Management Response	Priority	Responsible Person	Target Date
IFRS 16 leases i. Lease modification assessment ii. Classification of lease rentals paid during the year within the statement of cash flows iii. IFRS 16 maturity analysis	ESS will contract external third-party professional advice on these matters to ensure nothing further is missed (or picked up) by the Deloitte team during	Medium	Financial accountant	To complete the years workings by 31 March 2026.

Management should apply the requirements of the 2025/26 audit relevant technical literature (in this case IFRS 16 process. leases and IAS 7 statement of cash flows) to ensure that the lease related accounting transactions, including lease modifications, are accounted and reported accurately in the financial statements.

For details on the errors noted above, refer to pages 30 - 33 of this report.

Action plan (continued)

- Low priority
- Medium Priority
- High Priority

Insight and Recommendation	Management Response	Priority	Responsible Person	Target Date
<p>Incorrect classification of prepayment balance within accrued liabilities</p> <p>Existing review controls should be enforced to minimize such errors.</p>	<p>Accruals and prepayments training will be provided to the operations teams to ensure all payments in this category are captured and captured correctly.</p>	Medium	Financial Accountant	Training to be carried out 31 March 2026
<p>Overstatement of staff costs – Reversal of FY23/24 holiday pay /flexi accrual from FY24/25</p> <p>Staff costs recorded in the accounting system should be reconciled monthly to the payroll system. Where there are reconciling items, these should be investigated and correcting entries processed if required.</p> <p>For details on the errors / control deficiencies noted above, refer to page 30 - 33 of this report.</p>	<p>Reconciliation checks to be carried out after each monthly payroll.</p>	Low	Financial Accountant	31 March 2026


Action plan (continued)

- Low priority
- Medium Priority
- High Priority




Recommendation	Management Response	Priority	Responsible Person	Target Date
<p>Annual Report and Accounts</p> <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. However, we provided a minor recommendation to update information around performance and management indicators. This work is already underway by management as part of the review of ESS' Strategy 2026-2031.</p>	<p>The performance reporting process has been updated as part of the review of the Strategy 2026-2031.</p>	Low	Head of Corporate Services and Communications	31 March 2026


Action plan (continued)

We have followed up on the recommendations made in 2023/24. We note that four out of five recommendations have been completely addressed, whereas one recommendation has been dropped by the audit team as documented in below pages.




Recommendation	Management Response	Priority Management Update 24/25	Audit Assessment 24/25
<p>Lease liabilities and ROU Asset</p> <p>1) Duplication of Lease liabilities within trade and other payables and non-current liabilities</p> <p>2) Non-compliance with the requirements of International Financial Reporting Standards (IFRS) 16 Leases</p>	<p>A robust and thorough review process will be put in place, enhanced by a cross-reference to technical guidance.</p>	<p> A review was carried out. To mitigate for mistakes in financial statements, the Executive Team began to receive additional overviews and management accounts on a quarterly basis from the beginning of the new financial year. Management accounts were also produced on a monthly basis. Due to the switch to Oracle, there was a period where reporting could not be carried out (as the new EPM system was not introduced until July 2025). However, ESS maintained a separate tracking system to review spend. An updated review process utilising the Oracle EPM produced reports is now performed on a monthly basis.</p>	<p>We have not identified any similar instances where year-end balances were duplicated in the financial statements and hence concur with management's view that the review process has been strengthened.</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> <p>Note that the audit team was informed that management had used the guidance of Scottish Government's Finance Team for lease computations.</p>			


Action plan (continued)

-  Low priority
-  Medium Priority
-  High Priority




Recommendation	Management Response	Priority	Management Update 24/25	Audit Assessment 24/25
<p>Cash flow statement</p> <p>1) Incorrect presentation of ROU asset and lease liabilities within the Cash Flow Statement</p> <p>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.</p>	<p>A robust and thorough review process will be put in place, enhanced by a cross-reference to technical guidance.</p>		<p>A robust and thorough review process was established for the Lease Liabilities and ROU Assets, as recommended by Deloitte.</p>	<p>The review process based on recommendations made in the previous audit cycle has been strengthened as no identical material errors have been noted in FY24/25.</p>



Action plan (continued)

-  Low priority
-  Medium Priority
-  High Priority

Recommendation	Management Response	Priority	Management Update 24/25	Audit Assessment 24/25
<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>A robust and thorough review process will be put in place, enhanced by a cross-reference to technical guidance.</p>		<p>ESS updated its pension information request processes to ensure successful early receipt of information from MyCSP.</p> <p>Background calculations and processes to be further reviewed and updated.</p>	<p>No identical errors were identified in CY as those reported in prior year. Within 2024/25, reallocation to certain wages and salaries categories and calculations were corrected by management following our review.</p>
<p>For more details, refer to slide 49.</p>				

Action plan (continued)

-  Low priority
-  Medium Priority
-  High Priority

Recommendation	Management Response	Priority	Management Update 24/25	Audit Assessment 24/25
<p>Wider Scope</p> <p>1) Financial Sustainability</p> <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>		<p>A ten-year plan was developed and presented to ARC and Board in the financial year 2024/25.</p>	<p>The audit team notes that management has addressed this recommendation from prior year by preparing a 10-year plan as approved by the Board.</p>
<p>2) Vision, Leadership and Governance</p> <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>		<p>All Board and ARC minutes are publicly available through the ESS website. The Board have considered the option of holding its meetings in public. The decision was made that due to the nature of ESS’ scrutiny work, that this would not go ahead.</p>	<p>The audit team have re-assessed this recommendation in light of management’s response and decided to drop it because the existing reporting mechanism by ESS provides users with sufficient understanding and transparency over the activities of ESS.</p>

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 the Board 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 have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the Board.

We have also asked the Board 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 fraud and error in the financial statements.

We have reviewed the paper prepared by management for the audit 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.

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 2024/25, as communicated by Audit Scotland in January 2025 is analysed below:

	£
Auditor Remuneration	50,290
Audit Scotland fixed charges:	
• Pooled costs	(4,150)
Total expected fee	46,140

Note additional fees will be requested due to the work performed in relation to Oracle transition, payroll reconciliation and IFRS 16 lease disclosures which will be communicated separately.

There are no non-audit fees.

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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