

Food Standards Scotland

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for Food Standards Scotland

November 2018

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

Contents

Risks and planned work	4
Audit scope and timing	8

Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.


Adding value


3. We aim to add value to Food Standards Scotland (FSS) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help FSS promote high standards of governance, effective management and decision making and the best use of resources.


Audit risks

4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for FSS. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1 2018/19 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business.
<p>2 Risk of fraud over income</p> <p>FSS receives a significant amount of income from fees and charges in addition to Scottish</p>	<p>Key controls working effectively.</p>	<ul style="list-style-type: none"> • Analytical procedures on income streams.

 Audit Risk	Source of assurance	Planned audit work
<p>Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>Sound budgetary control and monitoring arrangements in place.</p> <p>Counter fraud arrangements are well established and working effectively.</p>	<ul style="list-style-type: none"> • Detailed testing of revenue transactions focusing on the areas of greatest risk.
<p>3 Risk of fraud over expenditure</p> <p>Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure.</p> <p>The risk of fraud over expenditure also exists in FSS due to the variety and extent of expenditure incurred in carrying out its functions.</p>	<p>Key controls working effectively.</p> <p>Sound budgetary control and monitoring arrangements in place.</p> <p>Counter fraud arrangements are well established and working effectively.</p>	<ul style="list-style-type: none"> • Analytical procedures on expenditure streams. • Detailed testing of expenditure transactions focusing on the areas of greatest risk.
Wider dimension issues and risks		
<p>5 Withdrawal from the EU</p> <p>The withdrawal of the United Kingdom from the EU is likely to have a significant impact on the operations of FSS.</p> <p>Planning for the withdrawal from the EU is placing additional pressures on services and is a risk to staff capacity and the continued provision of FSS services.</p> <p>FSS has been allocated for 2018/19 £0.885 million of additional funding from the Scottish Government following a bidding process for additional funds relating to EU exit related activities. This funding has to be spent during 2018/19. Due to the relatively short timescales involved and the possible delays in recruiting additional resources to support the Brexit work programme there is a risk that FSS is unable to fully utilise the Brexit consequential funding before 31 March 2019.</p>	<p>Brexit-specific risk register identifying and mitigating for risks specifically associated with withdrawal from the EU.</p> <p>A Brexit programme budget has been set for 2018/19 with programme documentation in place to set out how the work will be delivered.</p> <p>Senior Management Team (SMT) to regularly review expenditure and future requirements through normal business planning and financial reporting mechanisms.</p>	<ul style="list-style-type: none"> • Review the actions taken by FSS to plan for and mitigate the risks of withdrawal from the EU. • Monitor the Brexit risk register for any changes or developments. • Review financial performance reports and progress updates presented to the SMT and Board to monitor the budget position. • Confirm the appropriateness of the expenditure funded by the Brexit consequential funding.
<p>6 Shares services</p> <p>FSS are facing ongoing issues with the Scottish Government HR and payroll shared services.</p>	<p>Payslips are issued to staff in advance of payment allowing errors to be</p>	<ul style="list-style-type: none"> • Consider any impact on the internal control environment of the payroll system.

 Audit Risk	Source of assurance	Planned audit work
<p>There have been failures to make overtime and travel and subsistence payments along with delays in updating HR data.</p> <p>As FSS staff are spending additional time on checking the accuracy of payroll data and correcting errors, there is a risk to staff capacity as well as having a negative impact on staff morale.</p>	<p>identified and mitigating measures put in place.</p> <p>Ongoing communication with Scottish Government staff to identify corrective measures.</p>	
<p>7 Recruitment and retention of staff</p> <p>FSS rely on a single supplier to ensure the delivery of its statutory functions of meat inspection controls. A significant number of staff are non UK EU nationals and EU withdrawal is having an impact on the recruitment and retention of staff.</p> <p>There is a risk that the supplier will not be able to deliver the contract and FSS will lack the capacity to deliver the official controls that are required by law.</p>	<p>Recruitment and retention of staff is included as a risk on the Brexit risk register.</p> <p>FSS veterinarians are participating in FSA-led Operational Readiness project.</p> <p>Working with FSA and other relevant bodies to develop a contingency plan.</p>	<ul style="list-style-type: none"> • Monitor the Brexit risk register for any changes or developments. • Assess the adequacy of workforce planning arrangements.

Source: Audit Scotland

Reporting arrangements

5. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

6. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

7. We will provide an independent auditor's report to Food Standards Scotland, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

8. Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year – end, i.e. 31 December.

Exhibit 2

2018/19 Audit outputs

Audit Output	Target date	Audit and Risks Committee Date
Annual Audit Plan	21 November 2018	28 November 2018
Management Report	20 March 2019	27 March 2019
Annual Audit Report	7 August 2019	14 August 2019
Independent Auditor's Report	21 August 2019	21 August 2019

Source: Audit Scotland

Audit fee

9. The proposed audit fee for the 2018/19 audit of FSS has yet to be set by Audit Scotland [2017/18: £40,630]. In determining the audit fee we have taken account of the risk exposure of FSS, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package on 24 June 2019.

10. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Audit and Risk Committee and Accountable Officer

11. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

12. The audit of the annual accounts does not relieve management or the Board as those charged with governance, of their responsibilities.

Appointed auditor

13. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

14. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Annual report and accounts

15. The annual report and accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of FSS and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how FSS will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

16. We will give an opinion on whether the financial statements:

- give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2019 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 FReM; and
- have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

Other information in the annual accounts

17. We also review and report on other information published within the annual accounts including the performance report, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

18. We also read and consider any information in the annual accounts other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.

Materiality

19. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.



characteristics



responsibilities



principal activities



risks



governance arrangements

20. We calculate materiality at different levels as described below. The calculated materiality values for FSS are set out in [Exhibit 3](#).

Exhibit 3 Materiality values



Materiality	Amount
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2019 based on the audited accounts for 2017/18.	£187,000
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 70% of planning materiality.	£131,000
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 1% of planning materiality.	£2,000

Source: Audit Scotland

Timetable

21. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

Exhibit 4 Annual accounts timetable [tailor the name appropriate to your sector]

 Key stage	 Date
Consideration of unaudited annual accounts by those charged with governance	19 June 2019
Latest submission date of unaudited annual accounts with complete working papers package	24 June 2019
Latest date for final clearance meeting with Head of Corporate Services	31 July 2019
Issue of Letter of Representation and proposed independent auditor's report	7 August 2019
Issue of Annual Audit Report to those charged with governance	14 August 2019
Independent auditor's report signed	21 August 2019

Internal audit

22. Internal audit is provided by the Scottish Government's Internal Audit Directorate. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with Public Sector Internal Audit Standards (PSIAS). We will report any significant findings to management on a timely basis.

23. The external auditors of the Scottish Government will review the adequacy of the Scottish Government's Internal Audit Directorate. We plan to take assurance from this work, the results of which are due to be reported to the Scottish Government's Audit and Assurance Committee in June 2019.

Using the work of internal audit

24. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

25. In respect of our wider dimension audit responsibilities we plan to consider the following internal audit work:

- Scottish National Database; and
- Review of NMP Performance Management

Audit dimensions

26. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5 Audit dimensions



Source: Code of Audit Practice

Financial sustainability

27. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps

- whether FSS can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Financial management

28. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether FSS has arrangements in place to ensure systems of internal control are operating effectively
- whether FSS can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how FSS has assured itself that its financial capacity and skills are appropriate
- whether FSS has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

29. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether FSS can demonstrate that the governance arrangements in place are appropriate and operating effectively.
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

Value for money

30. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- FSS can provide evidence that it is demonstrating value for money in the use of its resources.
- FSS can demonstrate that there is a clear link between money spent, output and outcomes delivered.
- FSS can demonstrate that outcomes are improving.
- There is sufficient focus on improvement and the pace of it.

Independence and objectivity

31. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

32. The engagement lead (i.e. appointed auditor) for FSS is Elaine Barrowman, Senior Audit Manager. Auditing and ethical standards require the appointed auditor

Elaine Barrowman to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of FSS.

Quality control

33. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

34. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

35. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

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