

Food Standards Scotland

2018/19 Annual Audit Report



 AUDIT SCOTLAND

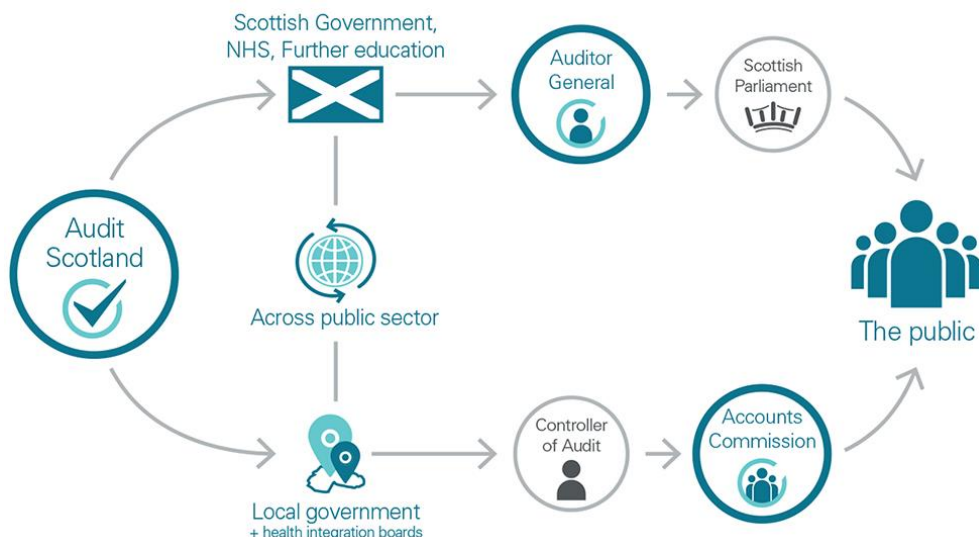
Prepared for Food Standards Scotland and the Auditor General for Scotland

21 August 2019

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

Key messages	4
Introduction	5
Part 1 Audit of 2018/19 annual report and accounts	8
Part 2 Financial management	11
Part 3 Financial sustainability	14
Part 4 Governance and transparency	17
Part 5 Value for money	19
Appendix 1 Action plan 2018/19	22
Appendix 2 Significant audit risks identified during planning	23
Appendix 3 Summary of national performance reports 2018/19	26

Key messages

2018/19 annual report and accounts

- 1 The financial statements of Food Standards Scotland (FSS) give a true and fair view of the financial affairs of FSS as at 31 March 2019 and were properly prepared in accordance with the financial reporting framework.
- 2 The expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance.
- 3 The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Financial management

- 4 Effective financial management arrangements are in place that allow members and officers to scrutinise and challenge financial performance, including the budget, effectively.

Financial sustainability

- 5 Short term financial planning has been challenging with extra funding for Brexit consequential only received in May 2019.
- 6 Progress has been made with a medium-term financial planning but planning for the longer term is difficult given the annualised allocation of resources and ongoing uncertainties around Brexit.
- 7 FSS is well sighted on EU Withdrawal and has been proactive in planning for the potential impact of Brexit.

Governance and transparency

- 8 There are appropriate governance arrangements in place that support decision making, accountability and scrutiny.
- 9 FSS is open and transparent in the way it conducts its business with Board papers and minutes readily accessible on its website.

Value for money

- 10 FSS can provide examples of Best Value arrangements but there is scope for improvement by developing a single document that demonstrates how Best Value attributes and practices are embedded in every day work.
- 11 FSS has sound arrangements for monitoring and reporting performance but with scope for further improvement, for example, the use of performance scorecards for programme and core activity.
- 12 A draft organisation-wide workforce plan has been developed but will need to be updated to reflect recent developments including the decision to provide Official Vet and contract Meat Hygiene Inspectors services in-house.

Introduction

1. This report summarises the findings from our 2018/19 audit of Food Standards Scotland.

2. The scope of our audit was set out in our Annual Audit Plan presented to the 28 November 2019 meeting of the Audit and Risk Committee. This report comprises the findings from:

- an audit of Food Standards Scotland's annual report and accounts
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

3. The main elements of our audit work in 2018/19 have been:

- a review of Food Standards Scotland's main financial systems
- an audit of Food Standards Scotland's 2018/19 annual report and accounts including the issue of an independent auditor's report setting out my opinions
- consideration of the four audit dimensions of public audit

Adding value through the audit

4. We add value to Food Standards Scotland through the audit by:

- providing insight by sharing examples from elsewhere, for example, other bodies Best Value framework documents
- regular attendance at the Audit and Risk Committee to present our reports and respond to questions from members
- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability

5. In so doing, we aim to help Food Standards Scotland promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

6. Food Standards Scotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers. Food Standards Scotland's annual report and accounts includes the following:

- Performance Report
- Accountability Report (which includes the Corporate Governance Report, Remuneration and Staff Report and Parliamentary and Accountability Report)
- Financial statements and supporting notes.

7. Food Standards Scotland is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable the board to successfully deliver its objectives.

8. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), and supplementary guidance and International Standards on Auditing in the UK.

9. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on:

- the appropriateness and effectiveness of the performance management arrangements,
- the suitability and effectiveness of corporate governance arrangements,
- the financial position and arrangements for securing financial sustainability.

10. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

11. This report raises matters from the audit of the annual report and accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

12. Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation. It also includes any outstanding actions from last year and progress against these.

13. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2018/19 agreed fee of £41,810 remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

14. This report is addressed to both FSS and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

15. We would like to thank all officers and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2018/19 annual report and accounts



Main judgements

The financial statements of Food Standards Scotland (FSS) give a true and fair view of the financial affairs of FSS as at 31 March 2019 and were properly prepared in accordance with the financial reporting framework.

The expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance.

The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The annual report and accounts are the principal means through which FSS accounts for the stewardship of its resources and its performance in the use of those resources.

Audit opinions on the annual report and accounts

16. The annual report and accounts for the year ended 31 March 2019 were approved by the Board on 21 August 2019. We reported within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared in accordance with the FReM
- expenditure and income were regular and in accordance with applicable enactments and guidance issued by Scottish Ministers
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

17. We have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received.

Submission of annual report and accounts for audit

18. We received the unaudited annual report and accounts in line with our agreed audit timetable on 24 June 2019.

19. The working papers provided with the unaudited financial statements were of a satisfactory standard. Also, finance staff provided good support to the audit team which helped ensure that key audit findings were addressed, and the accounts amended, as appropriate.

Materiality

20. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.

21. Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#).

22. On receipt of the unaudited annual report and accounts we reviewed our materiality calculations and concluded that they remained appropriate.

Exhibit 2 Materiality values

Materiality level	Amount
Planning materiality	£187,000
Performance materiality	£131,000
Reporting threshold	£2,000

Source: Food Standards Scotland Annual Audit Plan 2018/19

Risk of material misstatements

23. [Appendix 2](#) provides a description of material misstatement in the annual report and accounts and any wider audit dimension risks that we identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

Significant findings from the audit in accordance with ISA 260

24. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures. The significant findings are summarised in [Exhibit 3](#).

Exhibit 3 Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Pension liabilities</p> <p>Two issues on pension liabilities arose from legal cases after the accounts had been submitted for audit which required amendments to the accounts:</p> <ul style="list-style-type: none"> <p>McCloud Case: a legal judgement has been made regarding age discrimination arising from pension scheme transition arrangements. This affects FSS employees who are enrolled in defined benefit pension schemes.</p> 	<p>Management requested that the actuary (Barnett Waddingham) re-run the IAS 19 Report to take account of the McCloud case. Management used this revised report to include a disclosure explaining the background to the case. Additionally, valuation of defined benefit and unfunded liabilities as disclosed in note 13.4 of the accounts includes an allowance for the impact of the McCloud judgement on the total pension liabilities (£189,000).</p>

Issue	Resolution
<ul style="list-style-type: none"> • Guaranteed Minimum Pension (GMP) - the courts have ruled that UK defined benefit pension schemes must compensate members for differences attributable to guaranteed minimum pensions (GMPs). 	<p>The actuary has reported that there has been no 'trigger event' that allows them to make a reasonable estimate of the impact of GMP on pension liabilities.</p> <p>Management have added a non-quantifiable contingent liability note to the accounts to disclose and explain the GMP position</p>
<hr/>	
<h2>2. Intangible Assets</h2>	
<p>Audit testing identified that intangible asset additions (i.e. computer software and software licences) were overstated by £30,821. But after taking account of amortisation charged (£4,109) the net impact (£26,712) was a reduction in the value of the assets carried forward at 31 March 2019.</p>	<p>Management have adjusted the accounts to correct the misstatements identified by audit.</p>
<hr/>	
<h2>3. Overstated income</h2>	
<p>A credit note was processed incorrectly which resulted in income being overstated by £3,220 in the accounts.</p>	<p>Management have adjusted the accounts to correct the misstatement identified by audit.</p>
<p>Source: Audit Scotland</p>	

25. All individual adjustments which exceeded our reporting threshold (£2,000) were amended in the audited financial statements as detailed in [Exhibit 3](#) above. The combined impact of these adjustments was to increase expenditure by £219,000 within the Statement of Comprehensive Net Expenditure.

Other findings from the audit of the financial statements

26. We identified a number of minor arithmetical errors due to roundings. These are immaterial to the accounts and were not corrected. Management have agreed to review their accounts preparation process for next year to avoid the problem recurring.

Progress in implementing prior year recommendations has been less than anticipated due to the impact of Brexit

27. The last year has been extraordinary and turbulent because of uncertainties surrounding the UK's withdrawal from the EU (Brexit). This has had a major impact on FSS with significant resources deployed on planning for Brexit. Consequently, progress in implementing prior year audit recommendations has been less than anticipated. Therefore, we have not followed up progress in implementing prior year recommendation in any detail but maintained a watching brief. We will carry out more detailed follow-up work next year when there should be greater certainty about the impact of Brexit.

28. In the meantime, comments on key areas previously identified for improvement are included at paragraphs 49 to 54 (longer-term planning) and paragraphs 82 to 84 (workforce planning).

Part 2

Financial management



Main judgements

Effective financial management arrangements are in place that allow members and officers to scrutinise and challenge financial performance, including the budget, effectively.

Key internal controls tested as part of our audit work were found to be operating effectively and no significant control weaknesses identified

Our consideration of financial management focusses on financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

FSS achieved an underspend of £0.2 million against its 2018/19 budget of £16.2 million

29. The main financial objective for Food Standards Scotland is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

30. FSS received an initial resource budget allocation of £15.3 million from the Scottish Government in the 2018/19 Budget (Scotland). In the 2018/19 autumn revision the budget was increased to £16.2 million (inclusive of £0.5 million of capital) to recognise the extra work involved with EU withdrawal.

31. Food Standards Scotland has reported an outturn of £16.0 million remaining within its overall budget for 2018/19 with an underspend of £0.2 million. The financial performance against Departmental Expenditure Limits (DEL) is shown in [Exhibit 4](#).

Exhibit 4 Performance against DEL in 2018/19

Performance	Initial budget £m	Final budget £m	Outturn £m	Over (under) spend £m
Resource DEL	15.3	15.7	15.4	(0.3)
Capital DEL	0.0	0.5	0.6	0.1
Total DEL	15.3	16.2	16.0	(0.2)

Source: FSS budget monitoring returns and Annual Report and Accounts 2018/19

32. Additionally, FSS received £0.6 million in the Spring Budget Revision for Annually Managed Expenditure (AME). This was to cover FSS's pension liability. The additional pension expenditure incurred due to the McCloud case meant that

FSS overspent on its non-cash AME budget by £0.1 million. FSS have received agreement from the Scottish Government that the additional non-cash AME expenditure can be accommodated within their overall budget to cover the overspend on non-cash AME.

Effective financial management arrangements are in place that allow members and officers to scrutinise the budget effectively

33. In 2018/19 FSS revised the basis of allocating its budget by moving away from the allocation of funding across service departments to core activities and programme activities. The former accounts for 70% of the budget and the latter 30%. Core activities are further split into six areas which are aligned to FSS's strategic outcomes as set out in its Corporate Plan. Programme activities encompass Brexit, Diet & Nutrition and Regulatory Strategy. Budget monitoring and reporting reflects these new arrangements. Also, budgets are profiled to enable more accurate comparisons of actual spend against budget throughout the year and between years.

34. Board members receive quarterly financial performance reports that monitor the budget position throughout the year. The reports identify variances against budget and include good narrative explanations for variances. Also, they forecast the outturn position for the year and risks that could impact on achieving financial balance. From our review of these reports we concluded that they enable members to carry out effective scrutiny and challenge of FSS's finances.

35. The Senior Management Team monitor the budget position in more detail monthly. The Corporate Services Finance Manager meets with budget holders monthly to review actual spend against budget for the month and the projected outturn for the year. Through this monthly budget monitoring, a revised forecast is discussed and agreed with each budget holder. This information is used to provide an updated full-year forecast. This enables management to identify significant variances and to take remedial action promptly.

Key internal controls tested as part of our audit work were found to be operating effectively and no significant control weaknesses were identified

36. As part of our audit we identify and assess the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that Food Standards Scotland has appropriate and effective systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

37. Our findings were reported in our management letter which we presented to the Audit and Risk Committee on 27 March 2019. We concluded that controls tested were operating effectively and there were no significant key control weaknesses which could result in a material misstatement in the financial statements.

The standards of internal audit work have improved and there are no areas of significant non-compliance with PSIAS

38. The Scottish Government's Internal Audit Directorate (SGIAD) provides the internal audit function for FSS. Audit Scotland, as external auditors of the Scottish Government, carry out an annual review of the SGIAD. The review concluded that there are no areas of significant non-compliance with Public Sector Internal Audit Standards (PSIAS) although there are still some areas for improvement. Having said that, the review noted that there were clear improvements in the standard of internal audit work compared to 2017 / 2018.

39. The Code of Audit Practice requires internal and external auditors to work closely to make best use of available resources and avoid duplication of effort. We have considered internal audit's work on the Scottish National Data base and the

review of FSS's Performance Management as part of our wider dimension responsibilities.

No National Fraud Initiative data matches have been notified to FSS, by the Scottish Government, for investigation

40. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

41. The Scottish Government (SG) carry out a data matching exercise on FSS's behalf and advise of any data matches. FSS has not been advised on any data matches occurring.

Veterinarian and meat inspection services will be provided in-house from September 2019 rather than depending on a single supplier (HMMH)

42. The impact of a failure or collapse of a key supplier can be significant to an organisation and can result in either delays or non-completion of major contracts or, disruptions in the continued provision of vital services.

43. FSS has been reliant on a single supplier – Hallmark Veterinary and Compliance Services (HMMH) – to provide Official Veterinarians (OVs) and contract Meat Hygiene Inspectors (cMHIs). The market for the delivery of OV and cMHI services is limited, it is dominated by Eville & Jones in England and Wales and HMMH in Scotland. These veterinarians and meat inspectors are crucial to maintaining food and hygiene standards in Scotland's meat and poultry industry.

44. After an options appraisal exercise, FSS has decided to provide OV and cMHI services in-house. This was assessed as the most cost-effective option and one that would secure future service provision. FSS notified HMMH on 17 June that their contract was terminated with a three months period of notice. HMMH staff will be offered the opportunity to transfer to FSS under TUPE legislation.

45. Most veterinarians and meat inspectors are non-UK EU nationals and there is no guarantee that all of them will exercise the option to transfer to FSS. Without the presence of an Official Veterinarian during slaughter, an approved slaughterhouse would not be permitted to operate. Therefore, there is a risk that food safety and hygiene standards could be compromised in the short-term.



Recommendation 1

Develop robust contingency plans to ensure that veterinarian and meat inspection services are maintained in the event of lower than expected numbers of staff transferring from HMMH to FSS.

Part 3

Financial sustainability



Main judgements

Short term financial planning has been challenging with extra funding for Brexit consequentials only received in May 2019.

Progress has been made with medium-term financial planning but planning for the longer term is difficult given the annualised allocation of resources and ongoing uncertainties around Brexit.

FSS is well sighted on EU Withdrawal and has been proactive in planning for the potential impact of Brexit.

Financial sustainability looks forward to the medium and longer term to consider whether FSS has effective and robust planning arrangements in place to ensure the continued delivery of services and the way they are provided.

Short term financial planning has been challenging with extra funding for Brexit consequentials only received in May 2019

46. In the draft 2019/20 Scottish Budget, published in December 2018, FSS received a resource allocation of £15.7 million which represented only a slight increase on the original 2018/19 allocation of £15.3 million. The 2018/19 budget was further increased by £0.9 million, in May 2019, to fund the additional costs related to Brexit. Therefore, the final budget for 2018/19 was £16.2m against an original budget allocation of £15.3m. This was despite a review carried out at the request of the Scottish Government which highlighted that, under a 'No-Deal' Brexit scenario, there could be an additional resource requirement of between £5.7 million and £6.5 million. Consequently, FSSs initial budget was prepared with resources prioritised on statutory requirements with cutbacks in non-statutory areas. This posed a risk to delivering key activities set out in the Corporate Plan.

47. On 20 May 2019, FSS were notified that an additional allocation of up to £3.5 million will be available to deal with the extra work involved in planning and preparing for Brexit. This allocation was made on a non-recurring basis meaning that it was only available for financial year 2019/20. The extra funding while advised late will enable FSS to deliver not only its statutory functions but also other areas of activity where the budget had initially been cut.

48. The short-term financial position is challenging given the uncertainties around what form Brexit will take. The additional funding secured for 2019/20 should allow FSS to maintain current levels of service while preparing for Brexit.

Progress has been made with medium-term financial planning but planning for the longer term is difficult given the annualised allocation of resources and ongoing uncertainties around Brexit

49. Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for some social security benefits.; This provides the Scottish Government with more policy choices but also means that the Scottish budget is subject to greater uncertainty and complexity.

50. The Scottish Parliament has introduced a new budget process, which is based on a year-round continuous cycle of budget setting, scrutiny and evaluation. As part of the new budget process, the Scottish Government published an initial five-year Medium-Term Financial Strategy (MTFS) in May 2018. The five-year outlook for the Scottish budget, set out in the MTFS, provides useful context for bodies' financial planning.

51. The majority of FSS funding is received in the form of an annual resource allocation from the Scottish Government via the Budget Bill. The annual allocation of resources makes long-term financial planning difficult. Also, FSS will have to deal with the ongoing impact Brexit which is a further complication to longer term financial planning.

52. FSS has a medium-term Financial Management Plan covering the three-year period 2018/19 to 2020/21. The contents and structure of the plan follow good practice as set out in Audit Scotland's publication [Scotland Public Finances – A follow-up audit: Progress in meeting the challenges \(June 2014\)](#). However, due to the significant impact of Brexit the plan has not been updated since September 2018.

53. Management have advised that the medium-term Financial Management Plan will be updated over the next few months. Also, senior management have been actively lobbying the Scottish Government to take account of the ongoing impact of Brexit and to reflect this in future funding settlements. This would provide greater certainty over future funding levels and provide a sounder basis for longer-term financial planning.

54. We will re-visit the issue of longer-term financial planning next year when there should be more certainty around Brexit and future funding levels. Also, we will be looking to ensure that the medium- and longer-term financial plans are aligned to FSS's workforce plan.

FSS is well sighted on EU Withdrawal and has been proactive in planning for the potential impact of Brexit

55. There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. It is critical that public sector bodies are working to understand, assess and prepare for the impact of withdrawal from the EU (i.e. Brexit).

56. Exiting the EU poses a considerable risk to FSS and significantly affects its activities. FSS has a statutory objective to protect the interests of consumers in relation to food. However, most of the food law comes from the EU. Brexit therefore presents a considerable challenge in repatriating food law to the UK.

57. FSS has been discussing and planning for Brexit since 2016 and there is a programme of work underway in FSS to ensure consumers continue to be protected after Brexit. Some of the key initiatives carried out to date include:

- Commissioning research to understand the potential impacts on Scottish food chains in the event of a no-deal Brexit
- Considering what capability and capacity might be required for Scotland in delivering statutory functions currently administered by EU institutions.
- Working with colleagues in Scotland and across the UK to bring EU food law into UK law.
- Working with the Food Standards Agency, other UK bodies and Government Departments to ensure the same legal standards and regulations apply to food when the UK leaves the EU.

58. Also, Brexit features as the highest category of risk on FSS's strategic risk register. This is supplemented by a specific Brexit risk register which is subject to review and scrutiny at each meeting of the Audit and Scrutiny Committee. This register provides detailed information on the risks associated with Brexit and actions being taken to mitigate risks including those related to food law, supply chains and resources.

Good practice

59. FSS has a dedicated page on its website which provides comprehensive information on Brexit including:

- what FSS have been doing to prepare for Brexit
- what happens in the event of a no-deal scenario
- what happens to food law after Brexit
- links to other useful sites which provide advice on preparing for Brexit.

60. Also, the site contains links to board papers where the public can follow discussions and planning for Brexit. Additionally, the site includes a link to the Scottish Government's Health and Sport Committee where FSS provided evidence on the possible impact of Brexit on food law and standards.

Part 4

Governance and transparency



Main judgements

There are appropriate governance arrangements in place that support decision making, accountability and scrutiny.

FSS is open and transparent in the way it conducts its business with Board papers and minutes readily accessible on its website.

Governance and transparency are concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

There are appropriate governance arrangements in place that support decision making, accountability and scrutiny

61. FSS has an established governance structure centred around the Board and an Audit and Risk Committee (ARC). The former is responsible for providing strategic and policy matters. It is supported in its role by the ARC which oversees governance, risk management and internal control matters. The committee structure is supported by a governance framework that includes Standing Orders, a Scheme of Delegation, Codes of Conduct and Financial Regulations.

62. Papers provided by officers to the board and ARC are of a good standard, covered issues in enough detail and included clear recommendations. The board devotes enough time to discuss issues on the agenda and members ask appropriate and challenging questions. Additionally, officers attend board meetings to present reports and to respond to questions from members. Similarly, the ARC is effective in challenging and scrutinising papers presented to it during the year.

63. Furthermore, regular Board seminars are held throughout the year. These are used to provide detailed briefings to members on specific and relevant topics. Over the past year there was a broad range of topics covered including Business Planning, Brexit, Scottish Government Public Health Reform Programme Board and Memorandum of Understanding between the FSS and Food Standards Agency.

FSS is open and transparent in the way it conducts its business with Board papers and minutes readily accessible on its website

64. There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. Transparency means that the public have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources such as money, people and assets.

65. There is evidence from several sources which demonstrates Food Standard Scotland's commitment to transparency. Board meetings are open to the public and at the end of each meeting the public can ask questions of members. Also, Board agenda, papers and minutes are readily available to the public on the FSS website.

66. ARC meetings and minutes are not open to the public. Having said that, Chair of the Audit Committee provides the Board with an update of matters discussed at

the ARC. Updates are minuted and, along with other Board papers, are accessible to the public on FSS's website.

67. FSS's website allows the public access to a wide range of information including that relating to decision-making, accountability, openness and complaints. Also, there is dedicated page on the website (i.e. Citizen Space) where anyone can find and participate in consultations of interest to them.

The Annual Governance Statement complies with the guidance issued by Scottish Ministers

68. HM Treasury Financial Reporting Manual 2018/19 (FReM), specifies the preparation of an annual governance statement as part of the annual financial statements. The Scottish Public Finance Manual (SPFM) sets out guidance on the content and minimum requirements of the statement but does not prescribe a format. We concluded that the FSS's annual governance statement 2018/19 complies with the guidance issued by the Scottish Ministers and presents a satisfactory explanation and assessment of Food Standards Scotland's governance arrangements for the year under review.

The Performance Report complies with FReM requirements and provides comprehensive information on FSS's activities

69. The purpose of a performance report is to provide information on a body, its key objectives and strategies, and the principal risks that it faces. It is required to provide a fair, balanced and understandable analysis of performance.

70. We reviewed the performance report against the FReM and Audit Scotland's [Good practice note on improving the quality of central government annual report and accounts – performance reports \(February 2019\)](#). FSS's performance report is comprehensive and complies with the requirements of the FReM. Also, good use is made of infographics and charts to highlight key aspects of performance. Additionally, aspects of FSS's 2017/18 performance report was quoted in Audit Scotland's good practice guide. The good practice has been carried forward into the 2018/19 performance report.

FSS has appropriate arrangements in place to maintain standards of conduct and for the prevention and detection of fraud and error

71. As part of our annual planning process we reviewed the arrangements put in place by FSS to maintain standards of conduct and to prevent and detect fraud and error. Through the Scottish Government Civil Service Code and the members Code of Practice, FSS has arrangements in place for ensuring that both staff and members act with integrity and honesty.

72. Additionally, several arrangements have been put in place for the prevention and detection of fraud including Counter Fraud and Whistle blowing policies. These are readily available to all staff on the FSS page on Saltire (the Scottish Government's intranet site).

Part 5

Value for money



Main judgements

FSS can provide examples of Best Value arrangements but there is scope for improvement by developing a single document that demonstrates how Best Value attributes and practices are embedded in every day work.

FSS has sound arrangements for monitoring and reporting performance but with scope for further improvement.

A draft organisation-wide workforce plan has been developed but will need to be updated to reflect recent developments.

Value for money is concerned with using resources effectively and continually improving services.

There is no single over-arching document which sets out how Best Value attributes and practices are embedded in everyday work

73. Compliance with the duty of Best Value is an auditable requirement and subject to scrutiny under the Public Finance and Accountability (Scotland) Act. [Ministerial guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out seven key Best Value characteristics.

74. The ministerial guidance states that compliance with the duty of Best Value requires Public Bodies to take a systematic approach to self-evaluation and continuous improvement. From our wider dimension work at FSS we found there is clear evidence of Best Value principles applying in areas such as financial management, performance management and equalities. However, there is no single document that demonstrates how Best Value attributes and practices are embedded across the whole organisation and the way in which it works.

75. We have provided insight and added value by providing the Chief Executive with examples of other public bodies Best Value frameworks. They include self-assessments of each body's arrangements against each Best Value characteristic. Also, they provide links to supporting evidence for each characteristic in an auditable form. However, the ministerial guidance emphasises that it is for each body to take an appropriate and proportionate approach suited to its own circumstances. The guidance goes on to say that in developing an approach, bodies should also learn from other bodies within the public sector rather than only within their usual public sector 'family'



Recommendation 2

FSS should review the ministerial guidance on Best Value and develop arrangements that will enable it to demonstrate how the Best Value attributes and practices are embedded within the way it works through its usual assurance and self-assessment processes.

Equality arrangements are established and are actively promoted

76. There is an expectation that auditors should review equalities at least once during the period of an audit appointment. While reviewing Best Value arrangements we took the opportunity to look at Fairness and Equality in more detail. This is one of the key characteristics of Best Value.

77. In line with the Equality Act 2010 and the Equality Act (Specific Duties) Scotland regulations 2012, FSS has developed an approach to mainstreaming equality as outlined in the Equality Mainstreaming Report (April 2018). Also, the HR Manager has provided training to staff to make them aware of the contents of the mainstreaming report.

78. FSS's induction training includes a mandatory e-learning package on equality and diversity. Also, equality is a topic that is discussed as part of an employee's performance appraisal.

79. The FSS has undertaken several other initiatives to ensure equality is embedded within the organisation. These include, for example:

- FSS is a Disability Confident Committed employer and recognises the talents disabled people can bring to the work place.
- FSS is working with Inclusive Scotland to provide 6-month work placements for disabled people
- Purple Friday which was a campaign to raise awareness about the LGBT movement.

FSS has sound arrangements for monitoring and reporting performance but with scope for further improvement

80. As we reported last year, FSS has sound arrangements for monitoring and reporting performance. Our audit work in the current year confirmed that this continued to be the case.

81. In assessing FSS's performance management arrangement we considered internal audit's report entitled *Review of Food Standards Scotland (FSS) – Performance Management (May 2019)*. Internal audit highlighted examples of good practice but also improvement opportunities. For example, the use of performance scorecards for programmes and core activity. Also, internal audit recognised that there has been significant progress in developing a proposed management framework. However, this has yet to be formally structured into a finalised performance management policy for approval by the Board.

A draft organisation-wide workforce plan has been developed but will need to be updated to reflect recent developments

82. In our 2017/18 Annual Audit Report we recommended that FSS develop an organisation-wide workforce plan which maps its current workforce against the organisation's resourcing requirements over the short, medium and long-term.

83. A draft organisation-wide workforce plan has been prepared and is substantially complete. However, the plan will require revision and updating to reflect the recent decision to provide veterinarian meat inspector services in-house. This will result in approximately 50 staff being added to the FSS's establishment. Also, this will have implications for medium and longer-term financial plans. It is important, therefore, that that financial plans are aligned to the workforce plan.

84. We will follow-up on workforce planning next year to ensure that the workforce plan is updated and is aligned to financial plans.

Shared services are not operating efficiently for payroll and HR related issues

85. As part of our planning we identified several wider dimension risks including one relating to Shared Services provided to FSS by the Scottish Government (SG). FSS has a Memorandum of Understanding with the SG for payroll processing and elements of its Human Resources function. We found evidence of staff not being removed from FSS's payroll following termination of their employment as well as examples of incorrect payments being made to current employees.

86. FSS staff are spending additional time checking the accuracy of payroll data and correcting errors. FSS's own HR staff are having to deal with significant issues such as the transfer of Hallmark staff to FSS without the added pressure of correcting payroll errors. There is a risk that FSS may not be receiving value for money from shared services provided by the SG.



Recommendation 3

FSS should review current shared service arrangements and determine whether better value for money could be achieved through a formal Service Level Agreement with the SG, which specifies service standards, or through alternative means of service provision including outsourcing.

Appendix 1

Action plan 2018/19

No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Provision of veterinarian and meat inspection services in-house</p> <p>FSS are moving from an outsourced model to an in-sourced model for Official Veterinarian and Contract Meat Hygiene Inspectors. This is to be achieved by transferring staff from the current external supplier to FSS under TUPE arrangements.</p> <p>There is a risk that not all staff will choose to transfer to FSS leading to staff shortages which in turn could compromise food hygiene and safety standards.</p>	<p>Develop robust contingency plans to ensure that veterinarian and meat inspection services are maintained in the event of lower than expected numbers of staff transferring from HMMH to FSS.</p> <p>Paragraph 45</p>	<p>FSS accept this recommendation and whilst we already have contingency plans developed, these will be updated during the on-boarding process to ensure they remain fit for purpose following the staff transfer.</p> <p>Sandy McDougall (Head of Operational Delivery)</p> <p>September 2019</p>
2	<p>Best Value</p> <p>There is no Best Value framework document that sets out how BV attributes are embedded in everyday work.</p> <p>There is a risk that FSS are unable to evidence compliance with Ministerial Guidance on Best Value.</p>	<p>FSS should review the ministerial guidance on Best Value and develop arrangements that will enable it to demonstrate how the Best Value attributes and practices are embedded within the way it works through its usual assurance and self-assessment processes.</p> <p>Paragraph 75</p>	<p>FSS accept this recommendation and have already commenced work to look at Best Value frameworks and benchmarking.</p> <p>Osa Udoh (Financial Accountant)</p> <p>March 2020</p>
3	<p>Shared services</p> <p>FSS continue to experience problems with the quality of service provided by the Scottish Government for Human Resources and payroll processing.</p> <p>There is a risk that FSS are not obtaining value for money from shared services provided by the Scottish Government.</p>	<p>FSS should review current arrangements and determine whether better value for money could be achieved through a formal Service Level Agreement with the SG, which specifies service standards, or through alternatively means of service provision including outsourcing.</p> <p>Paragraph 86</p>	<p>FSS accept this recommendation whilst noting the difficulties in looking out with SG for shared services due to the complex interdependencies across the scope of the service provision. Any FSS review will also need to consider the potential outcomes and recommendations of a wider review of SG shared services which will be completed by SG Internal Audit during the 2019/20 reporting year.</p> <p>Garry Mournian (Corporate Services Manager)</p> <p>July 2020</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<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>Reviewed the appropriateness of journal entries and other adjustments recorded in the general ledger and financial statements.</p> <p>Reviewed accounting estimates for biases.</p> <p>Evaluated significant transactions that are outside the normal course of business.</p> <p>Focussed testing of the regularity and cut-off assertions during the financial statements audit.</p>	<p>We concluded from our testing that there was no evidence of management override of financial controls.</p>
<p>2 Risk of fraud over income</p> <p>FSS receives a significant amount of income from fees and charges in addition to Scottish Government Funding. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud.</p>	<p>Substantive testing of revenue transactions.</p>	<p>We concluded from our testing that that revenue had been recognised appropriately in the financial statements.</p>
<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>Carried out analytical procedures on expenditure streams.</p> <p>Substantive testing of expenditure transactions.</p>	<p>We concluded from our testing that that expenditure had been recognised appropriately in the financial statements.</p>

Audit Risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>4 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>For 2018/19 FSS was allocated additional funding from the Scottish Government, following a bidding process for extra resources, to deal with work related to EU withdrawal. This funding must 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>Reviewed the actions taken by FSS to plan for and mitigate the risks of withdrawal from the EU.</p> <p>Reviewed the Brexit risk register for any changes or developments.</p> <p>Reviewed financial performance reports and progress updates presented to the SMT and Board to monitor the budget position.</p> <p>Confirmed the appropriateness of the expenditure funded by the Brexit consequential funding.</p>	<p>From our audit work undertaken throughout the year we concluded that FSS has been proactive in planning for Brexit and has taken appropriate action to mitigate risks.</p> <p>Members were kept informed of the additional allocation of funds received from the Scottish Government to deal with Brexit.</p> <p>We confirmed that management set up a separate coding structure for monitoring Brexit related costs. Most of the expenditure incurred was for staff time working on Brexit issues.</p> <p>Also, FSS fully utilised its Brexit consequential funding by 31 March 2019.</p>
<p>5 Shared services</p> <p>FSS are facing ongoing issues with the Scottish Government HR and payroll shared services.</p> <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>Considered the impact of failures on the internal control environment of the payroll system.</p>	<p>There are still several recurring issues including examples of incorrect payments. These are more about the quality of service rather than any control weaknesses. FSS has a memorandum of understanding with the Scottish Government that covers payroll processing and aspects of human resources. FSS should review current arrangements and determine whether better value for money could be achieved through a formal Service Level Agreement which specifies service standards or alternatively outsource the service.</p> <p>Refer paragraph 86 and action point 3, Appendix 1.</p>
<p>6 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</p>	<p>Reviewed the Brexit risk register for any changes or developments in terms of the recruitment and retention of staff.</p>	<p>FSS has taken the decision to deliver Official Veterinarian (OV) and contract Meat Hygiene Inspectors (cMHI) services in-house. Staff employed by Hallmark will be offered the opportunity to transfer to FSS under TUPE. We have already</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>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>Assessed the adequacy of workforce planning arrangements.</p>	<p>raised at risk that not all staff will transfer to FSS which could have an adverse impact on food hygiene and safety standards in the short term.</p> <p>Refer paragraph 45 and action point 1, Appendix 1.</p> <p>Also, we noted that a draft workforce plan has been prepared but will require updating to take account of the decision to provide OV and cMHI services in-house.</p>

Source: Audit Scotland

Appendix 3

Summary of national performance reports 2018/19

		 2018/19 Reports	
Local government in Scotland: Challenges and performance 2018		Apr	
Councils' use of arm's-length organisations		May	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		Jun	
		Jul	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		Aug	 Major project and procurement lessons
Children and young people's mental health		Sept	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		Oct	
Health and social care integration: update on progress		Nov	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		Mar	 Local government in Scotland: Challenges and performance 2019

Central Government relevant reports

[The National Fraud Initiative in Scotland 2016/17](#) – July 2018

[Major project and procurement lessons](#) – August 2018

[Superfast broadband for Scotland: further progress update](#) – September 2018

Food Standards Scotland

2018/19 Annual Audit Report

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk