Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively (www.audit-scotland.gov.uk/about/).

Stephen Boyle, Assistant Director, Audit Scotland is the appointed external auditor of Food Standards Scotland for 2015/16. This report has been prepared for the use of Food Standards Scotland and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in it may be used by the Auditor General in support of her wider responsibilities, including reporting to the Scottish Parliament.
Key messages

Audit of the 2015/16 financial statements

- The independent auditor's report on the 2015/16 financial statements is unqualified.
- The unaudited accounts were received ten days later than the agreed timetable. Both the unaudited accounts and the accompanying working papers that we initially received were not of a sufficient standard. Following an agreed change to the timetable for the completion of the audit, these matters were subsequently addressed. Improvements are required in FSS’s arrangements for the preparation and oversight of the annual report and accounts.
- We identified four misstatements in the unaudited financial statements. These were subsequently adjusted by management.

Financial management and sustainability

- FSS recorded an underspend of £0.296 million against their total Departmental Expenditure Limit (DEL) budget of £15.7 million. This included an underspend of £0.464 million against their revenue DEL budget of £15.5 million. However, their capital DEL budget of £0.2 million was overspent by £0.168 million.
- Overall, FSS has adequate financial management arrangements in place, but as noted above, it needs to improve its year end accounting.

Governance, transparency and value for money

- The board has reasonable governance arrangements in place. As a new organisation, it will be important to keep these under review as the organisation develops.
- Systems of internal control operated effectively during 2015/16.
- FSS has an effective internal audit function and robust anti-fraud arrangements.
- The board has started to develop a performance management framework with links to its strategic objectives.

Outlook

- As a new organisation, FSS is focused on developing new systems and processes. As part of this, it will be important that FSS develops long-term financial and workforce plans to help inform its decision making over the next few years. These plans will be central to helping the organisation meet its financial and policy objectives during a period of ongoing pressure in available public finances.
Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of Food Standards Scotland (FSS).

Our annual audit report

2. Our report is divided into the following sections to reflect our public sector audit model. These are:
   - Audit of the 2015/16 financial statements
   - Financial management and sustainability
   - Governance and transparency
   - Value for money.

3. Appendix I highlights significant audit risks and our corresponding audit work. In addition, a number of reports, both local and national, were issued by Audit Scotland during the course of the year. These reports are summarised at appendix II and appendix III. Appendix IV is an action plan setting out our recommendations to address the high-level risks we have identified from the audit.

4. The management of FSS is responsible for:
   - preparing financial statements which give a true and fair view, in accordance with the relevant financial reporting framework
   - ensuring the regularity of transactions, by putting in place systems of internal control
   - maintaining proper accounting records
   - publishing with their financial statements an annual governance statement and a remuneration report.

5. FSS officers have considered the issues raised and agreed to take the specific steps in the column headed ‘Management action/response’. We recognise that not all risks can be eliminated, or even minimised, although it is important that FSS understands its risks and has arrangements in place to manage them. The organisation should ensure that it is satisfied with the proposed action and have a mechanism in place to assess progress and monitor outcomes.

6. Our report includes only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our appointment as external auditors

7. Our responsibility, as the external auditor, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
8. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor’s responsibility to form and express an opinion on the financial statements prepared by management with the oversight of those charged with governance. This does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view. This is the final year of the current audit appointment. From 2016/17, Audit Scotland will continue as external auditors of FSS although the appointed auditor and audit team will change. In accordance with agreed protocols and International Standards on Auditing we will liaise closely with the new audit team during this transition.

9. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.
## Audit of the 2015/16 financial statements

<table>
<thead>
<tr>
<th>Financial Statements</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• We have completed our audit and give an unqualified opinion that the 2015/16 financial statements of FSS give a true and fair view of the state of the body's affairs and of its net expenditure for the year.</td>
<td></td>
</tr>
<tr>
<td>• We confirm that the financial statements have been properly prepared in accordance with the 2015/16 FReM and the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Regularity</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• In our opinion, in all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance.</td>
<td></td>
</tr>
<tr>
<td>• The sums paid out of the Scottish Consolidated Fund were applied in accordance with section 65 of the Scotland Act 1998.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other prescribed matters</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• The part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.</td>
<td></td>
</tr>
<tr>
<td>• The information given in the Performance and Accountability Report is consistent with the financial statements.</td>
<td></td>
</tr>
</tbody>
</table>
The Statement of Changes in Taxpayers’ Equity in the financial statements shows that funding drawn down from the Scottish Budget during 2015/16 was £15.5 million. The financial statements also show that total revenue expenditure was £18.5 million in 2015/16.
Submission of financial statements for audit

10. We received the unaudited financial statements on 13 May 2016, ten days later than the agreed timetable. The working papers received initially were not of a sufficient standard to allow the audit to proceed as required to meet the agreed timetable. The delay resulted in changes being required to the agreed audit timetable which we reported to the Audit and Risk Committee on 8 June 2016.

11. Following its establishment in April 2015, these were FSS’s first annual report and accounts. Our annual audit plan identified the challenges and risks in proceeding with the timetable, but we think that officers underestimated the complexity of what was required in preparing annual accounts that met the requirements of the Financial Reporting Manual (FReM) when they set a target certification of 8 June 2016. In considering the timetable for the 2016/17 year end, we recommend that FSS reflect on the reasons for the delays in 2015/16.

Overview of the scope of the audit of the financial statements

12. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit and Risk Committee on 2 March 2016.

13. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken any non-audit related services. The 2015/16 agreed fee for the audit was £42,000. The delays in submitting unaudited financial statements and the limited quality of initial working papers resulted in additional audit work. This generated an additional fee of £5,000, resulting in a total audit fee of £47,000 for 2015/16.

14. The concept of audit risk is of central importance to our audit approach. We focus on the areas that are most at risk of causing material misstatement in the financial statements. In addition, we consider what risks are present in respect of our wider responsibility, as public sector auditors, under Audit Scotland’s Code of Audit Practice.

15. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. Appendix I sets out the audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

16. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

17. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of the users of the statements. A misstatement or omission, which would not normally
be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).

18. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. We assess the materiality of uncorrected misstatements, both individually and collectively.

19. We summarised our approach to materiality in our Annual Audit Plan. We revised our planning materiality for 2015/16 on receipt of the unaudited accounts to £186,000 (one per cent of gross expenditure).

20. We also set a lower level, known as performance materiality, when defining our audit procedures. This is determined to ensure that uncorrected and undetected audit differences do not exceed our materiality level. Performance materiality was set at £167,000 (i.e. 90 per cent of materiality). We report all misstatements greater than £5,000.

**Exhibit 1: Overall materiality and misstatements**

<table>
<thead>
<tr>
<th>£</th>
<th>Initially</th>
<th>Revised</th>
<th>Misstatements</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>114,000</td>
<td>167,000</td>
<td>187,000</td>
</tr>
</tbody>
</table>

Source: 2015/16 Annual Audit Plan

**Evaluation of misstatements**

21. We have identified four misstatements in the unaudited financial statements. All of these were adjusted by management in the audited accounts with the net asset value and the associated reserves decreasing by £114,000.

**Significant findings from the audit**

22. International Standard on Auditing 260 (ISA 260) requires us to communicate to you significant findings from the audit as detailed below:
The auditor’s views about significant qualitative aspects of the entity’s accounting practices, including accounting policies, accounting estimates and disclosures.

- Significant difficulties encountered during the audit.
- Significant matters arising from the audit that were discussed, or subject to correspondence with management.

23. The following table details those issues or audit judgements that, in our view, require to be communicated to you, as those charged with governance in accordance with ISA 260.

<table>
<thead>
<tr>
<th>Significant findings from the audit in accordance with ISA260</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Preparation of Annual Report and Accounts</strong></td>
</tr>
<tr>
<td>FSS did not meet the agreed deadline for the submission of the Annual Report and Accounts and associated working papers for audit. Once received, they were not of sufficient quality to allow the audit to proceed smoothly. In particular, we initially highlighted a number of omissions and inconsistencies with FReM requirements, for example, the disclosures in the Non Current Assets note were not compliant and the presentation of segmental information did not comply with IFRS 8 ‘Operating Segments’.</td>
</tr>
<tr>
<td><strong>Resolution:</strong> Changes were made to the agreed audit timetable with the approval of the accounts deferred from June to August 2016. Additional audit work was undertaken to ensure sufficient evidence was received to support our audit opinion. FSS management have agreed to take the necessary action required to improve the quality of Annual Report and Accounts and working papers for 2016/17 to ensure they are compliant with FReM requirements and disclosures.</td>
</tr>
</tbody>
</table>

| **Calculation of holiday pay accrual** |
| The journal to accrue holiday pay was incorrectly posted with a debit recorded against provision expenses instead of staff costs. This resulted in an understatement of staff costs of £177,000 and a corresponding overstatement of non pay expenditure of the same amount. |
| **Resolution:** FSS management have adjusted for this in the audited financial statements. |
### Significant findings from the audit in accordance with ISA260

<table>
<thead>
<tr>
<th><strong>Recognition of intangible assets</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>An intangible fixed asset item purchased shortly before the year end was incorrectly recorded as expenditure. This resulted in an overstatement of expenditure of £135,000 and an understatement of intangible assets of £135,000.</td>
</tr>
<tr>
<td><strong>Resolution:</strong> FSS management have adjusted for this in the audited financial statements.</td>
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</table>

<table>
<thead>
<tr>
<th><strong>Recharge of secondment costs</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Recovery of secondment costs was incorrectly posted to ‘other income’. This resulted in an overstatement of income of £27,000 and an understatement of current liabilities of £27,000.</td>
</tr>
<tr>
<td><strong>Resolution:</strong> FSS management have adjusted for this in the audited financial statements.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Accrual of external audit fee</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>The external audit fee was incorrectly accrued at the year end. This resulted in an understatement of expenditure of £32,000 and a corresponding understatement of reserves of £32,000.</td>
</tr>
<tr>
<td><strong>Resolution:</strong> FSS management have adjusted for this in the audited financial statements.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Credit control procedures</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>We identified an account within the accounts receivable ledger with balances older than 120 days. This was as a result of invoices in dispute due to the application of minimum charging policies.</td>
</tr>
<tr>
<td><strong>Resolution:</strong> FSS are taking steps to implement appropriate credit control procedures to enable effective management of disputed debts.</td>
</tr>
</tbody>
</table>
Financial management and sustainability

Resource Departmental Expenditure Limit (DEL)
underspend £0.464 million

Final Budget £15.500m
Actual Outturn £15.036m
Underspend £0.464m

Capital DEL overspend £0.168 million
Final Budget £0.200m
Actual Outturn £0.368m
Overspend £0.168m

Total DEL underspend £0.296 million
Final Budget £15.700m
Actual Outturn £15.404m
Underspend £0.296m

Total Net Liabilities £7.461 million
Total Assets = £5.928m
Total Liabilities = £13.389m
Financial management

24. FSS, as an non-ministerial department of the Scottish Administration, alongside, but separate from the Scottish Government, receives almost all of its funding directly from the Scottish Government. The main financial objective for FSS is to ensure that the financial outturn for the year is within the budget approved by the Scottish Parliament. During 2015/16, FSS incurred expenditure of £15.404 million against its total Departmental Expenditure Limit (DEL) budget of £15.7 million, an underspend of £0.296 million. This included an underspend of £0.464 million against the revenue DEL budget of £15.5 million, however, the capital DEL budget of £0.2 million was overspent by £0.168 million. This was due to purchases made by the Scottish Government on behalf of FSS which were not included in the original budget.

25. The Statement of Financial Position at 31 March 2016 shows net liabilities of £7.461 million. This position is largely attributable to the impact of the pension liability transferred from the legacy body, Food Standards Agency, of £10.291 million.

26. FSS’s financial position is stable with the organisation operating within its available funding limits. Although there is a shortfall of assets over liabilities due to the transfer of pension liability, there is an excess of current assets against current liabilities. As auditors we need to consider whether bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the head of finance, or equivalent, has sufficient status to be able to deliver good financial management
- standing financial instructions and standing orders are comprehensive, current and promoted within the body
- reports monitoring performance against budgets are accurate and provided regularly to budget holders
- monitoring reports do not just contain financial data but are linked to information about performance
- Audit and Risk Committee members provide a good level of challenge and question significant variances.

27. The Head of Corporate Services has day-to-day responsibility for the finance function, reporting to the Head of Policy and Strategy, and Deputy Chief Executive. Based on our accumulated knowledge, our review of Board meeting papers and through our attendance at the Audit and Risk Committee we conclude that FSS has adequate financial management arrangements in place.

Financial sustainability

28. Financial sustainability is concerned with whether an organisation has the financial capacity to meet both current and future service requirements. In 2016/17, FSS has an allocated budget of £15.3 million. Looking ahead the overall Scottish revenue budget is estimated to decrease by 3.7 per cent between 2016/17 and 2019/20. Details of how this may affect FSS have yet to be outlined. Nevertheless, it is clear that there will continue to be considerable pressure on available public finances over the next few years. This
will present significant challenges for FSS in ensuring it continues to operate within its budgetary limits.

29. FSS’s corporate plan covers a three-year period to March 2019. It includes a high-level financial projection covering that period, based on the assumed level of funding available. Underpinning the corporate plan is an annual business plan which sets out how FSS aims to achieve their delivery commitments each year.

30. The main focus for FSS is achieving a balanced financial plan each year to remain within their annual budget. However, to help achieve this on a recurring basis, FSS should develop a longer-term financial strategy to demonstrate its financial sustainability beyond the current financial year.

31. Developing and maintaining a long-term financial strategy will help set the context for annual budgets. It will also help clarify the financial sustainability of the organisation over an extended period and can help identify any problems with affordability at an early stage. Although funding allocations from the Scottish Budget typically cover one to three-year spending review periods, this should not prevent FSS assessing their spending needs and options over a longer period.

32. Such a strategy should include scenario planning to outline the best, worst and most likely scenarios of the future financial position. This will aid decision making, particularly where exact funding allocations are yet unknown or where there may be uncertainty over other income levels. The strategy should also outline evidence-based options for achieving efficiency savings, financial risks and associated timescales and details of assets and liabilities and how these will change over time.

33. A long-term financial strategy should have clear links to FSS’s strategic objectives, corporate plan, workforce plans and annual business plans as well as other relevant business areas such as IT and procurement. Appendix IV – Action Plan No. 2
Governance and transparency

Corporate governance

34. As a non-ministerial office of the Scottish Administration, FSS has a board of non-executive members appointed by Scottish Ministers and directly accountable to the Scottish Parliament. Corporate leadership is provided by the Senior Management Team (SMT), comprising four executive directors including the chief executive. The board established an Audit and Risk Committee (ARC) to support them in their responsibilities. The ARC is responsible for reviewing, in a non-executive capacity, assurances on governance, risk management and the control environment. It is also responsible for reviewing the integrity of the annual report and accounts and recommending them to the Board for approval.

35. The Accountable Officer is responsible for establishing arrangements for ensuring the proper conduct of the affairs of FSS and for monitoring the adequacy of these arrangements. We conclude that FSS has reasonable overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making. As a relatively new organisation, it will be important for FSS to keep its governance arrangements, systems and procedures under review as the organisation develops.

Transparency

36. The Scottish Government’s On Board guidance for board members of public bodies was updated in April 2015. On Board states that boards should demonstrate high standards of corporate governance at all times including openness and transparency in decision making. It recommends boards should consider:

- holding an annual open meeting
- holding board meetings in public unless there is a good reason not to
- publishing summary reports and/or minutes of meetings
- inviting evidence from members of the public in relation to matters of public concern
- consulting stakeholders and users on a wide range of issues
Governance and transparency

- making corporate plans and the annual report widely available.

37. Audit Scotland also believes in transparency of financial reporting within the Annual Report and Accounts including:
- a clear reconciliation between expenditure and the outturn against the approved Scottish Budget.
- identification and explanation of any significant movements in budget during the year.

38. Within FSS, all Board meetings are held in public with minutes and papers available on the FSS website. All Audit and Risk Committee meetings are held in private and minutes and papers are not made available to the public, although an oral update on the ARC is provided at each Board meeting. Chief executive’s reports, corporate plans and financial and performance monitoring reports are all available on the FSS website.

39. Overall we concluded that FSS has a reasonable level of openness and transparency. However they should keep their arrangements under review and continue to explore ways to increase its transparency to the public.

Internal audit

41. Internal audit provides the Audit and Risk Committee and the Accountable Officer with independent assurance on the overall risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.

42. As part of our risk assessment and planning process our Scottish Government audit team assessed the Scottish Government Internal Audit Division, FSS’s internal auditors, and concluded that they operate in accordance with the Public Sector Internal Audit Standards (PSIAS).

43. The internal audit plan for 2015/16 is complete and we have reviewed the findings from all reports including the annual assurance report issued in June 2016. The plan focused on wider dimension areas such as Governance and Business Continuity, IT Security and an exercise on Assurance Mapping. As such we did not place formal reliance on their work in relation to the financial statements and instead derived assurances from others means, including our own audit testing.

Internal control

40. No material weaknesses in the accounting and internal control systems were identified during the 2015/16 audit. Such weaknesses are those which could adversely affect the organisation’s ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
Arrangements for the prevention and detection of fraud

44. FSS is responsible for establishing arrangements to prevent and detect fraud and other irregularity. We have reviewed these arrangements and have concluded that they are reasonable for the prevention and detection of fraud.

National Fraud Initiative in Scotland

45. As a new body, FSS did not participate in the most recent National Fraud Initiative (NFI). The NFI is a counter-fraud exercise that is coordinated by Audit Scotland every two years. It uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error.

46. In June 2016, we published our findings from the latest NFI exercise. Our work found a total of almost £17 million worth of fraud and error across services in Scotland in the two years since the exercise was last conducted.

47. FSS has expressed interest in participating in the next NFI process and we would encourage that involvement.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

48. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. We consider whether bodies have adequate arrangements in place and have concluded that appropriate arrangements exist within FSS.
Value for money

Arrangements for securing value for money

49. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure value for money. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of achieving value for money. Where such requirements are not specified we may, in conjunction with FSS, agree to undertake local work in this area.

Shared services

50. During 2015/16, FSS focused attention on partnership working with stakeholders and other public bodies to help deliver shared objectives. They also made use of the Scottish Government’s corporate shared services where possible. For example, FSS used a Scottish Government procurement framework to help achieve value for money, for business travel and communications and marketing provision.

Performance management

51. During 2015/16, FSS started to develop a performance management framework to demonstrate performance against its strategic objectives. There is agreement from the Board that an outcomes-based approach is used, aligned with the Scottish Government’s National Performance Framework. Logic-modelling work is to be used to identify key milestones to demonstrate progress and to help identify the right indicators to measure progress.

52. FSS should prioritise the development of their performance management framework to ensure that progress towards its objectives can be measured, monitored and reported in a consistent and transparent manner. Appendix IV – Action Plan No. 3.

National performance audit reports

53. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, we published a number of reports as outlined in Appendix III.

54. It is important that FSS considers the key messages and recommendations within each of these reports. Where appropriate, the board should undertake action to make improvements in the areas highlighted in each report. We recommended that FSS should keep a log of all applicable national performance audit report recommendations and include locally agreed actions. These should subsequently be added to the register of audit recommendations.

55. During 2015/16 auditors were asked to undertake work reviewing workforce planning arrangements in place in all public bodies in Scotland. This follows on from our 2013 report Scotland’s public sector workforce. The report recommended that public bodies should develop organisation-wide workforce plans. This helps
bodies plan strategically and ensures that workforce changes in one area do not have unintended consequences on another.

56. We carried out a baseline assessment of workforce planning at FSS. We found that formal workforce plans are not yet in place but there are plans for this to be developed in 2016/17 as part of wider organisational and people development work.

57. The existing skills audits and headcount returns for various departments provide a good base for FSS to start developing a strategic workforce plan and we recommend that this is prioritised in the coming year. The plan should map its current workforce against the organisation’s resourcing requirements over the short, medium and long term.

58. An effective workforce plan should cover data and information about an organisation’s existing workforce (age, grade, skills profiles) and establish plans for aligning it to their future resourcing requirements (i.e. learning and development, recruitment, wellbeing). The plan can cover both single and multi-year timeframes and should be reviewed at least annually. The plan should include scenario planning to help identify the potential impact of changes in available finances, skills required or demand for services and should be closely aligned to long-term financial plans. The workforce plan should be developed following consultation with staff and other stakeholders and be subject to scrutiny by the Board. FSS may wish to consider our good practice guidance in developing their workforce plan. Appendix IV – Action Plan No. 4
Appendix I: Significant audit risks

The table below sets out the audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

<table>
<thead>
<tr>
<th>Audit Risk</th>
<th>Assurance procedure</th>
<th>Results and conclusions</th>
</tr>
</thead>
</table>
| Risk of material misstatement in the financial statements | • Detailed testing of journal entries  
• Review of accounting estimates and judgements  
• Evaluating significant transactions that are outside the normal course of business. | Our audit testing found that journal entries, accounting estimates, judgements and significant transactions, which we reviewed, were appropriate. |
| Management override of controls           |                                                                                      |                                                                                         |
| As stated in International Standard on Auditing 240, management is in a unique position to perpetrate fraud because of management’s ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. |                                                                                      |                                                                                         |
| FReM changes                              | • Review of information included in the annual report section of the Annual Report and Accounts against the new FReM disclosure requirements and if this is written in a clear and concise manner. | The annual report reflects the new format required by FReM.  
We initially highlighted a number of omissions and inconsistencies with these requirements and these were subsequently addressed by management.  
Looking ahead, there are opportunities to improve the quality of the narrative section by focusing on results rather than process to provide a more balanced report for the public. |
Appendix I: Significant audit risks

<table>
<thead>
<tr>
<th>Audit Risk</th>
<th>Assurance procedure</th>
<th>Results and conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Finance team capacity</strong></td>
<td>We will review minutes of Audit and Risk Committee meetings</td>
<td>We had regular discussions with Finance staff throughout the year regarding proposed accounting treatments and concluded from our year-end procedures that accounting treatment was appropriate.</td>
</tr>
<tr>
<td></td>
<td>We will hold regular discussions with key finance officers to identify any potential</td>
<td>As stated in paragraph 10 above, we received the unaudited accounts on 13 May 2016, this was later than the agreed timetable date of 3 May 2016. Initially the unaudited accounts and working papers were not of a good standard, but this was rectified by the finance team during the course of our audit.</td>
</tr>
<tr>
<td></td>
<td>capacity issues and consider implications for our audit.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Segmental Reporting</strong></td>
<td>A review of segmental reporting disclosures and ensure they are compliant with IFRS</td>
<td>The initial presentation of the segmental information did not comply fully with IFRS 8 requirements as it lacked a reconciliation to the Statement of Comprehensive Net Expenditure. This was corrected in the final version of the financial statements.</td>
</tr>
<tr>
<td></td>
<td>Agree the figures used to working papers and general ledger information.</td>
<td></td>
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<tr>
<td></td>
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<td></td>
</tr>
<tr>
<td><strong>Risks identified from the auditor’s wider responsibility under the Code of Audit Practice</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Audit Risk

<table>
<thead>
<tr>
<th>Workforce capacity</th>
<th>Audit Risk</th>
<th>Assurance procedure</th>
<th>Results and conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td>FSS has faced a period of change and upheaval to staff including new terms and condition of employment which has the potential to cause workforce capacity issues. This may have a direct impact on the ability of FSS to deliver its objectives.</td>
<td>Audit work, based on the recommendations in the Audit Scotland report on <em>Scotland's Public Sector Workforce</em> published in November 2013.</td>
<td>As stated in paragraph 56 above, we found that formal workforce plans are not yet in place but there are plans for this to be developed in 2016/17 as part of wider organisational and people development work.</td>
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<th>Financial sustainability</th>
<th>Audit Risk</th>
<th>Assurance procedure</th>
<th>Results and conclusions</th>
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<td>The 2016/17 draft Scottish Budget published in December 2015 showed FSS’s revenue budget will decrease by 2.5% from £15.7 million in 2015/16 to £15.3 million in 2016/17. This may impact on FSS’s financial sustainability.</td>
<td>We reviewed the financial performance reports presented to the board throughout the year. We audited the financial statements of the board for 2015/16 to ensure they give a true and fair view of the financial affairs of the board and of its net operating costs. We reviewed the funding allocation letters from the Scottish Government to ensure they agree with the DEL reported by the board.</td>
<td>The Board achieved its statutory break even targets, with underspends of £0.296 million against its total DEL budget. However, within this, it overspent on its capital DEL budget by £0.168 million. We concluded from the performance of our year-end procedures that expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers and that expenditure was valid and correctly classified between revenue and capital.</td>
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Appendix II: Summary of local audit reports 2015/16

**Annual Audit Plan:** Planned external audit work for 2015/16.

**Annual Audit Report:** Summarises our main findings from the 2015/16 audit of FSS and draws to the attention of those charged with governance significant matters arising from the audit of the financial statements prior to the formal signing of the independent auditor’s report.

**Progress update:** We presented a short update report to the Audit and Risk Committee in June 2016 to comment on progress and changes to the audit timetable.

**Independent auditor’s report on the 2015/16 financial statements**
Appendix III: Summary of Audit Scotland national reports 2015/16

Implementing the Scotland Act 2012 – an update (published December 2015) - This report assessed how effectively Revenue Scotland implemented, and is collecting, the two devolved taxes introduced in April 2015. It also examined how the Scottish Government is working with HM Revenue and Customs to prepare to introduce the Scottish rate of income tax in April 2016, and looked at how the Scottish Government is developing its financial management and reporting.

Managing ICT contracts in central government: an update (published June 2015) - This report reviewed the progress that the Scottish Government and central government bodies had made against the recommendations in our previous report on managing ICT contracts.

### Appendix IV: Action plan

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<th>No.</th>
<th>Paragraph ref.</th>
<th>Issue/risk/Recommendation</th>
<th>Management action/response</th>
<th>Responsible officer / Target date</th>
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<td>1</td>
<td>23</td>
<td><strong>Preparation of Annual Report and Accounts</strong>&lt;br&gt;FSS did not meet the agreed deadline for the submission of the Annual Report and Accounts and associated working papers for audit. Once received, they were not of sufficient quality to allow the audit to proceed smoothly. In particular, we initially highlighted a number of omissions and inconsistencies with FReM requirements, for example, the disclosures in the Non Current Assets note were not compliant and the presentation of segmental information did not comply with IFRS 8 ‘Operating Segments’. <strong>Risk:</strong> There is a risk that FSS do not prepare good quality, FReM complaint, unaudited financial statements and working papers for 2016/17. <strong>Recommendation:</strong> FSS management should take the necessary action to improve the quality of unaudited financial statements and working papers for 2016/17 to ensure they are compliant with FReM requirements and disclosures.</td>
<td>FSS accept the issue and associated recommendation made by Audit Scotland. As this was FSS’s first year of operation and producing its own annual report and accounts, officials underestimated the requirements associated with the provision of the unaudited annual report and accounts to Audit Scotland.&lt;br&gt;For 2016/17 the appointed Financial Accountant is putting in place a quarterly cycle for the production of draft financial statements that will be reviewed by FSS management. This process will also allow FSS to streamline the year-end production of the financial statements to ensure timely provision to Audit Scotland.&lt;br&gt;Additional improvements are also being made to working papers based on the lessons learned during 2015/16 in order to improve the quality and compliance with FReM.</td>
<td>Garry Mournian. Quarterly and by end of financial year 2016/17.</td>
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<td>No. AS ref.</td>
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<td>2</td>
<td>30 - 33</td>
<td><strong>Long-term financial strategy</strong>&lt;br&gt;The main focus for FSS is achieving a balanced financial plan each year to remain within their annual budget. Longer-term financial planning is limited to a high-level projection within the corporate plan. &lt;br&gt;&lt;br&gt;&lt;strong&gt;Risk:** Decisions may be taken without a clear understanding of the financial implications beyond the current financial year and how they affect the overall financial sustainability of FSS. &lt;br&gt;&lt;br&gt;&lt;strong&gt;Recommendation:** FSS should develop a longer-term financial strategy to demonstrate its financial sustainability beyond the current financial year. The strategy should also outline evidence-based options for achieving efficiency savings, financial risks and associated timescales and details of assets and liabilities and how these will change over time. A long-term financial strategy should have clear links to FSS’s strategic objectives, corporate plan and annual business plans and well as other relevant business areas such as IT and procurement.</td>
<td>FSS accept the issue and associated recommendation made by Audit Scotland. &lt;br&gt;We will look to develop a longer terms financial strategy as outlined in the recommendation and have already started to develop our financial planning and forecasting model to consider a 3-year period to assist with strategic decision making. &lt;br&gt;This approach will be further integrated into our annual business planning and budget setting processes and will be linked to the delivery of the FSS Strategy and Corporate Plan. &lt;br&gt;We are also undertaking additional scoping exercises such as Best Value benchmarking so we can develop plans to achieve efficiency savings where possible.</td>
<td>Garry Mournian March 2017.</td>
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<td>No.</td>
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<td>3</td>
<td>51 - 52</td>
<td><strong>Performance Management</strong></td>
<td>FSS accept the issue and associated recommendation made by Audit Scotland. The development of an organisational Performance Management Framework has started through creation of a short-life working group that consists of Board Members and the Executive. We are also working closely with the National Performance Framework team within SG. This is a priority for FSS during 2016/17 however it is important to realise that the development of meaningful performance measurement metrics at a strategic level is a complex process – therefore FSS will prioritise on what meaningful measures it can report in the short term – as well as monitoring and reporting them to the Board and other stakeholders in a transparent manner. At present we are looking to continue to report on financial performance to the Board and are developing additional operational performance reporting measures that will be provided to the Board.</td>
<td>Elspeth MacDonald. March 2017</td>
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### Workforce planning

Formal workforce plans are not yet in place within FSS. Workforce analysis is restricted to skills audits and headcount returns for different departments.

**Risk:** Without an effective organisation-wide workforce plan, there is a risk that workforce decisions may be uncoordinated leading to decisions in one area having unintended consequences in another.

**Recommendation:** FSS should produce an organisational-wide workforce plan which maps its current workforce against the organisation’s resourcing requirements over the short, medium and long-term. The plan should include scenario planning to help identify the potential impact of changes in available finances, skills required or demand for services and should be closely aligned to long-term financial plans. The workforce plan should be developed following consultation with staff and other stakeholders. FSS may wish to consider our [good practice guidance](#) in developing their workforce plan.

FSS accept the issue and associated recommendation made by Audit Scotland.

Workforce planning has already been discussed and Senior Management within FSS are keen to develop a workforce plan that addresses the issues and risks raised by Audit Scotland. The good practice guidance will be considered, as will learning from other organisations experience.

FSS are already looking at succession planning, talent management and how this can be delivered with partner organisations and this will feature in the workforce plan for the organisation.

Staff requirements, including skills needs analysis is included within our existing annual business planning round to an extent and it is envisaged that the workforce plan will form part of this annual process whilst aligning with the delivery of the longer term FSS Strategy and Corporate Plan.

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<td>4</td>
<td>55 - 58</td>
<td><strong>Workforce planning</strong></td>
<td>FSS accept the issue and associated recommendation made by Audit Scotland.</td>
<td>Garry Mournian March 2017.</td>
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