

Food Standards Scotland

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

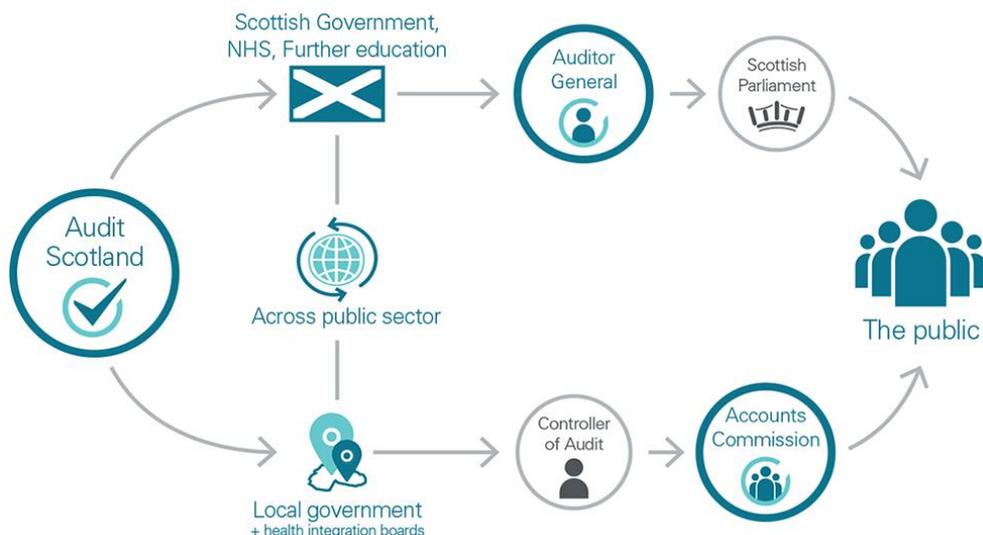
Prepared for Food Standards Scotland

November 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

Risks and planned work	4
Audit scope and timing	9
Appendix 1: The Audit Team	14

Risks and planned work

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

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

Adding value

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

Audit risks

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

Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement caused by management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> Detailed testing of journal entries. Understanding key areas of judgement and accounting estimates within the financial statements and the basis for these judgements and the application of accounting policies. Reviewing unusual and/or significant transactions that are outside the normal course of business to understand the rationale for these transactions.

 Audit Risk	Source of assurance	Planned audit work
<p>2 Risk of material misstatement caused by fraud in income recognition.</p> <p>As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements.</p>	<p>The majority of funding comes directly from the Scottish Government.</p> <p>FSS has well established controls covering income streams, including reconciliations between the general ledger and accounts receivable.</p> <p>Formal agreements are in place that set out charges for services provided by FSS. Charges are based on timesheets, which are approved by operations managers who are separate from the finance function.</p>	<ul style="list-style-type: none"> • Walkthrough of the controls and procedures around material income streams and validation of key controls where appropriate. • Agreeing invoice details to quarterly agreements and timesheets to ensure that charges are correctly calculated and billed. • Reviewing income cut-off procedures and substantive testing of over pre and post-year end balances. • Reviewing the year-end debtor's reconciliation.
<p>3 Risk of material misstatement caused by fraud in expenditure</p> <p>The Financial Reporting Council's Practice Note 10 (revised) requires auditors of public bodies to consider the risk of fraud over expenditure. As payroll expenditure is tightly monitored and controlled there is less opportunity for the risk of misstatement in this expenditure stream. We therefore focus on non-pay expenditure. We consider the risk to be particularly prevalent around the year-end and therefore we will focus our testing on cut-off of non-pay expenditure.</p> <p>There is a specific risk over the regularity of expenditure in relation to the additional funding for activities related to EU withdrawal (i.e. Brexit). FSS has been allocated up to £3.5 million of non-recurring funding for 2019/20, which is earmarked for Brexit related expenditure. There is a risk that expenditure not related to EU withdrawal activities could be charged to Brexit cost codes to maximise the uptake of available funding.</p>	<p>A system of internal control is in place which covers expenditure streams.</p> <p>Specific cost codes have been set up to record Brexit related expenditure.</p> <p>Staff record time spent working on Brexit related activity on FSS's time recording system.</p>	<ul style="list-style-type: none"> • Walkthrough of key expenditure controls in place. • Review expenditure cut-off procedures and substantive testing of pre and post year end balances. • Review expenditure charged to Brexit cost codes and substantive testing of transactions within these codes.
Wider dimension risks		
<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>Brexit-specific risk register, identifying and mitigating for risks specifically associated with withdrawal from the EU.</p>	<ul style="list-style-type: none"> • Monitor the Brexit risk register for any changes or developments. • Review the actions taken by FSS to plan for and mitigate the risks of withdrawal from the EU.

	Audit Risk	Source of assurance	Planned audit work
	<p>Planning for Brexit is placing additional pressures on services and is a risk to staff capacity and the continued provision of FSS services.</p>	<p>The Brexit programme budget has been set for 2019/20 with programme documentation in place to set out how the work will be delivered.</p> <p>The Board and SMT receive regular financial performance updates that include the financial position on the Brexit work programme.</p>	<ul style="list-style-type: none"> Review and consider financial performance reports that go to the Board and SMT.
5	<p>Longer-term Financial Planning</p> <p>FSS' medium term financial plan was last updated in September 2018. A lot has happened since then not least the Scottish Government's commitment to provide additional recurring funding post Brexit.</p> <p>In the absence of longer-term financial plans there is a risk that FSS may not be able to direct and control its finances efficiently.</p>	<p>FSS is currently revising its Financial Management Plan (FMP) and developing the longer-term financial planning from 2020-2024.</p> <p>It is anticipated that an updated FMP will be presented to SMT for approval in January 2020.</p>	<ul style="list-style-type: none"> Monitor progress in implementing longer term financial plans. Review longer term financial plans against good practice set out in Scotland's Public Finances – A follow-up audit: Progress in meeting the challenges (June 2014)
6	<p>Workforce Planning</p> <p>Following from our 2017/18 Annual Audit Report recommendation, FSS developed an organisation-wide workforce plan.</p> <p>An updated draft workforce plan was prepared in July 2019 but was not progressed due to limited resources and other priorities (e.g. TUPE transfer of staff from Hallmark). It is important that an updated workforce plan is finalised and approved and should reflect recent developments such as the proposed new organisational structure post Brexit.</p> <p>Until the workforce plan is finalised, the risk remains that the FSS may be unable to deliver its corporate objectives due to any emerging skills and capacity gaps.</p>	<p>It is anticipated that an updated workforce plan will be presented to SMT for approval in January 2020.</p>	<ul style="list-style-type: none"> Monitor progress in developing an updated workforce plan. Review and assessment of the workforce plan once finalised and approved.

Source: Audit Scotland

5. As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. We have rebutted the risk of material misstatement since the majority of FSS's income (approximately 83%) comes directly from Scottish Government funding. Of the remaining income, some 91% comes from official controls charged to industry. This income stream is tightly controlled through formal agreements. Additionally, there are robust controls over invoicing and the follow-up of outstanding balances.

Reporting arrangements

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

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

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

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

Exhibit 2 2019/20 Audit outputs

Audit Output	Target date	Audit & Risk Committee Date
Annual Audit Plan	27 November 2019	27 November 2019
Management Report	17 June 2020	17 June 2020
Independent Auditor's Report*	12 August 2020	12 August 2020
Annual Audit Report	12 August 2020	12 August 2020

Source: Audit Scotland

*Note: The independent auditor's report will be signed following approval of the Annual Report and Accounts by the Board at its meeting on 19 August 2020.

10. Also, as part of understanding of the ICT environment we plan to carry out a 'Your Business at Risk' survey. Its purpose is to discover the level of information security awareness within FSS. We plan to report any significant findings to the June 2020 Audit and Risk Committee or sooner if possible.

Audit fee

11. The proposed audit fee for the 2019/20 audit of FSS has yet to be set by Audit Scotland. In determining the audit fee we will take account of the risk exposure of Food Standards Scotland, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

12. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package on 22 June 2020. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts, a supplementary fee may be levied. Also, an additional fee may be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Audit and Risk Committee and Accountable Officer

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

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

Appointed auditor

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

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

17. Our audit team membership has changed since last year. We include full details of the core team in [Appendix 1](#).

Audit scope and timing

Annual accounts

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

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

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

- give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2020 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 FReM; and
- have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.



characteristics



responsibilities



principal activities



risks



governance arrangements

Statutory other information in the annual accounts

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

21. We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

Materiality

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

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

Exhibit 3 Materiality values

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1.5% of gross expenditure for the year ended 31 March 2020 based on the latest audited accounts for 2018/19.	£288,000
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 70% of planning materiality.	£202,000
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£14,000

Source: Audit Scotland

Timetable

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

Exhibit 4 Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual report and accounts by those charged with governance	17 June 2020
Latest submission date of unaudited annual report and accounts with complete working papers package	22 June 2020
Latest date for final clearance meeting with Interim Head of Finance & HR	31 July 2020
Issue of Letter of Representation and draft independent auditor's report	05 August 2020
Issue of Annual Audit Report to those charged with governance	12 August 2020

Internal audit

25. Internal audit is a key element to FSS's system of internal controls. The service is provided by the Scottish Government's Internal Audit Directorate (SGIAD). The external auditors of the Scottish Government reviewed the adequacy of the SGIAD. This included a review of their procedures for documenting, reviewing and reporting findings.

26. We have used the external auditor's report in conjunction with evidence obtained locally and concluded that there were no areas of significant non-compliance with the Public Sector Internal Audit Standards. We are not placing formal reliance on any internal audit work for our financial statements' responsibilities. However, we will liaise with the local SGIAD team on a regular basis to exchange intelligence and information and consider, as appropriate, reports produced by them.

Audit dimensions

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

Exhibit 5 Audit dimensions



Source: Code of Audit Practice

Financial sustainability

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

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether there are arrangements in place to demonstrate the affordability and effectiveness of funding and investment decisions.

Financial management

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

- whether arrangements are in place to ensure systems of internal control are operating effectively

- the effectiveness of budgetary control system in communicating accurate and timely financial performance can be demonstrated
- how FSS has assured itself that its financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

Governance and transparency

30. 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. We will review, conclude and report on:

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

Value for money

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

- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered.
- that outcomes are improving.
- there is sufficient focus on improvement and the pace of it.

Best Value

32. The Accountable Officer of FSS has a duty to ensure arrangements are in place to secure best value. We will review and report on these arrangements.

Independence and objectivity

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

34. The engagement lead (i.e. appointed auditor) for FSS is Jim Rundell, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of FSS.

Quality control

35. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and

legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

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

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

Appendix 1: The Audit Team

The core audit team consists of the following staff and might be supported at peak times with additional resources to ensure key reporting deadlines are met:



Jim Rundell

Senior Audit Manager (Engagement Lead)

✉ jrundell@audit-scotland.gov.uk ☎ 0131 625 1777

Jim will have overall control of the delivery and quality of the audit including audit engagement and ensuring the audit is properly planned, resourced and concluded within time.

Jim has 35 years of experience auditing in the public sector, including the audits of local authorities, health and central government bodies. Jim is also Audit Scotland's internal quality control manager.



Ross Reid

Auditor

✉ rreid@audit-scotland.gov.uk ☎ 0131 625 1975

Ross will lead the audit team and will be the main contact for the audit.

Ross has experience of auditing a range of public sector bodies, including various local authorities, NHS Greater Glasgow & Clyde, NHS Forth Valley and SLAB.



Nathan Orr

Auditor

✉ norr@audit-scotland.gov.uk ☎ 0131 625 1798

Having worked at FSS in the two previous audit cycles, Nathan will provide continuity in the audit team and will be a contact for the audit.

Nathan has worked on a range of public sector audits, including the Risk Management Authority, NHS Greater Glasgow & Clyde and East Renfrewshire Council.

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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