

Food Standards Scotland –Annual Report and Accounts for the year ended 31 March 2020

1 Purpose of the paper

1.1 This paper introduces FSS's draft audited annual report and accounts for 2019/20 (Annex A) so that members of the Board can review and subject to Committee consideration, recommend approval of the annual report and accounts.

1.2 The annual report and accounts have been prepared in accordance with International Finance Reporting Standards (IFRS) as adopted and interpreted by the 2019/20 Government Financial Reporting Manual (FReM)¹. The accounts have also been prepared to meet the requirements of Section 15 of the Food (Scotland) Act 2015 and in accordance with the Accounts Direction given by Scottish Ministers in accordance with Section 19(4) of the Public Finance and Accountability (Scotland) Act 2000.

1.3 Audit Scotland anticipate being able to issue unqualified audit opinions in their independent auditor's report.

1.4 The Board is asked to:

- **Review** the audited 2019/20 annual report and accounts
- **Request** any explanations or assurances where necessary; and
- **Note** the positive outcome of the audit and the recommendations being made by Audit Scotland; and
- **Approve** the annual report and accounts and their issue by the Chief Executive as the Accountable Officer

2 Background

2.1 As a non-Ministerial Office of the Scottish Administration, FSS prepares accounts that Scottish Ministers lay before Parliament in accordance with section 19(4) of the Public Finance and Accountability (Scotland) Act 2000. The general format of the accounts is covered by an Accounts Direction issued to FSS on behalf of Scottish Ministers. FSS's annual report and accounts comply with the accounting principles and disclosure requirements of the 2019/20 Government Financial Reporting Manual (FReM). The FReM is the technical accounting guide on the preparation of financial statements in the public sector.

2.2 Compared to 2018/19, the 2019/20 FReM has not changed in a material way. Where slight changes have been made to the FReM, FSS has sought to address these in the document, which has been subject to audit scrutiny by colleagues in Audit Scotland.

2.3 The FReM and the requirements for the structure and format of the annual report and accounts is summarised below for the Committees information:

¹ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/853231/2019-20_Government_Financial_Reporting_Manual.pdf

- Performance Report (section 5.2)
- Accountability Report (section 5.3); and
- Financial Statements (section 5.4)

3 Discussion

3.1 The **Performance Report** seeks to provide information on FSS, its main objectives and strategies and the principal risks that it faces, and is required to provide a fair, balanced and understandable analysis of FSS's performance. The report is split into two sections, the first being an Overview, the purpose of which is to give a short summary that provides the lay user with sufficient information to understand FSS, its purpose, the key risks to achievement of its objectives and how it has performed, against strategic outcomes, during the year. As we have consolidated our outcome reporting over the year and provided reports to the Board on the key outcome measures identified, the Performance Summary section presents our performance against those same measures.

3.2 The second section covers Performance Analysis and is where we seek to provide a more detailed report on how we have performed during the year. As strategic performance measures which have been developed and reported to the Board over the year are presented at a high level within the Performance Summary, this section includes more detailed information on our operational performance and what has been delivered/achieved over our third year.

3.3 The Performance Report must be signed by the Accountable Officer.

3.4 The **Accountability Report** section of the annual report is to meet key accountability requirements to Scottish Government. The requirements of the Accountability Report are based on the matters required to be dealt with in a Directors' Report as set out in the Companies Act 2006. The report is required to have three sections:

- Corporate Governance Report which must include:
 - Directors Report
 - Statement of Accountable Officers Responsibilities
 - Governance Statement

3.5 The Accountability Report should also include the **Remuneration and Staff** report, which seeks to set out the organisations remuneration policy for our Board and Senior Management Team, how that policy has been implemented and sets out the amounts awarded to directors and where relevant the link between performance and remuneration. Over and above that, the report also includes information on the staff of the organisation (e.g. numbers, cost, composition, absence data and staff policies).

3.6 There is also a requirement for a Parliamentary Accountability Disclosures and Audit Report within the FReM which is applicable to Westminster bodies. However, the relevant elements (specifically the audit report) have been included in the FSS Accountability Report as required.

3.7 The Accountability Report must be signed by the Accountable Officer.

3.8 The format and content of the **Financial Statements** and notes remain broadly the same as in previous financial years.

3.9 There are 4 financial statements included in the annual report and accounts, these are:

- Comprehensive Net Expenditure
- Statement of Financial Position
- Statement of Changes in Taxpayers' Equity; and
- Statement of Cash Flows

3.10 The Statement of Financial Position included in the financial statements must be signed by the Accountable Officer. The statements represent the same core data that is used for budget management and reporting to the Board. They are therefore final confirmation of FSS's financial performance for 2019/20.

3.11 The financial statements present the net cost of FSS's operations, although this is not our sole financial objective. As FSS are funded almost wholly by Scottish Government grant-in-aid, our key financial objective is to operate within agreed budgets. The narrative and charts within the Performance Analysis section of the annual report entitled Financial Performance outlines our outturn against budget as well as additional explanation around Annually Managed Expenditure (AME) and the accounting for pension liabilities. This is also confirmed within the Audit Scotland annual audit report. For the year ended 31 March 2020:

- Total resource expenditure was £17.4m compared to a Departmental Expenditure Limit budget of £18.2 m, resulting in an underspend of £0.8m.
- Annually Managed Expenditure (AME) was £0.4m compared to a budget of £0.7m. The expected amount to cover the pension liability was less than expected this year.
- FSS drew down £15.6m in cash terms to cover its capital and net operating costs.

3.12 Audit Scotland's report to members and the Auditor General for Scotland includes a section regarding misstatements which exceed the reporting threshold (£15,000) following the audit of FSS's annual report and accounts. Adjustments were required for the prepayment of costs for Pilgrim House and accrual for the audit fee where the administrative costs were overstated in the accounts. The detail of the required adjustments is outlined in paragraph 23 of the Audit Scotland Annual Audit Report. These adjustments were agreed (and made) to the satisfaction of both FSS and Audit Scotland.

3.13 In addition, there is an uncorrected misstatement in the FSS's annual report and accounts. The detail of the unadjusted error is outlined in paragraph 26 of the Audit Scotland Report. The error relates to a difference between the FSS employers pension contribution in the accounts and the actuaries report from Barnett Waddington. No adjustments have been made in the accounts, due to timing of the issue being raised, and we have agreed to review the matter going forward.

3.14 The report also contains an Action Plan (Appendix 1) to address recommendations for improvement made by Audit Scotland following the audit of the annual report and accounts. The recommendations within the Action Plan have all been agreed with an appropriate management response provided.

4 Conclusion

4.1 Due to the ongoing Covid-19 pandemic, there has been a delay in the timing in finalising the accounts this year and therefore the deadlines have been different to previous years. FSS has been able to meet the deadlines for the 2019/20 accounts as outlined to ARC at the meeting on 12th August. The few outstanding actions notified to ARC at their meeting on 28th October have been completed and the relevant updates made to the final report that is presented to the Board.

4.2 For the 2019/20 annual report, we have continued to ensure the presentation of the Performance Summary and Analysis reflects the ongoing reporting of our strategic performance indicators and targets to the Board. The Committee are also asked to note the number of positive statements made by Audit Scotland in their audit report, specifically around financial management and the open and transparent way in which we conduct our business. We also accept the recommendations made by Audit Scotland and have already begun implementing these recommendations.

5 Recommendation

5.1 It is requested that members of the Board approve the 2019/20 annual report and accounts and authorise their issue by the Chief Executive as the FSS Accountable Officer.

For queries contact:

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