

Food Standards Scotland – Annual Report and Accounts for the year ended 31 March 2017

1 Purpose of the paper

1.1 This paper introduces the FSS draft audited annual report and accounts for 2016/17 (Annex 1) so that members of the Board can review and subject to their consideration, approve the annual report and accounts and authorise their issue by the Chief Executive as the FSS Accountable Officer.

1.2 The annual report and accounts have been prepared in accordance with International Finance Reporting Standards (IFRS) as adopted and interpreted by the 2016/17 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 have confirmed they anticipate being able to issue an unqualified auditor's report at the meeting of the Board. The annual report and accounts have also been reviewed by the Audit and Risk Committee, who, following minor amendments to the narrative, recommend that the Board approve the annual report and accounts and their issue by the Chief Executive as the FSS Accountable Officer.

1.2 The Board is asked to:

- **Review** the audited 2016/17 annual report and accounts
- **Request** any explanations or assurances where necessary;
- **Note** the positive outcome of the audit and the implementation of improvements to the process behind the production of the Annual Report and Accounts by FSS
- **Note** the recommendation made to the Board by the Audit and Risk Committee; and
- **Approve** the annual report and accounts and their issue by the Chief Executive as the FSS 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 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. The FSS annual report and accounts comply with the accounting principles and disclosure requirements of the 2016/17 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 2015/16, the 2016/17 FReM does not differ significantly in terms of the guidance provided on the format, content and structure of the annual report and accounts for public sector bodies. The required structure is summarised below.

¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/577272/2016-17_Government_Financial_Reporting_Manual.pdf

2.3 The FReM was extensively re-written for 2015/16 and requires the annual report and accounts to comprise:

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

3 Discussion

Performance Report

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 – 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 during the year.

3.2 The second section covers Performance Analysis and is where FSS seek to report on its most important performance measures. Given the on-going development of key performance indicators, this section provides a range of information and analysis that provides the reader with a good overview of what FSS has delivered over the year in line with our Corporate Plan and our strategic objectives.

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

Accountability Report

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 as a minimum:

- 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 Accountability Report as required.

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

Financial Statements

3.8 The format and content of the Financial Statements and notes remain broadly the same as in previous financial years. However to aid the understanding of the Performance and/or Accountability Report, some financial information has been moved from the Financial Statements to these sections.

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 2016/17.

Financial Performance

3.11 Whilst the financial statements present the net cost of FSS operations, 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 section on page 17 of the annual report and accounts entitled Financial Performance outlines our outturn against budget. This is also confirmed within the Audit Scotland annual audit report. For the year ended 31 March 2017:

- Revenue resource expenditure was £15.0m compared to a revenue budget of £15.1m
- Capital resource expenditure was £0.2m compared to a capital budget of £0.2m
- Total resource expenditure was therefore £15.2m compared to a Departmental Expenditure Limit budget of £15.3m, resulting in an underspend of £0.1m.
- Annually Managed Expenditure (AME) was £0.5m compared to a budget of £0.4m. The additional AME requirement relates to the longer-term pension liabilities and was discussed with SG Health Finance and is covered by the wider Health portfolio AME budget.
- FSS drew down £15.5m in cash terms to cover its capital and net operating costs.

Independent Auditors Report

3.12 Audit Scotland's report to members and the Auditor General for Scotland includes statement on one material adjustment that was required to be made following the audit of the annual report and accounts. The material adjustment was required due to

errors in accounting for repayment of the pension deficit in the 2015/16 financial statements. The detail of the required adjustment is outlined in paragraph 21 of the Audit Scotland Annual Audit Report. This adjustment was agreed (and made) to the satisfaction of both FSS and Audit Scotland. A number of immaterial misstatements were also identified and subsequently adjusted by FSS in the financial statements.

- 3.13 The report also contains an Action Plan 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.

Audit and Risk Committee Review

- 3.14 The Audit and Risk Committee reviewed the audited draft annual report and accounts at a meeting on the 9th August. Following discussion, the Committee suggested a small number of drafting changes which they felt would improve the clarity of the document. These have been accepted by the Executive and Audit Scotland are content with the revisions.
- 3.15 The Committee having considered all the relevant sources of assurance, recommend that the Board, following review and discussion, approve the annual report and accounts and authorise their issue by the Chief Executive as the FSS Accountable Officer. Further detail underpinning the ARC's recommendation is outlined in the Committee's Statement of Assurance to the Board.

4 Conclusion

- 4.1 Following on from the production of the 2015/16 Annual Report and Accounts and the implementation of lessons learned from that experience, we have been able to meet the required deadlines for the 2016/17 accounts, as well as producing good quality working files which have been acknowledged by Audit Scotland colleagues as an area of good practice. This has resulted in a smoother audit than last financial year and another set of unqualified accounts. The Board are also asked to note the number of positive statements made by Audit Scotland in their audit report, specifically around budget management & monitoring, internal controls & governance 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 2016/17 annual report and accounts and authorise their issue by the Chief Executive as the FSS Accountable Officer.

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