

ANNUAL REPORT TO THE BOARD FROM THE AUDIT AND RISK COMMITTEE

Report by Sue Walker, Chair of the Audit and Risk Committee

1. SUMMARY

1.1 To provide the Board with a summary of the work undertaken by the Audit and Risk Committee (ARC) during the period April 2021 to March 2022.

1.2 The Board is asked to:

- **Note** the work that has been undertaken by the ARC during the period April 2021 to March 2022 inclusive.

2. INTRODUCTION

2.1 The ARC Terms of Reference state that the Committee should provide an Annual Report to the Board covering the previous financial year as soon as possible following the end of the previous financial year, and a separate assurance statement at an appropriate time to support the Board's consideration of the FSS Annual Report and Accounts (ARA).

2.2 This report sets out activities of the ARC during the period 1 April 2021 to 31 March 2022.

3. WORK OF THE COMMITTEE

Meetings of the ARC

3.1 Annex A lists the membership of the Committee over the period and the regular attendees from the Executive, Audit Scotland and the internal auditors for corporate systems from Scottish Government Directorate for Internal Audit and Assurance (SGIAAD) and our official control auditors from FSS. On occasions, other staff have attended the meeting, as shown, to support the ARC in its work.

3.2 The ARC held meetings on 05 May, 25 August, 12 November 2021 and 09 March 2022. Due to the ongoing Covid-19 pandemic the ARC meetings continued to be held via video conference. The ARC met privately with the internal and external auditors on 25 August 2021.

3.3 The ARC Chair provided an oral report of each ARC meeting to the following Board Meetings: 19 May, 18 August, 17 November 2021 and 16 March 2022.

3.4 The current version of the ARC forward plan is at Annex B.

Committee Effectiveness

3.5 The ARC undertook an annual effectiveness review on 15 November 2021 which was attended by the internal and external auditors, FSS staff, in addition to ARC members. In summary, it was concluded that: ARC is operating effectively and

worked well under the challenges Covid presented; an effective transition would be required to introduce 2 new members to the Committee; when a normal way of working resumes the Committee would like to reintroduce deep dives into aspects of risk to the future programme and members would like to take up training opportunities as and when they arise. The next effectiveness review will take place in Autumn 2022.

External Audit

3.6 The Auditor General decided under the Public Finance and Accountability (Scotland) Act 2000 that Audit Scotland would be the appointed auditor for Food Standards Scotland. Audit Scotland has been represented at each ARC meeting and continue to be a source of helpful advice. Since the August meeting Tommy Yule has taken over as the Lead Senior Audit Manager from Jim Rundell.

3.7 Due to pressures resulting from the Covid-19 pandemic, the annual audit plan was delayed, with the draft annual audit report presented to the ARC and Board in November instead of August.

3.8 In March, ARC was also advised by Audit Scotland that planning of the 2021/22 annual audit was delayed but it was anticipated that the draft annual audit report would be presented to the September 2022 ARC and Board meetings.

Internal Audit – SGIAAD

3.9 Internal audit was provided by Scottish Government (SG) Internal Audit and Assurance Directorate (for corporate matters) and David Stark continues in his role as the SG Internal Audit Manager. ARC discussed the audit plan for 2021/22 at its February 2021 meeting and the 2022/23 audit plan at the March 2022 meeting.

3.10 The ARC received progress updates on the internal audit plan and any completed internal audit reports at each meeting. ARC was pleased to note that internal audit recommendations continue to be implemented quickly and diligently.

3.11 The new Scottish Government Risk Management Guidance was issued in April 2021 and will be a useful aid as FSS continues to reshape its own approach to Risk Management and Assurance.

3.12 At the May meeting, SGIAAD concluded in their advisory report that the draft Best Value Framework introduced by FSS was too detailed and onerous and agreed with FSS Senior Management that it should be more strategic and proportionate.

3.13 At the August meeting, the ARC noted that the audit of the Programme Management Office received a substantial rating showing it is an effective resource within FSS.

3.14 At the November meeting SGIAAD informed ARC that the audit of the Review of Health and Safety had received a reasonable assurance rating and they noted that they had identified a culture of continuous improvement within FSS towards Health and Safety matters.

3.15 At the November meeting SGIAAD advised that a new internal audit functional standard and assessment framework was being introduced and FSS would be kept up to date on the implementation date.

Official Controls Audits

3.16 The FSS audit and assurance team provides audits of official controls delivery. The Head of Audit & Assurance is Marion McArthur. The official controls audit programme for 2021/22 was discussed at the February 2021 meeting and the 2022/23 programme at the March 2022 meeting.

3.17 At its May meeting, the ARC received the audit report on Imported Food Controls which received a limited assurance rating with recommendations largely related to documentation and training. ARC was advised that an audit of training re official controls was to be undertaken later in the year as a number of recent audits had identified training issues.

3.18 At the September meeting, ARC noted the reasonable assurance rating from the Enforcement Audit. They noted that a more robust system for signing off audit recommendations is to be implemented with a more formal follow up process put in place.

3.19 At the November meeting, ARC noted that the audit of Business Arrangements between FSS and FBOs received a reasonable assurance rating.

3.20 In March, ARC was told that whilst FSS had a good record in implementing audit recommendations, a number were awaiting the updating of the Scottish Manual of Official Controls (SMOC). Given the complex nature of the SMOCs, a stepwise approach was being taken so the Manual remains a live document whilst being updated chapter by chapter. This would allow a number of audits to be closed in coming months.

3.21 In May, ARC discussed the transparency of official controls audit reports in the context of EU-Exit and the transfer of official controls audits from FSA to FSS. ARC recommended to the Board that Official Controls audit reports and action plans be published within the Model Publication Scheme.

Annual Assurance Reports

3.22 At the May meeting ARC noted that SGIAAD, the internal auditors for corporate systems, had given a reasonable annual assurance opinion for 2020/21 which reflected the excellent work undertaken by FSS in a very challenging year. They particularly noted FSS Brexit response was well handled and the response to Covid was robust.

3.23 Confirmation was received in August from SGIAAD that the annual assurance opinion for 2020/21 for the Shared Services provided to FSS by Scottish Government was reasonable.

3.24 At the May meeting, ARC received the annual assurance statement for 2020/21 from the Head of FSS Audit and Assurance which showed that whilst official controls are suitable to achieve their objectives there was a need to continue the strengthening of processes and controls, particularly related to the updating of guidance and documentation. ARC was assured that FSS management continues to promptly address recommendations.

Annual Report and Accounts (2020/21) and Annual Statement of Assurance from ARC

3.25 The Annual Report and Accounts (ARA) auditing process was delayed due to Covid-19, with the final draft ARA and Audit Scotland's draft Annual Audit Report presented to the Board in November instead of August.

3.26 During the summer, ARC had undertaken scrutiny of early drafts of the ARA and suggested some improvements to aid clarity and understanding.

3.27 At the November meeting, members had the opportunity to discuss both the draft ARA and Audit Scotland's draft Annual Audit Report for 2020/21. ARC noted uncorrected misstatements in the annual accounts but was content with their treatment as they did not have a material impact on the financial statements. ARC noted that Audit Scotland had found that FSS continued to have appropriate and effective financial management and anti-corruption and fraud arrangements in place. Audit Scotland also reported that FSS maintained appropriate levels of governance and transparency, despite Covid.

3.28 The ARC approved its annual statement of assurance for issue to the Board at its meeting on 17 November to support the Board's consideration of the ARA. The Committee noted it had received appropriate, timely and regular information about FSS's control environment and the production of the 2020/21 ARA and based on assurances from its own work and those provided by the internal and external auditors, recommended that the Board approve the ARA to be signed off by the Accountable Officer.

Internal controls

3.29 Throughout the year the ARC continued to receive reports on internal controls and noted the positive assurance provided by the assurance mapping with most areas of business showing good or outstanding assurance.

Risk Management

3.30 Corporate Risk and associated Risk Registers are subject to regular discussion by both the Board and ARC. In addition to discussing strategic risks, their ratings, controls and mitigations on a quarterly basis, ARC has supported the Executive in the transformation of the strategic risk register to align with the new FSS strategy. This culminated in the ARC recommending to the Board, in March 2022, the strategic risk register should be comprised of the 7 risks which it and the Executive thought were risks to delivery of the new strategy. Throughout the transition process,

ARC was assured that the organisation's strategic risks continue to be effectively managed during transition from the old to the new strategic risk registers.

3.31 In March, ARC noted the changes to the framework of risk management introduced by the Executive. ARC were also introduced to the new style of reporting of the Strategic Risk register which made the risks, their ratings, controls and mitigations easier to assimilate.

Environmental Reporting

3.32 At the November meeting, the ARC received a report on FSS's performance on its environmental targets. The report demonstrated the impact Covid controls have had on FSS environmental admissions profiles over the reporting year 2020-21. FSS used the SG algorithm to assess emissions associated with home working. The 5% target to reduce emissions was achieved primarily due to home working and a new baseline will be worked out for blended working once restrictions allow this.

Health and Safety Reporting

3.33 At the May meeting, the ARC received the annual report on the organisation's performance with regards to how FSS measures, monitors and manages its obligations in relation to health, safety and the environment (HSE). ARC was pleased to see the positive approach to health and safety within FSS and the majority of FBOs. ARC noted that the levels of injuries continued to improve and were at a very low level. Whilst there had been a RIDDOR reportable incident, the injury was not long lasting and the staff member was back to work shortly after the incident. ARC noted that an internal review of the HSE Management System had been carried out and an action plan developed.

Other Matters

3.34 At the May meeting, ARC received the Annual Report on Cases of Fraud and Significant Losses (including National Fraud Initiative) which provided an annual update on any cases of fraud and significant losses within FSS. This also included reference to levels of debt in relation to income received from meat hygiene inspection (MHI) charging during the year. There had been a minor write off associated with a small salary overpayment and no assets were written off in 2020-21. Work was ongoing to reduce levels of debt relating to MHI charging. The ARC noted there were no cases of fraud reported during the year and e-training opportunities had been improved.

3.35 At the March meeting, ARC discussed the work being undertaken by the Board / Executive working group on outcomes based performance reporting in line with the new strategy.

Adequacy of Internal Audit arrangements

3.36 The ARC keeps under review the resources available for audit assurance purposes, and is satisfied that adequate and proportionate internal audit resources

were provided throughout the period reported to ensure continued effectiveness of Internal Audit.

3.37 At its March meeting, the ARC noted that the FSS Audit and Assurance branch was operating at 25% below capacity, however, members were assured by the Head of Audit and assurance that the 2022/23 Official Controls audit programme could be delivered.

4. MEMBERSHIP, RESOURCE IMPLICATIONS & SUSTAINABILITY ISSUES FOR THE ARC

4.1 Marieke Dwarshuis re-joined the Committee at its February 2021 meeting to increase the Committee's resilience. Her tenure on the FSS Board ended in December 2021 and she attended her final ARC meeting on 12 November 2021. Heather Kelman stepped down as a member of ARC due to being made Chair of FSS on 01 April 2022. Carol Evans joined the Board of FSS in July 2021 and attended her first ARC meeting on 9 March 2022. Aileen Brown joined the Board of FSS in January 2022 and attended her first ARC meeting on 9 March 2022. In March 2023 Susan Walker and Carrie Ruxton end their terms on the FSS Board. It will be important to appoint replacements to ARC in a timely way to ensure continuity and resilience.

4.2 The ARC expects to meet 4 times in 22/23. No material increase in resource requirements is anticipated.

5. CONCLUSION AND RECOMMENDATIONS

5.1 The ARC continues to fulfil its role of scrutiny and providing assurance to the Board and the Accountable Officer.

5.2 Thanks go to SGIAAD and representatives of Audit Scotland who have attended the meetings throughout the period, presented reports, and have also provided advice which is the basis for much of the ARC's work. Their contribution is especially valued, given the difficult logistical conditions presented by Covid-19.

5.3 ARC also thanks FSS staff for their contribution in supporting the Committee and its work.

5.4 The ARC is asked to:

- **Note** the work undertaken by the Audit and Risk Committee during the course of the period April 2021 to March 2022 inclusive.

Sue Walker
Chair, Audit and Risk Committee
08 June 2022
Final Version

Annex A

Membership of the FSS Audit and Risk Committee April 2021 to March 2022

Members:

Susan Walker (Chair)
 Heather Kelman
 Carrie Ruxton
 Marieke Dwarshuis – until December 2021
 Carol Evans – from January 2022
 Aileen Brown – from January 2022

Attendance:

Member	Attendance	Number of Meetings 2021-22
Susan Walker (Chair)	4	4
Heather Kelman	4	
Carrie Ruxton	4	
Marieke Dwarshuis	3	
Carol Evans	1	
Aileen Brown	1	

Regular Attendees:

Executive

Geoff Ogle, Chief Executive and Accountable Officer
 Marion McArthur, Head of Audit Assurance
 Elaine McLaughlin, Head of Finance & HR
 Garry McEwan, Head of Governance & Infrastructure
 Ruth Dewar, Business Reporting Officer
 Diane Strachan, Head of Private Office
 Joanne Smith, Board Secretary

Audit Scotland

Tommy Yule, Lead Senior Audit Manager – from August 2021
 Wojciech Kuzma, Audit Scotland Auditor

Scottish Government Internal Audit and Assurance Directorate

David Stark, Senior Internal Audit Manager
 Amy McNee, Internal Audit Manager
 Peter Graham, Internal Auditor – until November 2021

Occasional Attendees:

Executive

Natalie Greenland, Corporate Business Manager
 Julie Hesketh-Laird, Director of Strategy, Communications and Programmes
 Mike Houston, Facilities Manager and Health & Safety Advisor
 Philip Mckibben, Financial Accountant
 Aine Phelan, Senior Assurance Auditor
 Tony Sykes, Head of Domestic Assurance
 Caroline Thomson, Head of Corporate Services Functions & Records Management

Audit Scotland

Jim Rundell, Lead Senior Audit Manager

Scottish Government Internal Audit and Assurance Directorate

Steven Sharp, SGIAAD Internal Auditor

Annex B**Audit and Risk Committee Forward Plan**

Agenda Format: Headings as per below; Titles of papers in full on Agenda									
	ARC Forward Programme - Agenda Items	09/03/2022	08/06/2022	07/09/2022	30/11/2022	08/03/2023	07/06/2023	13/09/2023	29/11/2023
1	Private Meetings								
1.1	Private meeting between ARC Members & SG DIAA								
1.2	Private meeting between ARC Members & Audit Scotland								
1.3	Private meeting between ARC Members & FSS Head of Audit and Assurance								
2	Miscellaneous Standing Agenda Items								
2.1	Minutes and Action log tracker								
2.2	Executive oral update or report by exception (topical issues)								
2.3	Review ARC forward programme								
2.4	Any Other Business								
2.5	Meeting Review								
2.6	Executive and ARC closed session								
2.7	ARC members closed session								
3	Risk								
3.1	Risk Management (Risk Register) report (including, Strategic, ELT, Risk Registers and Deep Dives)								
3.2	Prepare for Board's annual discussion on risk (oral)								
3.3	Deep Dive								
4	Other Matters								
4.1	Audit Implementation Management Report – (six monthly May and November) (Ruth)								
4.2	Health and Safety Report: any significant non-compliance (Annual – May)								
4.3	Environment Report - (Annual November)								
4.4	Cases of Fraud and Significant Losses (incl NFI) and Single Tender Actions Paper								
4.5	Internal Controls Assurance Framework reporting (Annual Assurance Report)								
4.6	Governance Report (Accountable Officer)								
4.7	Review ARC Effectiveness & ARC Terms of Reference (Annual)								
4.8	Review of draft audited Annual Report and Accounts								
4.9	Preparation of Annual Report from Chair of ARC								
4.10	ARC Statement of Assurance								
5	Internal Audit								
5.1	Corporate Internal Audit Progress Report (SGDIAA)								
5.2	Official Controls Audit Progress Report (FSS)								
5.3	Internal Audit reports (as available) (SGDIAA)								
5.4	Official Controls Audit reports (as available) (FSS)								
5.5	Corporate Internal Audit Plan for following year discussion (SGDIAA)								
5.6	Official Controls Audit Plan for following year for discussion (FSS)								
5.7	Annual Assurance Report (SGDIAA)								
5.8	Annual Assurance Report (FSS)								
5.9	Official Controls Map								
6	External Audit - Audit Scotland								
6.1	External Audit Plan (Audit Scotland)								
6.2	External Audit Progress / Management Report								
6.3	Annual Audit Report and audit opinion for financial year just finished								
6.4	If required, consider the External Audit Management letter for the previous financial year and the response, including implementation of any recommendations								