

## ANNUAL REPORT TO THE BOARD FROM THE AUDIT AND RISK COMMITTEE

### Report by Sue Walker, Chair of 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 2017 to March 2018.
- 1.2 The Board is asked to:
  - **Note** the work that has been undertaken by the ARC during the period April 2017 to March 2018

#### 2 INTRODUCTION

- 2.1 The Board reviewed the ARC's Terms of Reference at their meeting on 14 December 2016, and agreed that the ARC should provide an Annual Report to the Board covering the previous financial year, as soon as possible following the end of the financial year, and a separate assurance statement at an appropriate time to support the Board's consideration of the FSS Annual Report and Accounts.
- 2.2 This report sets out activities of the ARC during the period 01<sup>st</sup> April 2017 to 31<sup>st</sup> March 2018.

#### 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 our internal auditors from Scottish Government and Food Standards Agency. On occasion other FSS staff have attended the meeting as shown, to support the ARC in its work.
- 3.2 The ARC held meetings on 14<sup>th</sup> June 2017, 09<sup>th</sup> August 2017, 27<sup>th</sup> September 2017, 22<sup>nd</sup> November 2017 and 07<sup>th</sup> February 2018. The ARC Chair had the opportunity for private meetings with internal or external auditors, and also met separately with the Accountable Officer (Chief Executive) and the Head of Corporate Services. The ARC met privately with the internal and external auditors in June 2017. The ARC Chair provided an oral report of each ARC meeting to the following Board meeting, except in the case of the February ARC meeting, where George Brechin deputised for the ARC Chair and subsequently provided the relevant oral report to the Board.
- 3.3 The current version of the ARC's forward plan is at Annex B.

### **Committee effectiveness**

- 3.4 The ARC discussed its effectiveness in private session on 22<sup>nd</sup> November 2017, the members having previously completed individual self-assessment questionnaires based on best practice and focusing on the five principles which underpin the role of the Audit and Risk Committee as described in the Scottish Government's Audit Committee Handbook. For the first time this involved input from the Chief Executive and the Head of Corporate Services.
- 3.5 It was noted that responses received were largely positive and no negative comments were made. A number of points were highlighted by ARC members including risk management and the induction process for new members. The ARC were assured that an induction process was in place should new members be appointed. The Executive sought views, and received clarification on, the balance of items for ARC versus the board and the minuting of declarations of conflicts of interests. The Executive also gathered views to feed into the review of the Annual Report and Accounts process.
- 3.6 The overall conclusion was that the committee felt that it was effectively discharging its responsibilities, though felt that engagement on risk matters could further evolve. It was agreed the ARC would be trialling "deep dives" to better understand risks in different aspects of FSS business.
- 3.7 In discussion, ARC agreed to recommend to the Board that an amendment be made to the introductory 'Purpose' section of the ARC Terms of Reference. The amendment was intended to convey the ARC's role as a provider of advice to the Accountable Officer as well as supporting the Board. The Board endorsed this change in March 2018.

### **External Audit**

- 3.8 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. At their meeting on 07<sup>th</sup> February 2018, the ARC was introduced to Pamela Morrison as the new lead Senior Auditor for Audit Scotland. Audit Scotland has been represented at each ARC meeting, and continue to be a source of helpful advice throughout.

### **Internal Audit**

- 3.9 Internal audit was provided by Scottish Government (SG) Internal Audit (for corporate matters) and by Food Standards Agency (FSA) Internal Audit (for official controls delivery).
- 3.10 The SG Internal Audit plan for 2017/18 encompassed Food Fraud Prevention, Detection and Investigation, Health and Safety Review, Incident Management & Emergency Planning.

- 3.11 The ARC received the finalized report of the Food Science, Safety and Surveillance audit (part of the 2016/17 internal audit programme) in June 2017 and noted the reasonable assurance provided. The ARC received the Food Fraud Prevention, Detection and Investigation report in September 2017 and noted the reasonable assurance opinion provided. The ARC discussed with the Executive the key findings of each report and was content with its response.
- 3.12 The FSA Internal Audit plan encompassed Enforcement Processes at approved establishments under veterinary control, Animal By-Products, Official Controls in Game handling establishments, Animal Welfare Controls (including the use of standard operating procedures), Microbiological Criteria (specifically in relation to plant hygiene) and the Product recall system.
- 3.13 The ARC received the finalised report of the Enforcement processes at approved establishments under veterinary control audit in September 2017. The audit provided substantial assurance. The ARC discussed with the Executive the key findings and was content with its response.
- 3.14 The ARC received the Animal By-Products follow-up audit in November 2017, the purpose of which was to provide independent assurance to the ARC that mitigating actions had been taken to address issues previously highlighted.
- 3.15 The outstanding report on Game Handling Establishments and the Audit Plan for 2018-19 will be presented at the June 2018 ARC meeting.
- 3.16 The ARC received, at each meeting, progress updates on the respective audit plans.

### **Post Transition Review**

- 3.17 At the August 2018 meeting, the ARC received the Post Transition Review and was pleased to note the SG Internal Audit view that overall, the transition process was handled well and business as usual was maintained throughout, though there were some learning points for SG departments in setting up new organisations.
- 3.18 The purpose of the review was to share FSS experiences with SG and any future bodies being established so that they could benefit from FSS lessons learned. With this in mind the Accountable Officer shared the Post Transition Review with the Director General Health and Social Care and SG Permanent Secretary and SG Internal Audit shared the document with other colleagues in SG.

### **Scottish Government Annual Assurance Report**

- 3.19 At the June 2017 meeting, the ARC received the Annual Assurance report from SG Internal Audit. The ARC noted the reasonable assurance provided on risk management, control and governance arrangements. All recommendations had been actioned and all follow-ups were successfully closed.

**Food Standards Agency Audits of Official Controls Annual Report and Opinion**

- 3.20 The ARC also received the Audits of Official Controls Annual Report and Opinion 2016/17 from Food Standards Agency. Whilst there were some areas of improvement identified, no significant systemic control issues were noted. This report provided a moderate assurance opinion overall in relation to risk management control and governance arrangements for official controls (equivalent to SG Internal Audit “satisfactory”).

**Annual Report and Accounts and Statement of Assurance from ARC**

- 3.21 At its June 2017 meeting, the ARC considered the final draft of the unaudited Annual Report and Accounts (ARA) for the year ended 31<sup>st</sup> March 2017. The ARC noted a small number of minor drafting changes and the timeline for finalising the unaudited ARA, and made some comments on presentation. At its 9<sup>th</sup> August 2017 meeting, the ARC approved its draft statement of assurance for issue to the Board at its meeting on 16<sup>th</sup> August 2017 in support of the Board’s consideration of the Annual Report and Accounts. The Committee noted it had received appropriate, timely and regular information about FSS’s control environment and the production of the ARA for 2016-17 and based on the assurances from its own work and those provided by auditors recommended that the Board approve the ARA.

**Internal controls**

- 3.22 At the November 2017 meeting, the ARC received and discussed a highlight report from the Executive on the Internal Controls Assurance Framework mapping tool.
- 3.23 Annual Branch Head self-assessments, using the Assurance Mapping tool, had been completed towards the end of the 2016/17 financial year to support the completion of Directors’ statements of assurance that subsequently underpin and support the Accountable Officer’s Governance Statement which accompanies the Annual Report and Accounts.
- 3.24 A further round of scoring against the Assurance Mapping Framework had been completed in September 2017 and when compared with February 2017 returns, it remained relatively static. The ARC was content to receive progress reports annually, now that the process was well established, on the understanding that the exercise would be completed by the Executive twice yearly.

**Risk management**

- 3.25 Corporate Risk and associated Risk Registers have been subject of regular discussion by both the Board and ARC since 2015. These discussions have resulted in the evolution of how risks are managed and reported within FSS. The ARC received updates on the Strategic Risk Register at its June 2017, September 2017 and February 2018 meetings. In addition, at the September 2017 meeting, Elspeth MacDonald, the Deputy Chief Executive was invited to present the BREXIT risk register, and the ARC was also introduced to the SMT Risk Register, developed to allow the Executive to manage organisational risks not suitable for the Strategic Risk Register. At the

February 2018 meeting, Ian McWatt, Director of Operations was invited to present the Operations Risk Register.

### **Cases of Fraud and Significant Losses**

- 3.26 Following its meeting in March 2017, the ARC agreed to receive an annual report on Cases of Fraud and Significant Losses. At the February 2018 ARC meeting, the Executive confirmed there had been no cases of fraud or significant losses to report. The ARC noted plans to further raise awareness within FSS on counter fraud measures during 2018/19.

### **Health, Safety and Environment Annual Summary**

- 3.27 At its February 2018 meeting, the ARC received an annual summary on Health, Safety and Environment which included a newly developed Carbon Management Plan (CMP). FSS is aiming to achieve Scottish Government Environmental Targets (SGET) and the CMP the highlights areas where FSS can seek to reduce its overall impact on the environment and includes the projects and initiatives which FSS can implement to achieve the SGET. The ARC agreed that the next health, safety and environmental annual summary report would be received in March 2019.

### **Adequacy of Internal Audit arrangements**

- 3.28 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.

## **4 RESOURCE IMPLICATIONS & SUSTAINABILITY ISSUES FOR THE ARC**

- 4.1 The ARC expects to meet five times in the financial year 2018/19, with one meeting devoted to the consideration of the Annual Report and Accounts. No material increase in resource requirements is anticipated.

## **5 CONCLUSION AND RECOMMENDATION**

- 5.1 The ARC continues to fulfill its role of scrutiny and providing assurance to the Board and the Accountable Officer.
- 5.2 I would like to thank my fellow Board members who served on the ARC. I would also like to thank the Executive for their supportive and professional approach.
- 5.3 Thanks also go to SG and FSA Internal Audit colleagues and representatives of Audit Scotland who have attended the meetings throughout the period reported to present reports and provide advice which have provided the basis for much of the ARC's work.

5.4 The Board is asked to:

- **Note** the work undertaken by the Audit and Risk Committee during the course of the period April 2017 to March 2018 inclusive.

**Sue Walker**  
**Chair, Audit and Risk Committee**  
**26<sup>th</sup> April 2018**

**Membership of the FSS Audit and Risk Committee March 2017 to April 2018****Members:**

Dr Susan Walker (Chair)  
 George Brechin  
 Marieke Dwarshuis  
 Dr Anne Maree Wallace

**Attendance:**

<b>Member</b>	<b>Number of Meetings 2017-18</b>	<b>Attendance</b>
Dr Susan Walker (Chair)	5	4
George Brechin		5
Marieke Dwarshuis		4
Dr Anne Maree Wallace		5

**Regular Attendees:**Executive

Geoff Ogle – Chief Executive  
 Garry Mournian – Head of Corporate Services

Audit Scotland

Elaine Barrowman  
 Helen Cobb (until November 2017)  
 Pamela Morrison (from February 2018)

Scottish Government Internal Audit

Tony Forteza

Food Standards Agency Internal Audit

Freedom Mpande

**Occasional Attendees:**Executive

Eispeth MacDonald – Deputy Chief Executive (September 2018)  
 Ian McWatt – Director of Operations (February 2018)

Scottish Government Internal Audit

Les Henderson (August 2017)

## Forward Plan

	ARC FORWARD PROGRAMME AGENDA ITEMS	22 NOV 2017	07 FEB 2018	20 JUNE 2018	15 AUGUST 2018	26 SEPT 2018	28 NOV 2018	TBC MAR 2019
<b>1</b>	<b>Private Meetings</b>							
1.1	Private meeting between ARC & SG Internal Audit							
1.2	Private meeting between ARC & Audit Scotland							
1.3	Private meeting between ARC & Food Standards Agency							
<b>2</b>	<b>Miscellaneous Standing Agenda Items</b>							
2.1	Minutes and Action tracker							
2.2	Executive oral update or report by exception (topical issues)							
2.3	Audit Implementation Group Report							
2.4	Cases of fraud and significant losses							
2.5	Health, Safety and Environment Report: any significant non-compliance							
2.6	Review ARC forward programme							
2.7	Any Other Business							
2.8	Meeting Review							
2.9	Executive and ARC closed session							
2.10	ARC members closed session							
<b>3</b>	<b>Risk</b>							
3.1	Risk Management (Risk Register) report (including, Brexit and Operations Risk Register – Feb 2018)							
3.2	Prepare for Board's annual discussion on risk (oral)							
<b>4</b>	<b>Other Matters</b>							
4.1	Internal Controls Assurance Framework reporting (Assurance Map)							
4.2	Governance Report (Accountable Officer)							
4.3	Review ARC Effectiveness & Terms of Reference							
4.4	Review of draft unaudited Annual Report and Accounts 2017/18							
4.5	Review of Audited Annual Report and Accounts 2017/18							
4.6	Preparation of Annual Report from Chair of ARC		oral					
4.7	ARC Statement of Assurance							
<b>5</b>	<b>Internal Audit</b>							
5.1	Corporate Internal Audit Progress Report (SGIAD)							
5.2	Official Controls Audit Progress Report (FSA)							
5.3	Internal Audit reports (as available)							

5.4	Official Controls Audit reports (as available)							
5.5	Corporate Internal Audit Plan for following year discussion							
5.6	Official Controls Audit Plan for following year for discussion							
5.7	Annual Assurance Report (SGIAD)							
5.8	Annual Assurance Report (FSA)							
<b>6</b>	<b>External Audit</b>							
6.1	External Audit Plan (Audit Scotland, FSA and SGIAD)							
6.2	External Audit Progress Report							
6.3	External audit report & opinion for financial year just finished.							
6.4	FSS Annual Report and Accounts – 2017/18							
6.5	If required, consider the External Audit management letter for the previous financial year and the response, including implementation of any recommendations							

**Agenda format:**

- Headings as above
- Titles of papers in full on agenda