

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 2018 to March 2019.
- 1.2 The Board is asked to:
 - **Note** the work that has been undertaken by the ARC during the period April 2018 to March 2019 inclusive.

2 INTRODUCTION

- 2.1 The Board reviewed the ARC's Terms of Reference at their meeting on 14th 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 1st April 2018 to 31st March 2019.

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 20th June 2018, 15th August 2018, 26th September 2018, 28th November 2018 and 27th March 2019. 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 Corporate Services Director. The ARC met privately with the internal and external auditors in June 2018. The ARC Chair provided an oral report of each ARC meeting to the following Board meeting.
- 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 a private session on 28th November 2018 which the executive and, for the first time, the internal and external auditors attended. Attendees had previously completed individual assessment questionnaires based on best practice and focusing on the five principles which underpin the role of an Audit and Risk Committee as described in the Scottish Government's Audit Committee Handbook.
- 3.5 It was noted that responses received were largely positive and no negative comments were made. However, several actions were agreed to further improve the workings of ARC.
- Three of the four ARC members were noted to have their Board terms of office ending in March 2021. The Committee therefore considered it was time to consider a phased succession plan and the Chair agreed to discuss with the Board Chair.
 - The trialling of "deep dives" into risks in different aspects of FSS business would continue. Key staff relevant to a particular internal audit report would be invited to the ARC.
 - A piece of work was requested of the Executive which would layout FSS's assurance strands in a framework as suggested in the recently revised Audit and Assurance Committee Handbook. This would be particularly helpful in new member induction.
- 3.6 The ARC reviewed its Terms of Reference and were content that no changes were required.
- 3.7 The overall conclusion was that attendees felt that the ARC was effectively discharging its responsibilities.

ARC Succession Planning

- 3.8 Further to the November 2018 ARC meeting, the ARC Chair raised the issue of a phased succession plan with the Board Chair. The FSS Chair agreed it was prudent to begin a transition of ARC members. In February 2019, Marieke Dwarshuis stood down from the ARC with immediate effect. At the February 2019 Board meeting, the Board appointed two board members to the ARC, Heather Kelman and Carrie Ruxton.

External Audit

- 3.9 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 the March 2019 meeting, the ARC were introduced to James Rundell as the new lead Senior Auditor and Kenneth McFall, new Senior Auditor from Audit Scotland. Audit Scotland has been represented at each ARC meeting and continue to be a source of helpful advice throughout.

- 3.10 At the March 2019 meeting Audit Scotland presented their Management Report for 2018/19 indicating that they had not identified any significant weaknesses in the FSS system of internal control and concluded that effective internal controls were in place for the financial systems they had reviewed. All recommendations from 2017/18 had been implemented.

Internal Audit

- 3.11 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). In June 2018 Tony Forteza stood down as the SG Internal Audit Manager and was replaced in August by Crystal Power. The ARC received, at each meeting, progress updates on both internal audit plans and any completed internal audit reports.
- 3.12 At the June 2018 meeting, the ARC received the remaining finalised reports from the SG Internal Audit plan 2017/18 - the Incident Management and Emergency Planning and Health and Safety Review audits and noted the reasonable assurance provided for each. In addition at the June 2018 meeting, the ARC received the remaining audit report by Food Standards Agency (FSA) from the 2017/18 internal audit plan on Game Handling Establishments and noted the moderate assurance (equivalent to SG "reasonable") provided. The ARC discussed with the Executive the key findings of each report and was content with its response.
- 3.13 The SG Internal Audit plan for 2018/19 encompassed Communications and Marketing; the Scottish National Database and the Review of Non-Ministerial Organisation Performance Management.
- 3.14 At the November 2018 meeting, the ARC received the finalised report of the Communications and Marketing Audit and noted the reasonable assurance provided. The ARC discussed with the Executive the key findings of the report and was content with its response.
- 3.15 At the March 2019 meeting, the ARC noted that the draft reports for the Scottish National Database and the Review of Non-Ministerial Organisation Performance Management had been issued to the executive for comment. The ARC noted they would receive the finalised reports intersessionally before the next ARC meeting in June 2019 and would be discussed at that meeting.
- 3.16 The FSA Internal Audit plan encompassed the Officials Role in Hazard Analysis and Critical Control Point (HACCP) systems at approved establishments under Veterinary control in Scotland; Specific Risk Material and Animal Identification Controls; Approvals; Eggs Hygiene and Shellfish.
- 3.17 At the September 2018 meeting, the ARC received the finalised report of the HACCP audit and noted the moderate assurance provided. The report was discussed and it was noted the recommendations were in hand. At the March 2019 meeting, The ARC noted it would receive the report on Approvals intersessionally and it will be discussed at the June 2019 meeting.

- 3.18 At the March 2019 meeting, the ARC noted the changes to the Official Controls audit plan 2018/19 which included Specified Risk Material and Animal Identification and Controls being discontinued due to Negligible Risk status being lost. Eggs Hygiene and Shellfish audits were both cancelled and the ARC were content with the reasons for this. ARC was satisfied with the opinions of the internal auditor and the Accountable Officer that the audits which had been undertaken during the year on Official Controls provided the appropriate range of assurance on FSS's Official Controls activity.
- 3.19 At the March 2019 meeting the ARC received and discussed the Draft SG Internal Audit Plan for 2019/20 and the Draft Official Controls Internal Audit Plan for 2019/20.

Internal Audit Annual Assurance Reports

- 3.20 At the June 2018 meeting, the ARC received the Annual Assurance report and opinion 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. At the same meeting, the ARC received the Audits of Official Controls Annual Report and Opinion 2017/18 from Food Standards Agency. This report provided a moderate assurance opinion overall in relation to risk management control and governance arrangements for official controls (equivalent to Scottish Government Internal Audit "reasonable").

Annual Report and Accounts and Statement of Assurance from ARC

- 3.21 Following earlier opportunities taken to comment intersessionally, the ARC at the June 2018 meeting, considered the final draft of the unaudited Annual Report and Accounts (ARA) for the year ended 31st March 2018. The ARC noted a small number of minor drafting changes and provided comments on the content.
- 3.22 At the August 2018 meeting, the ARC approved its statement of assurance for issue to the Board at its meeting on 22nd August 2018 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 2017-18 and, based on the assurances from its own work and those provided by the internal and external auditors, recommended that the Board approve the ARA.

Internal controls

- 3.23 At the March 2019 meeting, the ARC received and discussed the annual highlight report from the Executive on the Internal Controls Assurance Framework mapping tool.
- 3.24 Annual Branch Head self-assessments, using the Assurance Mapping tool, had been completed towards the end of the 2018/19 financial year. These enable the completion of Directors' statements of assurance that subsequently underpin and support the Accountable Officer's Governance Statement which will accompany the Annual Report and Accounts in August 2019.

- 3.25 The ARC noted the Assurance Map and self-assessment scores completed by Branch heads and noted the revised FSS Assurance Mapping Framework Policy and Guidance document.
- 3.26 During the year, ARC received reports from the Audit Implementation Group and was pleased to see the continuing good performance in implementing recommendations from our internal and external auditors.

Risk management

- 3.27 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 discussed the Strategic Risk Register and the Brexit Risk Register at its June 2018, September 2018, November 2019 and March 2019 meetings. The high Brexit risk scores within both the Brexit and Strategic risk registers was a consistent theme throughout the year with both risks scores and proximity increasing. The ARC recognised that the majority of Brexit risks were outside the control of the Executive but ARC was content that, as far as they might, the Executive had taken appropriate steps to mitigate the risks, given the continuing political and resourcing uncertainties around Brexit.
- 3.28 In November 2018, the Board tasked the ARC with agreeing the wording of two new strategic risks associated with recent legal judgements and the implications for local authorities when taking enforcement action. This was done intersessionally and formally agreed at the March 2019 ARC.
- 3.29 At the March 2019 meeting, as part of the ARC's occasional deep dive into aspects of risk within FSS business, Mike Houston, Facilities, Health Safety and Environment Advisor was invited to provide support on discussing Health, Safety and Environment risks.

Cases of Fraud and Significant Losses

- 3.30 Following its meeting in March 2017, the ARC agreed to receive annual reports on Cases of Fraud and Significant Losses with other reporting by exception. At the March 2019 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 2019/20 and noted that FSS continues to participate in the Audit Scotland National Fraud Initiative.

Health, Safety and Environment Annual Summary

- 3.31 At its March 2019 meeting, the ARC received an annual summary on Health, Safety and Environment (HSE) which included HSE Objectives, Targets and Key Performance Indicators and the Carbon Management Plan (CMP). The HSE Objectives, Targets and Key Performance Indicators were developed to reflect the level of maturity in FSS. For the first time, Year on Year performance reporting was introduced to provide an annual comparison to better understand how HSE is developing across FSS.

Other matters

- 3.32 In October 2018, the ARC Chair and Corporate Services Director met with a Scottish Government Internal Audit Assistant Director and one of their non-executive members who were undertaking an Assessment of Service Quality Review. Whilst the timing was not ideal as there had recently been the change in SG Internal Audit Manager, the discussion was a good opportunity to discuss quality and performance matters.

Adequacy of Internal Audit arrangements

- 3.33 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 2019/20, with one meeting largely 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, especially Marieke Dwarshuis for her efforts since the ARC was established. Her experience of corporate governance had been extremely valuable since the early days of FSS. 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 2018 to March 2019 inclusive.

Sue Walker
Chair, Audit and Risk Committee
18th April 2019

For queries contact the Chair at : board@fss.scot

Annex A**Membership of the FSS Audit and Risk Committee April 2018 to March 2019****Members:**

Dr Susan Walker (Chair)
 George Brechin
 Marieke Dwarshuis (until February 2019)
 Dr Anne Maree Wallace
 Heather Kelman (from February 2019)
 Dr Carrie Ruxton (from February 2019)

Attendance:

Member	Number of Meetings 2018-19	Attendance
Dr Susan Walker (Chair)	5	5
George Brechin		4
Marieke Dwarshuis		4 (of 4)
Heather Kelman		1 (of 1)
Carrie Ruxton		0 (of 1)
Dr Anne Maree Wallace		5

Regular Attendees:Executive

Geoff Ogle – Chief Executive and Accountable Officer
 Garry Mournian – Corporate Services Director

Audit Scotland

Elaine Barrowman, Senior Audit Manager (until January 2019)
 Pamela Morrison, Senior Auditor (until January 2019)
 James Rundell, Lead Senior Auditor (from January 2019)
 Kenneth McFall, Senior Auditor (from January 2019)

Scottish Government Internal Audit

Tony Forteza, Internal Audit Manager, (until June 2018)
 Crystal Power, Internal Audit Manager, (from August 2018)

Food Standards Agency Internal Audit

Freedom Mpande, Deputy Head of Internal Audit

Occasional Attendees:

Executive

Ruth Dewar, Business Reporting Officer

Michael Houston, Facilities, Health, Safety and Environment Advisor

Scottish Government Internal Audit

Les Henderson, Senior Internal Audit Manager, (August, September 2018)

Annex B

Audit and Risk Committee Forward Plan

	ARC FORWARD PROGRAMME AGENDA ITEMS	28 SEPT 2018	28 NOV 2018	27 MAR 2019	19 JUNE 2019	14 AUGUST 2019	25 SEPT 2019	27 NOV 2019
1	Private Meetings							
1.1	Private meeting between ARC Members & SG Internal Audit							
1.2	Private meeting between ARC Members & Audit Scotland							
1.3	Private meeting between ARC Members & Food Standards Agency							
2	Miscellaneous Standing Agenda Items							
2.1	Minutes and Action tracker							
2.2	Executive oral update or report by exception (topical issues)							
2.3	Audit Implementation Group Report – (six monthly Nov & Jun)							
2.4	Cases of fraud and significant losses (including National Fraud Initiative) (Annual Report - March)							
2.5	Health, Safety and Environment Report: any significant non-compliance (Annual - March)							
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							
3	Risk							
3.1	Risk Management (Risk Register) report (including, Strategic, Brexit, Operations, Health and Safety, Risk Registers - Deep Dives)							
3.2	Prepare for Board's annual discussion on risk (oral)							
4	Other Matters							
4.1	Internal Controls Assurance Framework reporting (Annual – March - Assurance Map)							
4.2	Governance Report (Accountable Officer)							
4.3	Review ARC Effectiveness & ARC Terms of Reference (Annual - Nov)							
4.4	Review of draft unaudited Annual Report and Accounts 2018/19							
4.5	Review of Audited Annual Report and Accounts 2018/19							
4.6	Preparation of Annual Report from Chair of ARC (oral)							
4.7	ARC Statement of Assurance							
5	Internal Audit							
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)							
6	External Audit							
6.1	External Audit Plan (Audit Scotland)							
6.2	External Audit Progress/Management Report							
6.3	External audit report & opinion for financial year just finished.							
6.4	FSS Annual Report and Accounts – 2018/19							
6.5	If required, consider the External Audit management letter for the previous financial year and the response, including implementation of any recommendations							