

**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 September 2016 to March 2017.
- 1.2 The Board is asked to:
- **Note** the work that has been undertaken by the ARC during the period September 2016 to March 2017
  - **Note** that with effect from the financial year 2017/18 ARC Annual Reports will cover a financial year, and be provided to the Board as soon as possible following the end of the financial year in question. A separate assurance statement will be provided by the ARC to support the Board's consideration of the Annual Report and Accounts.

**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 follows the previous Annual Report provided to the Board covering the period August 2015 – August 2016, and sets out activities of the ARC during the period 1 September 2016 to 31 March 2017. The next Annual Report will be produced after 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 FSA.
- 3.2 The ARC held meetings on 29 November 2016 and 15 March 2017. 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 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 private session on 29 November 2016, 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. A number of points were discussed, most relating this ARC still being relatively new. Improvements could be made in light of experience during the first year of operation, and a number of minor action points were raised. The overall conclusion was that the committee felt that it was effectively discharging its responsibilities.
- 3.5 In discussion it was agreed that a small number of changes to the Terms of Reference of the ARC would better reflect its *modus operandii*. These were ratified at the subsequent ARC meeting where it was agreed that these changes should be recommended to the Board. The Board endorsed these changes in December 2016.

### **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. At their meeting on 29 November 2016, the ARC was introduced to Elaine Barrowman as the new lead for Audit Scotland. Audit Scotland has been represented at each ARC meeting, and has been the source of helpful advice throughout.

### **Internal Audit**

- 3.7 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).
- 3.8 The SG Internal Audit plan for 2016/17 had originally encompassed Charging for Industry, Incident Management and Emergency Planning, and Food Fraud Prevention, Detection and Investigation. The ARC was informed at its November 2016 meeting that there were changes to the audit plan - the planned audits of Incident Management and Food Fraud would be deferred due to on-going work with the E.coli O157 incident, and it was agreed that audits of Food Safety, Science and Surveillance and a Post Transition review would be carried out instead.
- 3.9 The FSA Internal Audit plan encompassed Animal By-products, Animal Welfare Controls including slaughter licences, Incidents Resilience. The planned audits on Animal Health/ Notifiable Diseases, and the FSS's audit of FBO controls were deleted from the plan as these were no longer required.

- 3.10 The ARC received, at each meeting, progress updates on the respective audit plans.
- 3.11 The ARC received the finalised Animal By-Products audit in November 2016. The audit provided limited assurance due to issues around documentation and verification. The ARC discussed with the Executive the key findings and their response. The ARC noted the limited opinion but were satisfied with the management response and noted management confidence in meeting the timescales outlined to implement actions.
- 3.12 The ARC received the finalised Animal Welfare Official Controls at approved slaughterhouses audit in March 2017. The audit provided moderate assurance due to issues associated with documentation. The ARC discussed with the Executive the key findings and their response, welcomed the findings in the report, including recognition of the pro-active approach adopted by operational managers and veterinary managers to drive improvements in animal welfare official controls, and noted the moderate opinion.
- 3.13 The ARC also received the finalised report on the Fee Charging Review carried out by SG, and were pleased to note a substantial assurance outcome.

#### **Follow up of internal audit recommendations**

- 3.14 The ARC receives a progress report from the Audit Implementation Group (AIG) every six months that provides oversight of the progress being made against delivery of audit recommendations within FSS. The most recent report was received in March 2017. The ARC noted significant progress made against the various audit recommendations. This was confirmed by the Follow Up Review conducted by SG IAD and reported at the March 2017 meeting.

#### **Annual Report and Accounts**

- 3.15 At their November 2016 meeting, the ARC considered the results of a lessons learned exercise undertaken by the Executive from the production of the first Annual Report and Accounts (ARA) for 2015/16. The report focused on 4 areas: timetable and production; content and style; implementation of Audit Scotland's recommendations; and presentation of the ARA to the Board. The ARC accepted that the presentation of the audited ARA to the August Board was a more sustainable option for FSS than being at this stage in June. The ARC suggested a number of points for the Executive to consider, and was pleased to note that there would be opportunities for earlier engagement with both the FSS Chair and the ARC during the ARA process in 2017. The ARC was interessionally provided with the draft FSS ARA project plan and the finalised version was discussed at the March 2017 meeting.

#### **Internal controls**

- 3.16 At its November 2016 meeting, the ARC received and discussed a progress report from the Executive on the Internal Controls Assurance Framework mapping tool. The initial round of scoring against the Framework had been completed, and the outcome

was generally positive. The ARC was impressed with the performance of the organization in this initial round and agreed with the Executive that the process of discussion around internal controls was as valuable as the outcome at this early stage. The intention was to undertake the scoring exercise biannually at the outset, with a possible reduction to an annual scoring exercise once the process was well established. It was agreed that ARC would receive progress reports twice yearly.

- 3.17 The ARC received a further report on Assurance Mapping at its March 2017 meeting, following the completion of the second round of scoring against the Framework. The ARC noted that the assurance mapping scores were positive; benefits were starting to come through and developments were becoming apparent. The ARC was also pleased to note that the FSS approach was being shared with other public bodies as a best practice example.

### **Risk management**

- 3.18 At its November 2016 meeting, the ARC received an update on progress on the Strategic Risk Register which was being developed as a replacement for the Corporate and Level 1 Risk Register, and noted that the modifications to risks suggested at the Board's August discussion on risk had been incorporated. The ARC welcomed the establishment of the Strategic Risk Register, and was assured that the Executive operated adequate controls in order to manage risk effectively. The finalised Strategic Risk Register was presented to the ARC at their March 2017 meeting, and will be reported on to the ARC at each meeting.

### **Fraud and significant losses**

- 3.19 The ARC received reports on fraud and significant losses at its meetings. There were no cases of fraud or significant losses to report.
- 3.20 The ARC was pleased to see the emphasis placed on fraud training.

### **Debt recovery and bad debt**

- 3.21 The ARC was advised at the March 2017 meeting that a debt recovery contractor had been appointed and a debt recovery and write off policy is in the process of being written.

### **Health, safety and environment**

- 3.22 The ARC received a report on Health, Safety and Environment at each meeting, the Health and Safety report having been expanded, from November 2016, to include an overview of other matters related to the Environment, Wellbeing and Sustainability. In November 2016, the ARC received an overview of the contents of the Health, Safety and the Environment (HSE) Management System, providing assurance that HSE issues within FSS have a structured format, are reflective of current organisational needs and legislative requirements. There were no reportable incidents during the period of this report. The ARC agreed to receive going forward an annual report with exception reporting as necessary.

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

- 3.23 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 2017/18, 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 September 2016 to March 2017 inclusive.

**Sue Walker**  
**Chair, Audit and Risk Committee**  
**03 April 2017**

**Membership of the FSS Audit and Risk Committee September 2016 to March 2017****Members:**

Sue Walker (Chair)  
 George Brechin  
 Marieke Dwarshuis  
 Anne Maree Wallace

**Attendance Record :**

ARC Meeting Dates	ARC Members			
	Sue Walker	George Brechin	Marieke Dwarshuis	Anne Maree Wallace
29 <sup>th</sup> November 2016	Yes	Yes	Yes	Yes
15 <sup>th</sup> March 2017	Yes	No	Yes	Yes

**Regular Attendees:**Executive

Geoff Ogle – Chief Executive  
 Garry Mournian – Head of Corporate Services  
 Karen McCallum-Smith – Head of Private Office

Audit Scotland

Elaine Barrowman  
 Helen Cobb

Scottish Government Internal Audit

Tony Forteza  
 Les Henderson

Food Standards Agency Internal Audit

Freedom Mpande

## Forward Plan

	ARC FORWARD PROGRAMME AGENDA ITEMS	14 JUNE 2017	09 AUGUST 2017	27 SEPT 2017	22 NOV 2017	MAR 2018
<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 report					
3.2	Prepare for Board's annual discussion on risk					
<b>4</b>	<b>Other Matters</b>					
4.1	Internal Controls Assurance Framework reporting					
4.2	Governance Report (Accountable Officer)					
4.3	Review ARC Effectiveness & Terms of Reference					
4.4	Review of draft unaudited Annual Report and Accounts 2016/17					
4.5	Review of Audited Annual Report and Accounts 2016/17					
4.6	Preparation of Annual Report from Chair of ARC					
4.7	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					
6.2	External Audit Progress Report					
6.3	External audit report & opinion for financial year just finished.					
6.4	FSS Annual Report and Accounts – 2016/17					
6.5	If required, consider the External Audit management letter for the previous financial year and the response, including implementation of any recommendations					