

ANNUAL REPORT TO THE BOARD FROM THE AUDIT AND RISK COMMITTEE

Report by Aileen Brown, 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 2022 to March 2023.

1.2 The Board is asked to:

- **Note** the work that has been undertaken by the ARC during the period April 2022 to March 2023 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 2022 to 31 March 2023.

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, Deloitte 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 08 June, 07 September, 30 November 2022 and 08 March 2023 and an Extraordinary Meeting on the 28 March 2023, these were a mixture of on-line and face to face meetings. The ARC met privately with the internal and external auditors on 08 June 2022.

3.3 The ARC Chair provided an oral report of each ARC meeting to the following Board Meetings: 15 June, 25 October and 07 December 2022 and 22 March 2023.

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 30 November 2022 which was attended by the internal and external auditors, FSS staff, in addition to ARC members. In summary: ARC will continue to challenge itself on maintaining the

boundary between executive and non-executive roles; will ensure that papers and discussions remain strategic; will explore training opportunities for new members and will look for opportunities for staff and new auditors to gain exposure to ARC to understand its remit and requirements.

External Audit

3.6 At the June meeting ARC was advised that on completion of this year's audit work Audit Scotland was being replaced by Deloitte as our external auditor.

3.7 Due to pressures resulting from a change in auditor the annual audit plan was delayed, it was presented to the ARC at an extraordinary meeting held 28 March 2022 and the ARC approved it. From Year 2 the Deloitte timetable will align with the FSS meeting schedule.

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 agreed the proposed audit plan for 2023/24 at the March 2023 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 They also noted that new joint procedures between FSS and SG Internal Audit are in place to track audit recommendations which will avoid duplication and provide shared understanding of progress.

3.12 At the June meeting, the ARC received the report on the Review of Wellbeing arrangements in response to Covid 19, a substantial assurance rating was received with the audit showing FSS provided a strong response in setting up new wellbeing processes during the pandemic.

3.13 The ARC also received the audit report on Financial Arrangements and were pleased to note a substantial audit assurance rating with no recommendations being identified.

3.14 At the November meeting the ARC noted that the Audit Programme for Corporate Services had gone well and that a planned audit of the People Strategy had been deferred until the following year.

3.15 At the November meeting ARC received 3 x audit reports: Cyber Security and Resilience which received a limited assurance rating; Procurement Arrangements which received a reasonable assurance rating and FSS Audit Assurance Branch which received a substantial rating. They noted that all the recommendations have

already been implemented and show the value of internal audits showing opportunities for processes to be improved.

3.16 At the March meeting SGIAAD confirmed that the 2023 audit plan had been completed, with the three audits already having been received by ARC. He advised that the Workforce Planning / People Strategy audit, previously deferred, would be incorporated into the 2023/24 plan.

3.17 The ARC discussed the level of audit coverage and assurance required to discharge the committees responsibilities and they noted a trend of reduced audit days over recent years. The ARC considered and approved the 2023/24 audit plan incorporating the deferred audit.

Official Controls Audits

3.18 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 2022/23 was discussed at the March 2022 meeting and the 2023/24 programme at the March 2023 meeting.

3.19 At the June meeting, the ARC received the following audit reports: Food Business Operators (FBO) Audits, which received reasonable assurance and Official Veterinarian and Meat Hygiene Inspector Training which received limited assurance, the recommendations of which are due for completion in July. The ARC noted the intent to publish completed audits on the FSS website.

3.20 At the November meeting the ARC received the Withdrawals and Recalls Audit Report which received a substantial assurance outcome and also the Enforcement Action (Referrals for Investigation) Audit Report, which received a reasonable assurance outcome.

3.21 At the March meeting ARC received an update on the Official Controls Audit Programme. There were no audit reports to consider, the ARC noted that the two remaining audits for 2022/23 will be presented to the June 2023 ARC meeting.

3.22 At the March meeting the proposed 2023/24 Official Controls audit plan was considered and approved, and it was noted that there was a reduction from four to three audits. A clear link between risk assessment and the proposed plan was helpful for the committee.

Annual Assurance Reports

3.23 At the June meeting ARC noted that SGIAAD, the internal auditors for corporate systems, had, for the first time since FSS's inception, given FSS a substantial audit assurance rating for 2021/22. To have achieved this rating is testament to the strong commitment of FSS to effective governance and risk management.

3.24 Confirmation was received in September from SGIAAD that the annual assurance opinion for 2021/22 for the Shared Services provided to FSS by Scottish Government was reasonable. ARC voiced their frustration given the problems FSS

continue to have with services provision. Much of the opinion appears to be based on plans in place to deliver improvements, even though the implementation is some time off. ARC requested that these concerns be reported back via SG Internal Audit and that during next year's audit the perspective of service users be included.

3.25 At the June meeting ARC received the Annual Assurance Statement for 2021/22 from the Head of FSS Audit and Assurance. This indicated the need to continue strengthening processes and controls particularly relating to the updating of guidance and documentation to ensure that official controls are carried out in compliance with planned arrangements and that the planned arrangements are applied effectively. It was noted that the planned arrangements do however appear to be suitable to achieve the objectives of official controls. FSS management continue to promptly address recommendations.

3.26 Of the four audits carried out in 2021/22, three received reasonable ratings and one had limited assurance.

Annual Report and Accounts (2021/22) and Annual Statement of Assurance from ARC

3.27 At the September meeting ARC members were presented with the draft audited ARA for 2021/22 for members to review, and subject to committee consideration, recommend approval of the ARA to the FSS Board. ARC had previously had several opportunities to review and scrutinise earlier drafts of the ARA. The ARC was content to recommend to the Board that the ARA be authorised for issue.

3.28 The ARC approved its annual statement of assurance for issue to the Board at its meeting on 22 September to support the Board's consideration of the ARA.

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, both the Board and ARC discuss strategic risks, their ratings, controls and mitigations on a quarterly basis. At the September meeting ARC proposed to track risks that have materialised by way of a new Strategic Issues Register, which will be reported to the ARC and the Board alongside the Strategic Risk Register until the issue is managed, and can, when appropriate, be reconsidered in terms of risk management. The welcomed new development of monitoring addresses the situation when the proximity of strategic risk changes it from a risk to an issue that has materialised. The monitoring will include the priority and severity of the issue, controls in place, their status and intended completion date. The Board agreed to adopt the new approach.

3.31 At the June meeting the ARC received the Audit Implementation Management Report and they noted the continued good progress in implementing audit recommendations.

Environmental Reporting

3.32 At the November meeting, the ARC received a report on FSS's Environmental Performance which showed excellent progress towards net zero in a number of areas such as waste to landfill, the environmental impact of Pilgrim House and our fleet. It was noted that it will be a significant challenge going forward to reduce emissions from non-fleet transport.

3.33 ARC has asked Management what steps are being taken to achieve net zero emissions and whether a timeline is in place. Management advised that a programme for implementation of changes and a revised carbon management plan will be put in place in due course.

Health and Safety Reporting

3.34 At the June 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 noted in particular the support to return to work at Pilgrim House. ARC were advised that FSS did not meet some of the KPI's in relation to HSE, however noted steps are being put in place to address this. Levels of injury remained very low, although there was one RIDDOR reportable incident, where a lessons learned exercise had been carried out in full.

Other Matters

3.35 At the June 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. ARC were pleased to note that there had been no cases of fraud reported during the year. A new FSS Counter Fraud policy was published in the summer, and engagement continues with the National Fraud Initiative.

3.36 At the June meeting, ARC also received the annual report on non-competitive actions (NCA) and noted that the majority related to provision of veterinary services.

3.37 At the September meeting the ARC received an update on the Best Value Framework being implemented across FSS and also heard about the new Counter Fraud Guide.

3.38 At the November meeting the ARC proposed changes to its Terms of Reference, which the Board agreed to at the December Board meeting.

Adequacy of Internal Audit arrangements

3.39 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.

3.40 As a result of the reprioritisation exercise the work of FSS Audit Assurance Division was scaled back. The audit programme for 2023/24 has therefore been developed taking into account current auditor resource and continues to be risk based.

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

4.1 Phillip Couser joined the Board of FSS in November 2022 and attended his first ARC meeting on 30 November 2022, formally joining ARC in March 2023. In March 2023 Susan Walker and Carrie Ruxton attended their final ARC meeting on 08 March 2023, before their terms on the FSS Board ended on 31 March 2023.

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, representatives of Audit Scotland and latterly Deloitte 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.

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 2022 to March 2023 inclusive.

Aileen Brown
Chair, Audit and Risk Committee
June 2023
Final Version

Annex A – Membership of the FSS Audit and Risk Committee April 2022 to March 2023

Members:

Susan Walker (Chair)
 Carrie Ruxton
 Carol Evans
 Aileen Brown
 Phillip Couser – from March 2023

Attendance:

Member	Attendance	Number of Meetings 2022-23
Susan Walker (Chair)	4	5
Carrie Ruxton	5	
Carol Evans	5	
Aileen Brown	5	
Phillip Couser	1 as an observer / 1 as a member	

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
 Diane Strachan, Head of Private Office – until September
 Joanne Smith, Board Secretary

Audit Scotland – until September ARC meeting

Tommy Yule, Lead Senior Audit Manager

Scottish Government Internal Audit and Assurance Directorate

David Stark, Senior Internal Audit Manager
 Amy McNee, Internal Audit Manager
 Steven Sharp, SGIAAD Internal Auditor
 Gavin Bisset, Assurance Support Officer

Deloitte – from September ARC meeting

Karlyn Watt, Senior Manager Audit and Assurance
 Edith Yeboah, Assistant Manager

Occasional Attendees:

Executive

Natalie Greenland, Corporate Business Manager
 Julie Hesketh-Laird, Deputy Chief Executive
 Mike Houston, Facilities Manager and Health & Safety Advisor
 Ian McWatt, Deputy Chief Executive
 Emma Scott, Head of Private Office – from March

Scottish Government Internal Audit and Assurance Directorate

Sharon Fairweather, Director of Internal Audit and Assurance

Annex B – Audit and Risk Committee Forward Plan

	ARC Forward Programme - Agenda Items	08/03/2023	07/06/2023	06/09/2023	29/11/2023	06/03/2024	05/06/2024	04/09/2024	27/11/2024
1	Private Meetings								
1.1	Private meeting between ARC Members & SG DIAA								
1.2	Private meeting between ARC Members & Deloitte								
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)								
4	Other Matters								
4.1	Audit Implementation Management Report – this item has now been incorporated into another report								
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								
4.6	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	International Financial Reporting Standard (IFRS) 16 Memo								
4.11	ARC Statement of Assurance								
5	Internal Audit								
5.1	Corporate Internal Audit Progress Report (SGDIAA)								
5.2	Official Controls Audit Programme - Progress Update (for current year) (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 Mapping Report (FSS) (this may be incorporated as part of the Risk Register Report)								
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								