

Audit and Risk Committee Statement of Assurance to the Food Standards Scotland Board 2018-19

1. Introduction

1.1 The Audit and Risk Committee (ARC), as a subcommittee of the Food Standards Scotland (FSS) Board, supports the Chief Executive as Accountable Officer and the Board in their responsibilities for issues of risk, control governance and associated assurance. It is also responsible for reviewing the integrity of financial statements and the annual report.

1.2 Within its Terms of Reference, the ARC is required to provide an assurance statement to the Board and the Accountable Officer for use in the Board's consideration of the Annual Report and Accounts. This statement should incorporate the consideration of the assurance reports of the Internal Auditors and the views expressed by Audit Scotland.

1.3 This report complements the report given to the Board following each ARC meeting and the ARC Annual Report to the Board.

2.1 Assurance

2.1.1 The Committee has continued to receive appropriate, timely and regular information about FSS's control environment and the production of the FSS Annual Report and Accounts (ARA) for 2018-19. The ARC on behalf of the Board has received assurance from our internal auditors during the year and from our own scrutiny of the reports presented to us by the executive on a number of matters including risk management and the internal controls assurance framework.

2.1.2 At our meeting on 19th June 2019 we received overall annual assurance opinions for 2018-19 from our internal auditors. These are summarised below:

2.2 Internal Audit (Scottish Government Internal Audit Directorate (SGIAD))

2.2.1 In coming to their annual assurance opinion, SGIAD took account of:

- Their direct work, including the main internal audit assignments, their significance to the risk environment and their significance relative to each other; three follow-up reviews to confirm implementation of recommendations from previous audits; and the reasonable annual assurance opinion for those Scottish Government Corporate systems on which FSS relies.
- Competency, skill set and general approach of the Audit and Risk Committee in conducting its corporate governance role.
- Attitude towards and engagement of senior management in risk management, control and governance arrangements.
- Corporate governance documents.
- Certificates of assurance.
- Outcomes from other assurance reviews and management responses to these.
- Approach to prevention, detection and management of fraud.
- Robust approach to the complexity and challenges of Brexit.

2.2.2 SGIAD provided a “reasonable” annual assurance opinion on risk, management, control and governance arrangements. This indicates that controls are adequate, some improvements can be made, but these are not of a significant nature.

2.3 Internal Audit of Official Controls (FSA)

2.3.1 FSA’s Head of Internal Audit gave a “moderate” annual assurance opinion in relation to risk management, control and governance arrangements for Official Controls. Note this is equivalent to a “reasonable” assurance from SGIAD. He noted that whilst some areas for improvement were highlighted in his individual audits of aspects of FSS systems, there were no issues of significance and management continue to demonstrate a willingness and ability to address issues promptly in line with risk priorities. He concluded that the level of maturity of risk control and governance arrangements within FSS, as they relate to official controls, have continued to improve since 2017/18 and reflect FSS’s ongoing and successful effort to develop and implement appropriate and effective control arrangements.

3. Annual Report and Accounts

3.1 The ARC held a meeting on 14th August 2019, largely to consider the FSS Annual Report and Accounts (ARA) for 2018-19.

3.2 The Committee had undertaken detailed scrutiny of an early draft of the ARA during May and suggested some improvements to wording and style to aid clarity and understanding. The ARC further commented on a later draft at its meeting of 19th June 2019 having also had the benefit of comments from the wider Board and the FSS Chair. The executive had regard to non-executive comments in preparing the final submission of the Annual Report and Accounts for audit by Audit Scotland.

3.3 Audit Scotland completed their financial accounts audit and presented their draft 2018/19 Annual Audit report to the ARC at its meeting on 14th August and will present this to the Board on 21st August 2019.

3.4 At the ARC meeting, the ARC in discussing the audited ARA suggested a number of typographical, grammatical and other minor points to aid clarity. Several additional points were made which would aid further improvement of ARA for next year.

3.5 During discussion, the ARC sought explanation from both the Executive and Audit Scotland regarding the impact of two legal rulings on pension liabilities which had occurred after the accounts had been submitted for audit and affected the Financial Statements. These rulings relate not just to FSS and the ARC was assured that these issues have been treated in the Financial Statements in a way that is consistent with the technical guidance applied by Audit Scotland across the public sector. This resulted in an increase of £189k in pension liabilities and a corresponding increase was required to the FSS non-cash Annually Managed Expenditure (AME) budget. Additionally, the contingent liability section of the notes to the Financial Statements outline a potential future liability, which as yet cannot be quantified. On the two post-balance sheet events, it was agreed that text should be added to clarify the position i.e. the events were sufficient to be recognised as

post-balance sheet events in this year's annual report and accounts but that they did not affect the financial statements presented in relation to 2018/19. These two events related to additional funding up to £3.5 million in 2019/20 to help manage the consequential impact of exiting the EU will have on FSS and the ending of FSS's contract with Hallmark Meat Hygiene Ltd for the supply of Official Veterinarians and Meat Hygiene Inspectors.

3.6 The ARC discussed a number of further points with Audit Scotland and was pleased to see that Audit Scotland's draft Annual Report was very positive in relation to the FSS 2018/19 financial statements, performance reporting, financial management and sustainability, governance and transparency and value for money. An unqualified auditor's report was anticipated for issue following the Board meeting on 21st August 2019.

3.7 The ARC noted that Audit Scotland recognised that FSS's short-term financial planning had been challenging with extra money for Brexit consequentials only received in May 2019 and that, though progress had been made regarding medium-term financial planning, longer term planning was difficult given the annualised allocation of resources to FSS and the uncertainty around Brexit. Nonetheless, Audit Scotland confirmed that FSS had been proactive in planning for the potential impact of Brexit and was well sighted on EU Withdrawal.

3.8 The ARC was pleased to see that in reviewing FSS's Fairness and Equality arrangements, Audit Scotland found these were well established and actively promoted. Members noted that Audit Scotland recognised the work done since last year in developing the FSS Performance monitoring and reporting framework and the organisation's draft workforce plan. Whilst both are sound, there is scope for their evolution to reflect changing circumstances.

3.9 The ARC also noted the three recommendations made by Audit Scotland – regarding developing robust contingency plans concerning in-house provision of veterinarian and meat inspection services, making FSS's best value work more structured and considering the arrangements regarding shared services provided to FSS by Scottish Government. The executive has already put in place management actions to address these recommendations. In the case of the Shared Services recommendation it was agreed that the response and timescales should be amended due to a planned audit of Shared Services by SG Internal Audit. This may offer specific learnings relevant to FSS and could form part of the Executive's response to the Audit Scotland's recommendation.

4. Recommendation

4.1 The ARC based on:

- assurance provided through reports presented to it through the year by internal audit and by ARC scrutiny of the reports from the executive on a number of matters including risk management and the internal controls assurance framework
- the reasonable annual assurance opinion for 2018-19 of FSS internal auditors, the Scottish Government Internal Audit Directorate,

- the moderate annual assurance opinion of 2018-19 of the Food Standards Agency Head of Internal Audit (internal auditor of FSS official controls),
- the draft Annual Audit Report from our external auditors, Audit Scotland
- its own and the Board's scrutiny of the content of the ARA

is content to recommend to the Board that it should approve the Annual Report and Accounts for 2018-19 and be authorised for issue by the Accountable Officer.

4.2 Alongside this, the ARC suggest the Board should thank both Audit Scotland and FSS staff for their efforts in conducting the preparation and audit of the Annual Report and Accounts.

For queries contact:
Sue Walker, ARC Chair
On Behalf of the FSS Audit and Risk Committee
board@fss.scot

15th August 2019