

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 2015/16 and up to and including August 2016 in accordance with the ARC's Terms of Reference.
- 1.2 The Board is asked to:
 - **Note** the work that has been undertaken by the ARC during the course of the 2015/16 financial year and up to and including August 2016.

2 INTRODUCTION

- 2.1 The report sets out activities of the ARC during the year to 31 August 2016.
- 2.2 The roles of the Board, the Chief Executive, and the ARC are set out at Annex A. Membership of the FSS ARC during the year is detailed in Annex B.

3 WORK OF THE COMMITTEE

Establishment and meetings of the ARC

- 3.1 The FSS Board approved Terms of Reference for the ARC by correspondence in June 2015 following a discussion at their April 2015 meeting. The terms of reference envisage that the ARC will comprise a minimum of at least four non-executive Board members, or at least three non-executive members and one independent external member, where such a person is appointed.
- 3.2 At its June 2015 meeting, the Board appointed four non-executive members from its number: George Brechin, Marieke Dwarshuis, Sue Walker and Anne Maree Wallace. Sue Walker was appointed ARC Chair by the FSS Chair under delegated powers.
- 3.3 The ARC held its inaugural meeting in August 2015, and held 5 further meetings up to and including August 2016: in October and December 2015 and in March, June and August 2016. The ARC Chair has the opportunity for a private meeting with internal or external auditors, and also meets separately with the Chief Executive and the Head of Corporate Services. The ARC Chair provided an oral report of each ARC meeting to the next scheduled Board meeting.
- 3.4 The ARC has developed a forward plan, the current version of which is at Annex C.

Committee effectiveness

- 3.5 The non-executive members met for a dedicated Audit and Risk Committee training course in September 2015. Since the ARC was not established until August 2015, it plans to undertake an effectiveness review during 2016/17, to allow a suitable period of operation on which to reflect.

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. The ARC was introduced to Stephen Boyle, the engagement lead for 2015/16 and received a presentation on the stages of the external audit and the audit outputs at their initial meeting in August 2015. Audit Scotland has been represented at each ARC meeting, and has been the source of helpful advice throughout.
- 3.7 At their August 2016 meeting, the ARC was presented with Audit Scotland's draft Annual Audit Report, and with their proposed Independent auditor's report to Food Standards Scotland, the Auditor General for Scotland and the Scottish Parliament, which provided an unqualified opinion.

Internal Audit

- 3.8 Internal audit was provided by Scottish Government (SG) Internal Audit (for corporate matters) and by Food Standards Agency Internal Audit (for official controls delivery). The Internal Auditors introduced themselves at the ARC's inaugural meeting. Both auditors were appointed prior to the establishment of the ARC; however, the ARC had the opportunity at this initial meeting to discuss and comment on their respective audit plans and progress against them.
- 3.9 The SG Internal Audit plan encompassed an IT security audit, and a governance and business continuity audit, and FSA's an audit of enforcement at meat plants. The ARC received, at each meeting, progress updates on the respective audit plans.
- 3.10 The ARC received the finalised official controls internal audit report on enforcement at meat plants in December 2015. The audit provided a moderate assurance opinion. The ARC noted the largely positive report, and discussed with the Executive the key findings and their response.
- 3.11 Finalised reports on the IT Security Audit and the Corporate Governance and Business Continuity Planning Audit were presented to the ARC at their June 2016 meeting. A limited assurance opinion was provided with respect to IT Security, but with a note that good progress had been made by the Executive on many of the recommendations. A reasonable assurance opinion was provided with respect to Corporate Governance and Business Continuity Planning.
- 3.12 In March 2016 the ARC discussed the FSA's official controls audit plan for 2016/17, and noted that it included shellfish and other Scottish specific elements. The ARC

requested that assurance levels in their opinions should be consistent with those used by Scottish Government Internal Audit. The ARC also undertook a preliminary discussion of the Scottish Government's corporate internal audit plan for 2016/17 at their March meeting. The finalised corporate internal audit plan was presented to the ARC at their June 2016 meeting, and the ARC confirmed that it was content with the focus on charging, incident management and food fraud.

Follow up of internal audit recommendations

- 3.13 On the basis of evidence provided, the ARC is satisfied that the Executive is producing adequate plans for following up audit recommendations. The ARC was pleased to hear of the setting up of the Audit Implementation Group, which will oversee the implementation of audit recommendations from whatever source, including Audit Scotland thematic and other reports.

Annual Report and Accounts for 2015/16

- 3.14 The ARC considered the draft Annual Report and Accounts for 2015/16 at an extraordinary meeting called in August 2016 for that express purpose. Having reviewed the Annual Report and Accounts, and having noted the assurance opinions from the internal auditors and the unqualified opinion from Audit Scotland, the ARC agreed to recommend approval by the Board such that the Accountable Officer could sign off the documents. The ARC also noted the additional fee incurred due to the delayed submission of the final drafts to Audit Scotland, and that a lessons learned exercise would be undertaken.

Internal controls

- 3.15 At its initial meeting in August 2015, the ARC received and noted a report from the Executive on the policies, processes and systems in place for internal controls and on the development of an internal controls framework.
- 3.16 SG Internal Audit's first piece of work for FSS was an assurance mapping exercise undertaken as consultation rather than audit, and the outcome of this, together with the Executive's action plan, was discussed by the ARC in December 2015. The ARC was pleased to note that the Executive planned to produce an Internal Controls Assurance Framework as a tool to monitor and improve internal controls and to report on assurance levels within FSS to both the Executive and the Committee. Progress on the Framework was reported to, and discussed by, the ARC in March 2016. The draft Assurance Framework Mapping Policy and Guidance was presented to the ARC in June 2016 and will be the basis for reports to the ARC in September and March each year.

Risk management

- 3.17 At its initial meeting in August, the ARC received a report from the Executive on its risk management processes, and agreed a procedure for risk reporting to the Board and ARC.

3.18 The Corporate Risk register and the Level 1 Risk register were discussed by the ARC in October and December 2015 and in March and June 2016, and the ARC has been kept sighted on the development of a risk appetite statement and the evolution of the Corporate Risk register. The ARC is assured that the Executive operates adequate controls in order to manage risk effectively, and looks forward to discussing a revised Corporate Risk Register and risk management strategy at its September meeting, following discussion by the Board at its August meeting.

Counter fraud

3.19 The ARC received a report on cases of fraud and significant losses at each meeting. One case of minor fraud was reported in December 2015, where disciplinary action was taken and no financial loss resulted. The ARC noted that the Executive proposed to review the approach to counter-fraud in 2016/17, and that staff had undertaken fraud training.

Health and Safety

3.20 The ARC received a report on Health and Safety at each meeting. The ARC has requested detail on RIDDOR reportable incidents, and the Executive has also undertaken to include Health and Safety statistics, wellbeing and sickness absence information in their reports.

Adequacy of Internal Audit arrangements

3.21 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 year to ensure continued effectiveness of Internal Audit. The ARC will formally review the performance of the internal auditors in the next financial year.

Adequacy of Risk Control and Governance Arrangements

3.22 Based on the work of the ARC during the year it is the view of the ARC that risk, control and governance arrangements in place during the year were satisfactory.

4 RESOURCE IMPLICATIONS & SUSTAINABILITY ISSUES FOR THE ARC

4.1 The ARC expects to meet five times in the financial year 2016/17, an additional extraordinary meeting having been called in August 2016 in order to consider the Annual Report and Accounts. No material increase in resource requirements is anticipated.

5 CONCLUSION AND RECOMMENDATION

5.1 The ARC confirms that it has fulfilled its role of providing assurance to the Board. As described above, the ARC has received assurance through the course of the year through risk management processes and reports from the Executive, and External and

Internal Audit.

- 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 year to present reports 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 2015/16 financial year and up to and including August 2016.

Sue Walker
Chair of Audit and Risk Committee
13 September 2016

Role of the Audit and Risk Committee

- 1 The Committee's prime purpose is to provide advice to the Board and the Accounting Officer on internal control and governance.
- 2 Internal auditors and Audit Scotland attend Audit and Risk Committee meetings. Others may be asked to attend where the Committee wishes to review progress on specific issues.

The role of the FSS Board

- 3 This annual report by the Chair of the Audit and Risk Committee provides the Board with an independent view of how audit matters are being handled. The Board's role is to note and comment on the activities of the Audit and Risk Committee.

The role of the Chief Executive

- 4 The Permanent Secretary has appointed the Chief Executive as the Accounting Officer for Food Standards Scotland. The Chief Executive has a direct, personal responsibility to the Scottish Parliament for the propriety and regularity of FSS expenditure.
- 5 The Chief Executive is required to sign an annual Governance Statement which is published in the Annual Report and Accounts. The Governance Statement sets out the arrangements made to identify and manage the risk of failure to achieve the FSS's policies, aims and objectives. The statement and supporting evidence is reviewed by Audit Scotland. Internal auditors will also be asked from time to time to consider whether arrangements are satisfactory and best practice is being followed.

Membership of the FSS Audit and Risk Committee 2015/16 and to 31 August 2016

Members:

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

Regular Attendees:

Executive

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

Audit Scotland

Stephen Boyle (August, December 2015, March, June, August 2016)
Tom Reid (August, December 2015)
Helen Cobb (December 2015)
Michael Oliphant (March, June, August 2016)

Scottish Government Internal Audit

Myra Binnie (August 2015)
Tony Forteza (October, December 2015, March 2016)
Les Henderson (June, August 2016)

Food Standards Agency Internal Audit

John Furley (December 2015, March, June 2016)
Freedom Mpande (August 2016)

	ARC FORWARD PROGRAMME – 2016 – 2017 AGENDA ITEMS	AUGUST 2016	SEPT 2016	NOV 2016	MARCH 2017	JUNE 2017
1	Private Meetings					
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					
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					
2.4	Cases of fraud and significant losses					
2.5	Health and safety: 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					
3	Risk					
3.1	Risk Management report					
3.2	IT Risk Register					
3.3	Prepare for Board's annual discussion on risk		Sept 2017			
3.4	Other Matters					
3.5	FSS Audit of Enforcement Authorities					
3.6	Internal Controls Assurance Framework reporting					
3.7	Governance Report (Accountable Officer)					
3.8	Review ARC Effectiveness & Terms of Reference					
3.9	Preparation of Annual Report from Chair of ARC					
4	Internal Audit					
4.1	Corporate Internal Audit Progress Report (SGIAD)					
4.2	Official Controls Audit Progress Report (FSA)					
4.3	Internal Audit reports (as available)					
4.4	Official Controls Audit reports (as available)					
4.5	Corporate Internal Audit Plan for following year discussion					
4.6	Official Controls Audit Plan for following year for discussion					
4.7	Annual Assurance Report (SGIAD)					
4.8	Annual Assurance Report (FSA)					
4.9	Discussion on performance of Internal Audit					
5	External Audit					

5.1	External Audit Plan & Timetable for production of FSS Annual Report and Accounts 2016-2017					
5.2	External Audit Progress Report					
5.3	External audit report & opinion for financial year just finished.					
5.4	FSS Annual Report and Accounts – 2015/16					
5.5	If required, consider the External Audit management letter for the previous financial year and the response, including implementation of any recommendations					
5.6	Discussion on performance of External Audit					