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## ANNUAL REPORT TO THE FSA BOARD FROM THE CHAIR OF THE AUDIT AND RISK ASSURANCE COMMITTEE (ARAC)

### Report by Colm McKenna Chair of FSA Audit and Risk Assurance Committee

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#### 1 SUMMARY

- 1.1 To provide the Board with a summary of the work undertaken by the FSA Audit and Risk Assurance Committee during 2019/20 in accordance with the Audit and Risk Assurance Committee's Terms of Reference.
- 1.2 The Board is asked to:
  - **Note** the work that has been undertaken by the Audit and Risk Assurance Committee during the 2019/20 financial year; and
  - **Note** that this report has been agreed with the other members of the Audit and Risk Assurance Committee.

#### 2 INTRODUCTION

- 2.1 The report sets out the work of the Audit and Risk Assurance Committee that I have chaired during the year to 31 March 2020 in relation to the Committee's activities in England, Wales and Northern Ireland.
- 2.2 I would like to begin my presentation of the report by thanking all my fellow Board Members who served on the ARAC during the year, the Executive and in particular, the current, interim and previous Chief Executives, Emily Miles, Rod Ainsworth (interim CE), Jason Feeney (up to July 2019), as well as the Secretariat team for their supportive and professional approach.
- 2.3 I would also like to thank John Furley the FSA's Head of Audit Assurance, Chris Hitchen, FSA Director of Finance and Performance, other FSA officials and representatives of the National Audit Office (NAO) and Mazars who have attended the meetings throughout the year to present reports which have provided the basis for much of the ARAC's work.
- 2.4 The respective roles of the Chief Executive, Audit and Risk Assurance Committee and Board are set out at **Annex A**. Membership of the FSA Audit and Risk Assurance Committee during the year is detailed in **Annex B**.

### 3 DISCUSSION

#### Key events in 2019/20

- 3.1 The Audit and Risk Assurance Committee met for full meetings four times: June, September and November 2019 as well as March 2020. Additional meetings were held in May 2019 to discuss the Annual Report and Accounts and in January 2020 to review progress in developing audit assurance plans for 2020/21. In addition to myself, other Board Members who served on the ARAC were Mary Quicke, Ruth Hussey, Paul Williams (up to 31 May 2019) and Timothy Riley (from 18 November 2019). The recent appointment brings the membership in line with minimum requirement listed in the ARAC Terms of Reference.
- 3.2 At the June 2019 ARAC meeting, the 2018/19 Annual Report and Accounts, the Head of Audit Assurance's Annual Report and Opinion (2018/19) and the NAO/Mazar's audit completion report were discussed and approved. At the March 2020 meeting, ARAC discussed the NAO's/Mazar's and Director of Finance's updates on the external audit of the FSA's Financial Statements for 2019/20 and the draft Governance Statement. There were no significant issues arising.
- 3.3 ARAC reviewed and discussed the draft FSA Audit Assurance Plans for 2020/21 as part of the Board Retreat in January 2020. The Audit Assurance 2020/21 audit plan was approved at the March 2020 meeting. However, the plan will be subject to revision in 2020/21 in response to the Covid-19 impacts on the FSA.
- 3.4 The corporate risk register was presented to, and discussed by, the ARAC at all the 2019 full meetings. The ARAC did not discuss the corporate risk register in March 2020 as the FSA Board, to which all ARAC members belong, reviewed and revised the corporate risk register at the January 2020 Board Retreat. Members' discussions focused on the assurance the Executive Management Team (EMT) provide to the ARAC that risks were being managed and mitigated effectively.
- 3.5 All internal audit reports issued during the year are sent to the ARAC Chair. The Committee had productive discussions with the Executive on issues highlighted by the reports and was updated regularly on actions taken by management teams to address these.
- 3.6 ARAC were also provided with the results of the annual assurance mapping self-assessment undertaken by management in May 2019, as part of the Directors' Controls Assurance process.
- 3.7 At the March 2020 meeting the Head of Data, Information Governance and Security gave an update on FSA Security Risk Assessment and Mitigation to ARAC. The FSA has good security controls in place as is evident from the results of the Departmental Security Health Check report to the Cabinet Office (our self-assessment against the Minimum-Security Standards). To further improve on

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security the FSA has applied a risk-based approach to creating a security risk mitigation plan, based on a model formulated by the Government Security Office, and has developed an outline list of key risks and mitigation activities from a variety of sources. Work on the plan and addressing the risks will progress in 2020/21. The FSA has been successful in recruiting a new Security Manager post to assist with the workload of the team.

- 3.8 The Security team provided a strategic security update and cyber security training to the FSA Board in March 2020.
- 3.9 ARAC received updates and discussed whistleblowing cases as a matter of routine during the year.
- 3.10 Mazars continue to be FSA's external auditors and, together with the NAO, have attended ARAC meetings during the year.
- 3.11 The draft version of this report was presented to the May 2020 ARAC meeting.

**Adherence to HM Treasury Audit and Risk Assurance Committee Principles**

- 3.12 The HM Treasury Audit and Risk Assurance Committee Handbook sets out good practice principles which ARACs in central government are expected to follow. Areas of good practice suggested in the Handbook that were included in ARAC activities during the year are explained in the following paragraphs.
- 3.13 In June 2019, members of the Committee held bilateral meetings with representatives of the FSA's external auditors, the NAO, and the Head of Audit Assurance. These meetings ensure that there is a clear understanding of expectations and mutual understanding of current issues.
- 3.14 Committee members completed a self-assessment on the effectiveness of the ARAC in line with HM Treasury guidance which advises that a self-assessment is completed annually. Agreed actions from that assessment were implemented during the year.
- 3.15 ARAC members continued to have access to training opportunities where training needs were identified. One member attended training courses specifically for ARAC members, during the year.
- 3.16 The ARAC Chair and the Head of Audit Assurance attended a meeting of ARAC Chairs and Heads of Internal Audit hosted by the Government Internal Audit Agency in November 2019. The meeting had representation from many Government departments and regulators.

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**The FSA's 2018/19 Annual Report and Accounts**

- 3.17 The 2018/19 Accounts and Annual Report were discussed formally at the June 2019 ARAC meeting. Four sets of accounts were provided to the Committee: the consolidated (UK) set of accounts and one set each for England, Wales and Northern Ireland. No significant issues were raised by members in relation to the accounts. Subject to some minor points raised being clarified and where necessary amended, ARAC recommended separate sign off for the Annual Report and Accounts for Wales and Northern Ireland by the Accounting Officer. This was due to delays in resolving two pension issues relating to the Local Government Pension Scheme (LGPS) affecting the Westminster and Consolidated Accounts.
- 3.18 The Mazars completion report for 2018/19 indicated there were no issues of irregularity or impropriety found during their audits. The NAO recommended to the Comptroller and Auditor General that he should certify the 2018/19 financial statements with an unqualified audit opinion, without modifications, for all four FSA accounts. The Accounting Officer subsequently signed the accounts for FSA in Wales and FSA in Northern Ireland on 14<sup>th</sup> June 2019; and the Westminster and Consolidated accounts on 19<sup>th</sup> July 2019 and were laid before parliament on 22<sup>nd</sup> July 2019.
- 3.19 Overall the Committee concluded that there was a good working relationship between Finance, external auditors and the Audit Assurance Team.

**FSA Audit Assurance Work Undertaken in 2019/20**

- 3.20 The Committee Chair received all the final Audit Assurance reports issued during the year. Other ARAC members only receive a copy of audit reports with a "Limited" or "Unsatisfactory" opinion and relevant Directors are invited to discuss the report with ARAC. One report with a "Limited" opinion was issued during the year; none were issued with an "Unsatisfactory" opinion.
- 3.21 Summaries of the key findings and issues from audit reports with a "Substantial" or "Moderate" opinion are presented to, and discussed by, Committee members at each meeting as well as actions by the Executive to deal with issues raised. Full reports are provided to ARAC members on request.
- 3.22 The results of audits of Local Authorities in England, Wales and Northern Ireland - conducted by the respective FSA Local Authority audit teams - are now routinely reported to ARAC. There were no issues of significance for the FSA reported in relation to these audits during the year.

- 3.23 The Committee also received summary reports in relation to external audits and reviews conducted by third parties for assurance purposes in relation to Agency. Such reviews and audit reports are provided to other ARAC members on request.
- 3.24 A summary of assurance levels attached to the Audit Assurance reports received is contained in the table below. The figures for 2018/19 are provided for comparison and the Audit Assurance levels are explained in Annex D.

<b>Assurance Level</b>	<b>No. of Reports 2018/19</b>	<b>No. of Reports 2019/20</b>
Substantial	6 (50%)	5 (45%)
Moderate	6 (50%)	5 (45%)
Limited	0 (0%)	1 (9%)
Unsatisfactory	0 (0%)	0 (0%)
<b>Total number of reports</b>	<b>12 (100%)</b>	<b>11 (100%)</b>

Note: For 2019/20 three draft reports included, exceptionally, as management agree with the opinion but have not agreed actions or the final report as Covid-19 work has taken priority.

- 3.25 The Audit Assurance team is conducting a review in relation to a whistleblowing investigation that is ongoing. Results will be reported to ARAC. The Audit Assurance Team also completed two audits of official controls on behalf of Food Standards Scotland (FSS) as part of a Service Level Agreement. This work is paid for by the FSS and was outside the scope of the ARAC's work; therefore, was not discussed by the Committee. The Audit Assurance team also issued two Audit Assurance Management Letters, included in the table above, for reviews on processes related to specific activities as requested by the relevant Directors.
- 3.26 The Committee also continued to maintain an interest in the overall resources available for audit assurance purposes and discussed this during the year. The Head of Audit Assurance continues to work closely with the FSA audit teams responsible for audits of official controls delivered by Local Authorities in Wales and the team responsible for audits of official controls in Northern Ireland.
- 3.27 In March 2020 all audit work on the agreed Audit Assurance Plan for 2019/20 – either in progress or due to start - was suspended due to the impact of Covid-19 on the FSA. This allowed management and staff to focus on frontline operations and other affected areas. The Renew and Refresh project work, examining the ways of working of the FSA audit team, discussed at the ARAC meeting held in March 2020 has been brought forward with all team members tasked on specific projects. In addition, six team members volunteered to support and work in other parts of the FSA and four are qualified to work in frontline operations if needed.

- 3.28 Overall, I am satisfied that adequate and proportionate Audit Assurance resources were provided throughout the year to ensure continued effectiveness of Audit Assurance activities.

### **Governance Statement**

- 3.29 The work of the Audit and Risk Assurance Committee is an integral part of the Governance Statement. The Governance Statement sets out the arrangements made to identify and manage the risk of failure to achieve the FSA's policies, aims and objectives. The statement and supporting evidence are reviewed by the National Audit Office. Internal auditors will also be asked from time to time to consider whether arrangements are satisfactory and best practice is being followed.
- 3.30 The Chief Executive, as Accounting Officer, is required to prepare the Governance Statement as part of the process for signing off the FSA Annual Accounts. The draft statement for 2018/19 was discussed at the March 2019 ARAC meeting, with the final statement being discussed and agreed as part of the FSA Consolidated accounts at the June 2019 meeting.

### **Adequacy of Risk Control and Governance Arrangements**

- 3.31 ARAC has reviewed the risk management process and the high-level assurance framework. ARAC has also reviewed how the Audit Assurance Plan is prioritised, on a risk basis, in the relation to these.
- 3.32 I am satisfied that sufficient and comprehensive work was undertaken by ARAC and internal and external assurances were received during the year to adequately inform ARAC assessment on the effectiveness of FSA risk management control and governance arrangements. Based on this, it is my view, as Chair of the Committee, that the arrangements in place during the year were satisfactory.

## **4 RESOURCE IMPLICATIONS & SUSTAINABILITY ISSUES FOR THE COMMITTEE**

- 4.1 Last year ARAC meetings were held approximately two weeks before the Board meetings to enable a written report of ARAC meetings to be presented at the Board meeting. It is expected that the Committee will continue with this approach and will meet four times in 2020/21 with no increase in resource requirements anticipated.

## **5 CONCLUSION AND RECOMMENDATION**

- 5.1 The Board is asked to:

- **Note** the work undertaken by the Audit and Risk Assurance Committee during the 2019/20 financial year; and

- **Note** that this report was agreed with the members of the Audit and Risk Assurance Committee in the meeting held in May 2020.

### **Annex A - Role of the Audit and Risk Assurance Committee**

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

### **The role of the FSA Board**

- 3 This annual report by the Chair of the Audit and Risk Assurance 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 Assurance Committee.

### **The role of the Chief Executive**

- 4 HM Treasury has appointed the Chief Executive as the Principal Accounting Officer. The Chief Executive has a direct, personal responsibility to the Westminster Parliament for the propriety and regularity of FSA expenditure. The Chief Executive also signs the financial statements in respect of the monies voted by the National Assembly for Wales and the Northern Ireland Assembly. This is where the Chief Executive's responsibilities are equivalent to that of an Accounting Officer.
- 5 The Chief Executive is required to sign the annual Governance Statement, which is published in the Annual Report and Accounts.



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**Annex B – Membership of the FSA Audit and Risk Assurance Committees 2019/20**

Membership of the Audit and Risk Assurance Committee for 2019/20

Colm McKenna (Chair)  
Ruth Hussey  
Mary Quicke  
Timothy Riley (*from 18 November 2019*)  
Paul Williams (*until 31 May 2019*)

Regular Attendees:

Rod Ainsworth – Acting Chief Executive (*6 July to 22 September 2019*)  
Martin Brewer – Head of Accounting  
Jenny Desira – Head of Knowledge Information Management and Security  
Jason Feeney – Chief Executive (*to 5 July 2019*)  
John Furley – Head of Audit Assurance  
Chris Hitchen – Director of Finance and Performance  
Emily Miles – Chief Executive (*from 23 September 2019*)  
Michael Todd – Planning Manager  
Ali Morgan - National Audit Office  
Ross Woodley – Mazars

## **Annex C - Terms of Reference for the FSA Audit & Risk Assurance Committee**

### **Purpose**

The Audit and Risk Assurance Committee is an advisory Committee of the FSA Board with no executive powers. It is responsible for reviewing, in a non-executive capacity, the comprehensiveness and reliability of assurances on governance, risk management and the control environment. It is also responsible for reviewing the integrity of financial statements and the annual report.

### **Membership**

A minimum of four Members of the FSA Board appointed by the FSA Chair under delegated powers following consultation with the Committee Chair. At least one of those appointed will be a Board Member for Wales or Northern Ireland.

The term of appointment will normally be coterminous with an individual's term of appointment to the FSA Board and will automatically cease if an individual ceases to be a Board Member.

At least one of the Committee members should have recent and relevant financial experience.

All new members will be provided with induction training and the FSA will provide for any additional development which is deemed necessary for the member to fulfil their role on the Committee. The Chair of the Audit and Risk Assurance Committee will hold an annual review with each member and any training or development needs will be taken forward with the agreement of the Chair and Accounting Officer.

### **Committee Chair**

Appointed from the membership of the Committee by the Chair of the FSA under delegated powers. The term of appointment will normally be coterminous with an individual's term of appointment to the FSA Board.

### **Co-option**

The Committee may co-opt additional members (whether members of the FSA Board or not) for a period of up to one year to provide specialist skills, knowledge or experience. Co-opted members will have a right to speak, but not vote. Co-opted members will not be included in any calculation of the quorum.

### **Quorum**

Three Non-Executive Board Members.

## **Attendance**

The Chief Executive, as Accounting Officer, the Director of Finance and Performance, the Planning Manager, the Head of Audit Assurance, and a representative<sup>1</sup> of the external auditors would normally be invited to attend.

Directors and other officials will be invited to attend as required.

## **Reporting**

The Audit & Risk Assurance Committee Chair will provide the Chair of the FSA and the Board with a written update on the key elements of Committee meetings. The Audit & Risk Assurance Committee will report formally in writing to the Board, annually, to support the finalisation of the accounts and the Governance Statement and to update the Board on the work of the Committee, Internal and External Audit and any areas requiring specific attention.

## **Meetings**

The Audit & Risk Assurance Committee will meet at least four times a year. The Chair of the Committee will convene additional meetings as necessary. The Committee has the right to sit privately without any non-members present for all or part of a meeting.

Additionally, the members of the Committee will meet with the Head of Audit Assurance and, separately, the External Auditors, annually, in closed meetings when the efficacy of the processes, trust, co-operation and any other issues can be discussed, and future action agreed.

The FSA Chair, the Board or the Accounting Officer may ask the Audit and Risk Assurance Committee to convene further meetings to discuss specific issues on which they want the Committee's advice.

## **Responsibilities**

The Audit & Risk Assurance Committee will advise the FSA Board and Chief Executive on:

1. The strategic processes for risk management, the high-level control and governance framework and the effectiveness of its operation in practice;
2. The contents of the Governance Statement;
3. The accounting policies, the accounts, and the annual report of the FSA, including the judgements used in producing the accounts, the adequacy of disclosures, the

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<sup>1</sup> This includes third parties appointed to carry out external audit work on the National Audit Office's behalf

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- process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors;
4. The effectiveness of the design and operation of financial systems and controls;
  5. The planned activity and results of both internal and external audit and the results of other, external assurance reports;
  6. The resourcing and effectiveness of the internal audit function;
  7. Provide independent scrutiny of the audit process of the Local Authority audit system;
  8. The adequacy of the management response to issues identified by audit activity, including external audit management letters;
  9. Assurances relating to the corporate governance requirements for the organisation;
  10. Proposals for tendering for either Internal or External Audit services or for the purchase of non-audit services from contractors who provide audit services;
  11. Anti-fraud policies and whistle-blowing processes, and arrangements for special investigations; and
  12. The Committee's effectiveness having reviewed its own performance, constitution and terms of reference and recommending any changes it considers necessary.

### **Information Requirements**

The Audit & Risk Assurance Committee will be provided with, where appropriate:

1. Any changes to the organisation's Corporate Risk Register that are relevant to the responsibilities of the Committee;
2. The risk management strategy;
3. Management assurance reports, and report on the management of major incidents, 'near misses' and lessons learned;
4. Progress reports from the Head of Audit Assurance summarising:
  - a. work performed (and a comparison with work planned)
  - b. key issues emerging from Internal and Local Authority Audit work
  - c. management action in response to issues identified and agreed

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- d. changes to the Audit Assurance plans
  - e. any resourcing issues affecting the delivery of Audit Assurance objectives
  5. Progress reports from the External Audit representatives summarising work done and emerging findings;
  6. External assurance and compliance reports in relation to the FSA's activities;
  7. Audit Assurance strategies and annual plans;
  8. The Head of Audit Assurance's Annual Opinion and Report;
  9. Quality Assurance reports on the Audit Assurance function;
  10. The draft accounts of the organisation;
  11. The draft Governance Statement
  12. Any changes to accounting policies;
  13. Proposals to tender for audit functions;
  14. Summary of findings of every Audit Assurance report;
  15. External Audit's management letter; and
  16. A report on cooperation between the FSA auditors and external auditors.




The Audit & Risk Assurance Committee will work with the FSA's Executive Management Team to ensure that the Board can be confident that risk management processes, content, mitigating and recovery actions are appropriate and correctly resourced.

### **Notes**

1. The Chair of the Audit & Risk Assurance Committee will have free and confidential access to the Chair and Chief Executive of the FSA whenever appropriate.
2. The Head of Audit Assurance and the representatives of External Audit will have free and confidential access to the Chair of the Committee.
3. The Committee may procure specialist ad-hoc advice at the expense of the FSA, subject to the cost being agreed by the Chief Executive as Accounting Officer.

**Annex D – Assurance level definitions as applied to FSA Internal Audit reports (excluding Local Authority Audit Reports) during 2019/20**

Assurance levels assigned to internal audits as defined in the Government Internal Audit Manual:

Audit Opinion	Definition
<b>Substantial</b>	In my opinion, the framework of governance, risk management and control is adequate and effective.  Green 
<b>Moderate</b>	In my opinion, some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.  Yellow 
<b>Limited</b>	In my opinion, there are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective.  Amber 
<b>Unsatisfactory</b>	In my opinion, there are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.  Red 