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

Report by Colm McKenna, Chair, FSA ARAC

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1 Summary

- 1.1 To provide the Board with a summary of the work undertaken by the FSA ARAC during 2020/21 in accordance with the ARAC's Terms of Reference.
- 1.2 The Board is asked to:
 - **Note** the work that has been undertaken by the ARAC during the 2020/21 financial year; and
 - **Note** that this report has been agreed with the other members of the ARAC.

2 Introduction

- 2.1 The report sets out the work of the ARAC that I have chaired during the year to 31 March 2021 in relation to the Committee's activities in England, Wales, and Northern Ireland (NI).
- 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 Chief Executive (CE), Emily Miles, 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 (HAA), Chris Hitchen, FSA Director of Finance and Performance Group, 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, ARAC and Board are set out at **Annex A**. Membership of the FSA ARAC during the year is detailed in **Annex B**.

3 DISCUSSION

Key events in 2020/21

- 3.1 Due to the COVID-19 pandemic all ARAC meetings this year were held remotely. They took place in May, June, September and November 2020 as well as January and February 2021. In addition to myself, other Board Members who served on the ARAC were Mary Quicke (until 31 August 2020), Ruth Hussey (until 31 January 2021), Peter Price (from 1 September 2020) and Timothy Riley. Membership is in line with minimum requirement listed in the ARAC Terms of Reference.
- 3.2 ARAC reviewed and discussed the draft FSA audit assurance plans for 2021/22 when we met in January 2021. The audit assurance strategy was approved at the February 2021 meeting as was the 2021/22 audit plan but this may be subject to revision over the year in response to potential further Covid-19 impacts on the FSA.
- 3.3 At the June 2020 ARAC meeting, the 2019/20 annual report and accounts, the Head of Audit Assurance's annual report and opinion (2019/20), the remuneration report and the NAO/Mazar's audit completion report were discussed. Due to delays in the Local Government Pension Scheme (LGPS) pension valuation only the devolved accounts were approved in June 2020. (see 3.17, 3.18)
- 3.4 The corporate risk register was presented to, and discussed by, the ARAC at the September 2020 and November 2020 full meetings. ARAC also received regular risk management updates at ARAC meetings on the FSAs mitigations to the risks posed by the COVID-19 pandemic, EU transition and cyber security. ARAC was also informed about improvements to the FSAs risk management procedures following the revision of HM Treasury's (HMT) 'Orange Book' on risk management principles. Members' discussions focused on the assurance the Executive Management Team (EMT) provide to ARAC that risks are managed and mitigated.
- 3.5 All Audit Assurance 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 are usually provided with the results of the annual assurance mapping self-assessment as part of the directors' controls assurance process. However due to the FSA focus on the challenges of the COVID-19 pandemic brought the 2019/20 assurance self-assessment was cancelled.
- 3.7 At the February 2021 ARAC meeting, the Head of Data, Information Governance and Security present the information security annual report and gave an update on FSA security risk assessment and mitigations. Topics discussed included cyber security attacks experienced by other organizations, phishing emails and increased risk posed by more home working. ARAC obtained assurance on the strength of FSA

mitigations and highlighted the importance of external cyber security audits to give independent assurance and the FSA has commissioned seven external audits over the year. 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).

- 3.8 To further improve on security the FSA have improved the governance of the security function to drive continuous improvement in security standards and to ensure risk management is a cross cutting theme deployed for every security decision. The FSA has also focused on four key interventions; creating a new post – Security Manager - working collaboratively with digital and IT colleagues to improve processes for commissioning work, streamlining services when delivering public facing services and surveillance dashboards, and accessing support from a security advisor which is shared with five other regulators.
- 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 2021 ARAC meeting.

Adherence to HMT ARAC principles

- 3.12 The HMT ARAC 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 2020, members of the Committee held bilateral meetings with representatives of the FSA’s external auditors, the NAO, and the HAA. 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 – such as post ARAC wash up meetings between the ARAC Chair and Head of Audit.
- 3.15 ARAC members continued to have access to training opportunities where training needs were identified.

The FSA's 2019/20 annual report and accounts

- 3.16 The 2019/20 accounts and annual report were discussed formally at the June 2020 ARAC meeting. Four sets of accounts were provided to the Committee: the consolidated set of accounts and one set each for England, Wales, and NI. 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 NI by the Accounting Officer. This was due to delays in resolving two pension issues relating to the LGPS affecting the England and consolidated accounts
- 3.17 The Mazars completion report for 2019/20 indicated there were no issues of irregularity or impropriety found during their audits however as there two pension issues relating to the LGPS scheme a significant risk remained outstanding at the June ARAC meeting. The NAO recommended to the Comptroller and Auditor General that he should certify the 2019/20 financial statements with an unqualified audit opinion, without modifications, for NI and Wales FSA accounts. The Accounting Officer subsequently signed the accounts for FSA in Wales and FSA in NI on 12th June 2020. The England and consolidated accounts were not signed by the Accounting Officer until 3rd December 2020 and were laid before parliament on the 10th December 2021.
- 3.18 Overall, the Committee concluded that there was a good working relationship between finance, external auditors, and the HAA.

FSA audit assurance work undertaken in 2020/21

- 3.19 The Committee Chair received all the final assurance audit 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.
- 3.20 Executive summaries of the 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.
- 3.21 In March 2020 all audit work on the agreed audit assurance plan for 2020/21 – either in progress or due to start - was suspended due to the impact of Covid-19 on the FSA. HAA took the opportunity to: redeploy staff to assist with the pandemic response (such as field operational and briefing cell work); assist with the comprehensive spending review and conduct the continuous improvement projects. The latter projects included: a comprehensive review of the audit assurance team manual and preparing for the forthcoming external quality assessment of the audit assurance function which is required by the public sector internal audit standards.

Local Authority (LA) auditors in England were redeployed to work for the Regulatory Compliance Division until April 2021.

- 3.22 Despite the challenges of the pandemic, the audit assurance team issued reports – mostly in the second half of the year. Due to the pandemic, the scopes of some audits were altered, and some audits cancelled as other audits were of higher priority as risks changed. Two audits from the 2019/20 audit plan were completed and two management letters for reviews on processes related to specific activities as requested by the relevant Directors in 2020/21. In addition, the audit team conducted one special investigation at the request of the Head of Freedom of Information and Transparency Team following a complaint against the FSA, the results of which were reported to ARAC. A summary of assurance activities and outputs is in the table below. The figures for 2019/20 are provided for comparison and the audit assurance levels are explained in Annex D.

Assurance activities and outputs	No. of reports 2019/20	No. of reports 2020/21
Final assurance audit report opinions		
Substantial	5	3
Moderate	5	1
Limited	1	1
Unsatisfactory	0	0
Total number of assurance audit reports	11	5
Consultancy reports	0	4
Management letters	2	2
Draft assurance audit reports	3	2
Total number of reports	16	13

- 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 The results of audits of Local Authorities (LAs) in England, Wales and NI - conducted by the respective FSA LA audit teams - are now routinely reported to ARAC. Due to the pandemic no audits were undertaken, no issues of significance for the FSA were reported during the year and audits are planned to restart early in the financial year. In Wales, the annual farm assured welsh livestock scheme assessment was conducted by the LA audit team to maintain the schemes status.
- 3.25 The Committee continued to scrutinise resources available for audit assurance purposes and discussed this during the year. The HAA continues to work closely with the two FSA audit teams responsible for audits of official controls delivered by LAs in Wales and in NI. An external review of LA audit approaches in England, Wales and

NI was carried by Ernst and Young (EY). The HAA is leading the FSA's response to the recommendations contained in the final report.

- 3.26 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

- 3.27 The CE, as Accounting Officer, is required to prepare the governance statement as part of the process for signing off the FSA annual accounts. 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.

- 3.28 The draft statement for 2019/20 was discussed at the June 2020 ARAC meeting, with the final statement being discussed and agreed as part of the FSA consolidated accounts at the November 2020 meeting.

- 3.29 The statement and supporting evidence are reviewed by NAO. FSA audit assurance auditors will also be asked from time to time to consider whether arrangements are satisfactory and best practice is being followed.

Adequacy of risk management, control and governance arrangements

- 3.30 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 relation to these.

- 3.31 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 five times in 2021/22 with no increase in resource requirements anticipated.

5 Conclusion and Recommendation

5.1 The Board is asked to:

- **Note** the work undertaken by the ARAC during the 2020/21 financial year; and
- **Note** that this report was agreed with the members of the ARAC in the meeting held in May 2021.

Annex A - Role of the ARAC

- 1 The Committee's prime purpose is to provide advice to the Board and the Accounting Officer on internal control, risk management and governance.
- 2 Internal and external auditors attend ARAC 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 ARAC 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 ARAC.

The role of the Chief Executive

- 4 HMT 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 NI 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.

Annex B – Membership of the FSA Audit and Risk Assurance Committee 2020/21

Members

Colm McKenna (Chair)
Ruth Hussey (until 31 January 2021)
Peter Price (from 1 September 2020)
Mary Quicke (until 31 August 2020)
Timothy Riley

Regular Attendees:

Martin Brewer – Head of Accounting
Jenny Desira – Head of Knowledge Information Management and Security
John Furley – Head of Audit Assurance
Chris Hitchen – Director of Finance and Performance
Emily Miles – Chief Executive
Michael Todd – Performance Planning Manager
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 NI.

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 representative¹ 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.

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

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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 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)

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- b. key issues emerging from Internal and Local Authority Audit work
 - c. management action in response to issues identified and agreed
 - 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 assurance audit reports (excluding LA audit reports)

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

Audit Opinion	Definition
Substantial	In my opinion, the framework of governance, risk management and control is adequate and effective. Green 
Moderate	In my opinion, some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control. Yellow 
Limited	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 
Unsatisfactory	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 