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

Report by Jim Smart, 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 2015/16 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 course of the 2015/16 financial year.

2 INTRODUCTION

- 2.1 The report sets out activities of the Audit and Risk Committee during the year to 31 March 2016. As Food Standards Scotland (FSS) formally began its operations in April 2015, the report only includes the Committee's activities in relation to England, Wales and Northern Ireland.
- 2.2 The roles of the Board, the Chief Executive, and the Audit and Risk Assurance Committee are set out at Annex A. Membership of the FSA Audit and Risk Assurance Committee during the year is detailed in Annex B and its terms of reference are shown at Annex C.

3 DISCUSSION

Key events in 2015/16

- 3.1 The Audit and Risk Assurance Committee met five times: in May, June, September and November 2015 and March 2016. The Committee was chaired by Paul Wiles until March 2016. The other members of the committee during the year were Heather Peck, Ram Gidoomal and Jim Smart. Ram Gidoomal was appointed to the Committee in April 2015. The creation of Food Standards Scotland (FSS) from 1st April 2015 led to the departure of Jim Wildgoose and Liz Breckenridge as ARAC members, as they represented FSA Scotland until the creation of FSS.

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- 3.2 Revised Terms of Reference for ARAC were approved by the FSA Board at its June 2015 meeting to reflect the creation of FSS. The terms of reference envisage that the Committee will comprise a minimum of five Members of the FSA Board with at least one of those appointed being a Board Member for Wales or Northern Ireland. During the year, this was not possible as the Board had a number of vacancies. It is the intention that the Committee membership will be brought into line with the terms of reference during 2016/17 as new Board members are appointed.
- 3.3 The 2014/15 Annual Report and Accounts, the Head of Internal Audit's Annual Report and Opinion and the NAO's audit report were discussed and approved at the June 2015 ARAC meeting.
- 3.4 The Corporate Risk register was discussed by ARAC in September 2015 and March 2016. One of the main concerns of ARAC was to obtain assurance that the Executive Management Team (EMT) operates adequate controls in order to manage risk effectively. To this end, ARAC considered an Assurance Framework report in March 2016.
- 3.5 The ARAC Chair had sight of all finalised internal audit reports issued during the year and key findings were reported in detail to the Committee. The Committee discussed with the relevant Executives key issues highlighted by the reports. The Committee received at each meeting, a report tracking management progress in implementing agreed recommendations.

Adherence to HM Treasury Audit and Risk Assurance Committee Principles

- 3.6 Public sector Audit ARACs are required to comply with the principles set out in the HM Treasury Audit and Risk Committee Handbook. The Handbook also includes good practice for Audit and Risk Assurance Committees in central government. Areas of good practice suggested in the Handbook that were included in Audit and Risk Assurance Committee activities during the year are explained in the following paragraphs.
- 3.7 In June 2015, members of the Committee held bilateral meetings with representatives of the FSA's external auditors, the NAO, and the Head of Internal Audit. These meetings ensure that there is a clear understanding of expectations and mutual understanding of current issues. The next bilateral meetings are scheduled to take place in June 2016.
- 3.8 Committee members completed a self-assessment of the effectiveness of the ARAC in line with HM Treasury guidance which advises that a self-assessment is completed annually. Responses from members indicated that good practice principles for Committees set out in the guidance were being applied, the role of the chair was clear and that secretariat support was effective. ARAC members also identified areas for further discussion and possible action in relation to induction of members specific to their ARAC role and annual appraisal of ARAC members.

- 3.9 ARAC members continued to have access to training opportunities where training needs were identified.

The FSA's 2014/15 Annual Report and Accounts

- 3.10 The 2014/15 Accounts and Annual Report were discussed formally at the June 2015 ARAC meeting. Five sets of accounts were provided to the Committee; the consolidated (UK) set of accounts and one set for each of England, Scotland, Wales and Northern Ireland.
- 3.11 The NAO's Completion Report following their audit work highlighted that controls were found to be satisfactory over key risks identified in their testing strategy and that the accounts for the year were unqualified. The NAO also acknowledged improvements in relation to year-end procedures and noted that the reports for the year had been completed one month earlier than the prior year's. No significant issues were raised by members in relation the accounts and ARAC members were satisfied with the Annual Report and Accounts.
- 3.12 The Accounting Officer signed the accounts which were laid before the Westminster Parliament on 18 June 2015.

FSA Internal Audit Work Undertaken in 2015/16

- 3.13 During the year, the Audit and Risk Assurance Committee considered a number of key audit reports. These are listed below, together with the assurance level assigned by FSA's Internal Audit team. Internal Audit assurance levels are explained in Annex D:

This can be summarised as follows:

Assurance Level	No. of Reports 2014/15	No. of Reports 2015/16
Substantial	3 (23%)	4 (33%)
Moderate	7 (54%)	6 (50%)
Limited	3 (23%)	2 (17%)
Unacceptable	0 (0%)	0 (0%)
Total number of reports	13 (100%)	12 (100%)

3.14 In addition to the above there is on-going audit work with respect to:

- LAEMS
- Incidents Management
- Financial Information

3.15 The Committee Chair received all final audit reports issued during the year. All finalised audit reports are provided to other Audit and Risk Assurance Committee members on request. Summaries of the key findings and recommendations from finalised reports were presented and discussed by Committee members at each meeting as well as actions by the Executive to deal with issues raised. The Audit and Risk Assurance Committee also received summary reports in relation to external audits and reviews conducted by third parties for assurance purposes in relation to Agency activities.

3.16 A new way of providing assurance to the ARAC over specific areas that would not warrant a “normal” audit was introduced during the year. This involved FSA staff explaining to and being challenged by the ARAC on risks and controls in these areas. Risks and controls relating to Cyber Security and Food Irradiation were reviewed by the ARAC using this approach.

3.17 Internal Audit also conducted two special investigations at the Chief Executive’s request and completed three audits of official controls on behalf of Food Standards Scotland as part of a Service Level Agreement. This work was outside the scope of the ARAC’s work and was therefore not discussed by the Committee.

3.18 The Committee received updates from the Head of Internal Audit through the year on HM Treasury work to consolidate Internal Audit activities across central government. The Government Internal Audit Agency was formally established in October 2014 and since then nine departments have joined and now have their Internal Audit service provided by the new agency. There are no immediate plans for the FSA to join the Government Internal Audit Agency primarily due to the specialist knowledge required to audit effectively the FSA’s activities. Nevertheless, progress will be monitored to determine whether in the future joining the Agency may be advantageous.

3.19 The Committee keeps under review the resources available for audit assurance purposes. ARAC is satisfied that adequate and proportionate internal audit resources were provided throughout the year to ensure continued effectiveness of Internal Audit.

Governance Statement

- 3.20 The Chief Executive, as Accounting Officer, is required to prepare the Governance Statement as part of the process for signing off FSA annual accounts. The draft statement for 2015/16 was discussed at the March 2016 ARAC meeting, with the final statement being discussed as part of the FSA Consolidated accounts at the June 2016 meeting. The work of the Audit and Risk Assurance Committee is an integral part of the Governance Statement.

Adequacy of Risk Control and Governance Arrangements

- 3.21 Based on the work of the Committee during the year it is the view of ARAC that risk, control and governance arrangements in place during the year were satisfactory.

4 RESOURCE IMPLICATIONS & SUSTAINABILITY ISSUES FOR THE COMMITTEE

- 4.1 ARAC expects to meet five times in 2016/17 with no material increase in resource requirements anticipated.

5 CONCLUSION AND RECOMMENDATION

- 5.1 I would like to thank my fellow Board members who served on the ARAC, especially Paul Wiles who served as Chair for the year. I would also like to thank the Executive and in particular Catherine Brown and the Secretariat team for their supportive and professional approach.
- 5.2 Thanks also go to Chris Hitchen, FSA Director of Finance and Performance, other FSA officials including John Furley, the FSA's Head of Internal Audit and representatives of the National Audit Office who have attended the meetings throughout the year to present reports which have provided the basis for much of the ARAC's work.
- 5.3 The Board is asked to:
- **Note** the work undertaken by the Audit and Risk Assurance Committee during the course of the 2015/16 financial year.

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 and governance.
- 2 Internal auditors and the National Audit Office 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 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 FSA's policies, aims and objectives. The statement and supporting evidence is 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.

Annex B – Membership of the FSA Audit and Risk Assurance Committees 2015/16

Membership of the Audit and Risk Assurance Committee for 2015/16

Professor Paul Wiles (Chair)

Heather Peck

Jim Smart

Ram Gidoomal

Regular Attendees:

Catherine Brown – Chief Executive

Jason Feeney – Chief Operating Officer

James Ferris – National Audit Office (until July 2015)

Amelia Roberts – National Audit Office

James Osbourne – National Audit Office (from July 2015)

John Furley – Head of Internal Audit

Chris Hitchen – Director of Finance and Performance

Martin Brewer – Head of Accounting

Annex C - TERMS OF REFERENCE FOR THE FSA AUDIT AND RISK ASSURANCE COMMITTEE

Purpose

The Audit and Risk Assurance Committee is a Committee of the FSA Board and 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 five 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.

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 Strategic Planning, the Head of Planning, Performance & Change and the Head of Internal Audit, and a representative of the External Auditors (National Audit Office) 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 an oral 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 Internal Audit 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 particular 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, including reviewing the risk profile and register and considering the Agency's risk appetite;
2. the high level control and governance framework and the effectiveness of its operation in practice;
3. the contents of the Governance Statement;
4. 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;
5. the effectiveness of the design and operation of financial systems and controls;
6. the planned activity and results of both internal and external audit;

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7. the resourcing and effectiveness of the Internal Audit function;
 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 Internal Audit summarising:
 - a. work performed (and a comparison with work planned)
 - b. key issues emerging from Internal Audit work
 - c. management **action in** response to **issues identified and agreed**
 - d. changes to the Internal Audit Plans
 - e. any resourcing issues affecting the delivery of Internal Audit 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;

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7. Internal Audit Strategies and annual plans;
 8. the Head of Internal Audit's Annual Opinion and Report;
 9. Quality Assurance reports on the internal audit 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 Internal Audit 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 Internal Audit 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 during 2015/16

Assurance levels assigned to audits as defined by internal audit:

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 