
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 in 2016/17

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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 (ARAC) during 2016/17 in accordance with the Audit and Risk Assurance Committee's Terms of Reference.
- 1.2 The report was written by former Board Member Jim Smart, who chaired ARAC during 2016/17. The Committee agreed the report at a meeting in March 2017. Jim's term of office came to an end on 30 April 2017. Three other Board Members – Colm McKenna, Ram Gidoomal, and Ruth Hussey – who were members of ARAC during 2016/17 remain on the Board.
- 1.3 The Board is asked to:
 - **Confirm** that the report evidences that the work programme agreed for ARAC for 2016/17 has been effectively completed.

2 INTRODUCTION

- 2.1 The report sets out activities of the Audit and Risk Committee that I have chaired during the year to 31 March 2017 in relation to the Committee's activities in relation to 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 Catherine Brown as well as the Secretariat team for their supportive and professional approach.
- 2.3 I would also like to thank John Furley and Freedom Mpande, the FSA's Head and Deputy Head of Internal Audit respectively, Chris Hitchen, FSA Director of Finance and Performance, other FSA officials 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.

- 2.4 The respective roles of the Chief Executive, Audit and Risk Assurance Committee and Board are set out at Annexe A. Membership of the FSA Audit and Risk Assurance Committee during the year is detailed in Annexe B.

3 DISCUSSION

Key events in 2016/17

- 3.1 The Audit and Risk Assurance Committee met for full meetings four times: June, September and November 2016 as well as March 2017. Additional meetings were held in May 2016 to discuss the Annual Report and Accounts and in January 2017 to review progress in developing the audit plan for 2017/18. In addition to myself, other Board members who served on the ARAC were: Heather Peck, Ram Gidoomal, Colm McKenna (from Sept 16) and Ruth Hussey (from Sept 16). The two recent appointees brought the membership in line with the Terms of Reference for ARAC.
- 3.2 The 2015/16 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 2016 ARAC meeting. At the March 2017 meeting, ARAC reviewed and approved the Internal Audit Strategy and Plan for 2017/18.
- 3.3 The Corporate Risk register was presented to, and discussed by, the ARAC at all four full meetings. Members' discussions focused on EMT assurance to the ARAC that risks were being managed effectively.
- 3.4 The ARAC Chair had sight of all finalised internal audit reports issued during the year. The Committee also 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.
- 3.5 ARAC were also provided with regular updates on the work led by Internal Audit during the year to develop a corporate assurance map for the FSA. The map has given the Committee a better understanding of the maturity of the FSA's controls assurance framework.
- 3.6 The draft version of this report was discussed at the March 2017 ARAC meeting.

Adherence to HM Treasury Audit and Risk Assurance Committee Principles

- 3.7 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. ARAC

endeavoured to comply with the requirements of the Handbook in all its activities during the year.

- 3.8 In June 2016, 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 2017.
- 3.9 Committee members completed a self-assessment in 2015/16 of the effectiveness of the ARAC in line with HM Treasury guidance which advises that a self-assessment is completed annually. Actions from that assessment were implemented during 2016/17. The self-assessment for 2016/17 has been postponed to allow members appointed during the year to settle into their roles so they are able to complete an informed self-assessment .
- 3.10 ARAC members continued to have access to training opportunities where training needs were identified.

The FSA's 2015/16 Annual Report and Accounts

- 3.11 The 2015/16 Accounts and Annual Report were discussed formally at the June 2016 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 the accounts and, subject to some minor points raised being clarified and where necessary amended, ARAC recommended the Annual Report and Accounts for Accounting Officer sign off at the June meeting.
- 3.12 The NAO's Completion Report 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 2015/16 financial statements with an unqualified audit opinion, without modifications, for all four FSA accounts. The Accounting Officer subsequently signed the accounts on 16th June 2016 and the consolidated accounts were laid before parliament in July 2016.
- 3.13 Overall the Committee concluded that there was a good working relationship between Finance, the NAO and Internal Audit.

FSA Internal Audit Work Undertaken in 2016/17

- 3.14 The Committee Chair received all the final audit reports issued during the year. Other ARAC members received a copy of audit reports with a "limited" or "unacceptable" opinion and the relevant Directors were invited to discuss the report with ARAC.

- 3.15 For other audit reports, summaries of the key findings and issues from the audits were 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.
- 3.16 The Committee also received summary reports in relation to external audits and reviews conducted by third parties for assurance purposes in relation to Agency activities. Such audit reports are provided to other ARAC members on request.
- 3.17 A summary of assurance levels attached to the audit reports received is contained in the table below. The figures for 2015/16 are provided for comparison and Internal Audit assurance levels are explained in Annexe D.

Assurance Level	No. of Reports 2015/16	No. of Reports 2016/17
Substantial	4 (33%)	4(33%)
Moderate	6 (50%)	6(50%)
Limited	2 (17%)	2(17%)
Unacceptable	(0%)	0(0%)
Total number of reports	12 (100%)	12(100%)

- 3.18 Internal Audit also completed four audits of official controls on behalf of other Agencies - 3 for Food Standards Scotland as part of a Service Level Agreement and one audit for the Veterinary Medicines Directorate. This work is paid for by the respective department and was outside the scope of the ARAC's work and was therefore not discussed by the committee.
- 3.19 The Government Internal Audit Agency was formally established in October 2014 and since then a number of 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. However, I have asked that ARAC is kept up to date on developments that may require a review of this position.
- 3.20 The Committee also continued to maintain an interest in the overall resources available for audit assurance purposes and discussed this during the year. I am satisfied that adequate and proportionate internal audit resources were provided throughout the year to ensure continued effectiveness of Internal Audit.

Governance Statement

- 3.21 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 2016/17 was discussed at the March 2017 ARAC meeting, with the final statement being discussed as part of the FSA Consolidated accounts at the June 2017 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

- 3.22 ARAC has reviewed the risk management process and the high level assurance framework. ARAC has also reviewed how the Internal Audit Plan is prioritised in the relation to these.
- 3.23 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 The Audit and Risk Assurance Committee continues to meet in conjunction with Board meetings, thus minimising any cost to the Agency. It is expected that the Committee will meet five times in 2017/18 with no increase in resource requirements anticipated.

5 CONCLUSION AND RECOMMENDATION

- 5.1 The Board is asked to:
- **Confirm** that the report evidences that the work programme agreed for ARAC for 2016/17 has been effectively completed.

Annexe 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.

Annexe B – Membership of the FSA Audit and Risk Assurance Committees 2016/17

Membership of the Audit and Risk Assurance Committee for 2016/17

Jim Smart (Chair)
Heather Peck
Ram Gidoomal
Colm McKenna (from Sept 16)
Ruth Hussey (from Sept 16)

Regular Attendees:

Martin Brewer – Head of Accounting
Catherine Brown – Chief Executive
John Furley – Head of Internal Audit
Chris Hitchen – Director of Finance and Performance
Freedom Mpande – Deputy Head of Internal Audit
James Osbourne – National Audit Office
Amelia Roberts – National Audit Office (up to Sept 2016)
Jennifer Dorrell – National Audit Office (Nov 2016)
Michael Todd – Planning Manager
Richard McLean – Head of Planning, Performance and Change

Annexe 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 Performance, 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;

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;

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.

Annexe D – Assurance level definitions as applied to FSA Internal Audit reports during 2016/17

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 