

Annual Report to the Board from the Audit and Risk Committee

Report by Aileen Brown, Chair of the 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 the period 01 April 2023 to 31 March 2024.

1.2 The Board is asked to:

- **Note** the work that has been undertaken by the ARC during the period April 2023 to March 2024 inclusive.

2. INTRODUCTION

2.1 The ARC Terms of Reference state that the Committee should provide an Annual Report to the Board covering the previous financial year as soon as possible following the end of the previous financial year, and a separate assurance statement at an appropriate time to support the Board's consideration of the FSS Annual Report and Accounts (ARA).

2.2 This report sets out activities of the ARC during the period 1 April 2023 to 31 March 2024.

3. WORK OF THE COMMITTEE

Meetings of the ARC

3.1 Annex A lists the membership of the Committee over the period and the regular attendees from the Executive, Audit Scotland, Deloitte and the internal auditors for corporate systems from Scottish Government Directorate for Internal Audit and Assurance (SG DIAA) and our official control auditors from FSS. On occasions, other staff have attended the meeting, as shown, to support the ARC in its work.

3.2 The ARC held meetings on 07 June, 06 September, 29 November 2023 and 18 March 2024, these were a mixture of on-line and face to face meetings. The ARC met privately with the internal and external auditors on 06 September 2023.

3.3 The ARC Chair provided an oral report of each ARC meeting to the following Board Meetings: 21 June, 20 September and 13 December 2023 and 20 March 2024.

3.4 The current version of the ARC forward plan is at Annex B.

Committee Effectiveness

3.5 The ARC undertook an annual effectiveness review on 29 November 2023 which was attended by the internal and external auditors, FSS staff, in addition to ARC members. In summary the ARC noted that responses received were largely positive, with the main negative being that the ability to sign off the FSS Annual Report and Accounts was delayed due to late delivery of independent audit evidence from the London Pension Authority auditors to the FSS auditors. As in prior years ARC will continue to challenge itself on maintaining the boundary between executive and non-executive roles and will ensure that papers and discussions remain strategic. ARC arranged training for all members and will continue to take opportunities for staff and auditors to gain exposure to ARC to understand its remit and requirements.

External Audit

3.6 Deloitte replaced Audit Scotland as the external auditor and at the June meeting ARC received a verbal update on the external audit plan from Karlyn Watt, Senior Manager. ARC heard that Deloitte were on track to commence the audit on 19 June and a timeline had been agreed. As part of the audit work, assurance was needed from the London Pension Authority (LPA) and ARC was informed that this may not meet the October timeline, however Karlyn assured ARC that this should not have an impact on the Annual Report and Accounts (ARA) being ready for the September meeting. However final sign off from Deloitte required the LPA assurance.

3.7 At the September ARC meeting Deloitte presented their report and a draft version of the ARA and advised that they anticipated an unmodified audit report on completion of outstanding points, which included independent assurance on the LPA asset valuation and final ARA reviews. Deloitte presented a range of recommendations, particularly on financial management and financial sustainability.

3.8 The ARC noted Karlyn Watt was leaving Deloitte and Sandy Denholm would replace her.

3.9 At the March meeting ARC received Deloitte's audit plan for 2023-24, and the materiality levels, reporting threshold, significant risks and the full wider scope audit work. ARC heard that the final sign off is dependent again on LPA pension fund auditors and due to a change this will be Ernst Young's (EY) first year. A target date of 30 September has been set for completion, but should there be any delay this would have a knock on effect and delay the timescale by a month at a time.

Internal Audit – SGIAAD

3.10 Internal audit was provided by Scottish Government (SG) Directorate for Internal Audit & Assurance (for corporate matters). Due to a SG DIAA management restructure David Stark and Steven Sharp were replaced by Alison Thomson and Dougie Shepherd in the September meeting. At the June meeting David and Stephen advised that the internal audit (IA) plan for 2022-23 had been completed in full with a substantial assurance level proposed. They advised that the Annual Audit

Plan for 2023-24 had commenced with the Local Authority Stakeholder Engagement review underway, and planning commenced for the HR, Workforce Planning and People Strategy Review.

3.11 At the September meeting Alison Thomson, the new SG Internal Audit Manager (IAM) presented the internal audit progress report and the LA Stakeholder Engagement report, which received a Reasonable rating, defined as 'controls are adequate, but require improvement'. Alison also updated ARC on the status of the SG HR workstream, which had an amber/red rating due to delivery issues. Although these processes are outwith the management of FSS, they are important as these systems deliver corporate services to FSS.

3.12 At the November meeting, the ARC received an update on the Annual Audit Plan for 2023-24, and noted this was progressing well. They noted that the HR, Workforce Planning and People Strategy report had been issued with a substantial assurance rating being awarded. The report outlined a series of improvement opportunities on linkages to strategic objectives, monitoring and resources.

3.13 At the March meeting ARC was informed by Alison Thomson that there was to be a change of internal audit manager with immediate effect, with Gary Gibb taking over the role.

3.14 At the March meeting SG DIAA presented the progress report, and the Corporate Governance report, which received a substantial assurance grading, with five medium recommendations. The operational readiness advisory assignment was cancelled due to a delay in the shared services implementation, but may be reinstated around October 2024.

3.15 The ARC received the Internal Audit Plan for 2024-25, comprising 3 assignments: engagement and comms, income sustainability, and performance indicators. It also includes an advisory assignment on cybersecurity and resilience and also a review of the assurance branch. The timing of the income sustainability audit was brought forward from Q3 to Q2. The ARC approved the 2024-25 audit plan.

Official Controls Audits

3.16 The FSS audit and assurance team provides audits of official controls delivery. The Head of Audit & Assurance is Marion McArthur. The official controls audit programme for 2023/24 was discussed at the March 2023 meeting and the 2024/25 programme at the March 2024 meeting.

3.17 At the June meeting, the ARC received the following audit reports: The Delivery of Feed Official Controls audit, and the Export Health Certification (EHC) (Seafood Hubs) audit. With regards to the Delivery of Feed Official Controls, the ARC noted the insufficient audit opinion due to significant weaknesses in the current risk, governance and controls procedures, primarily down to a lack of resource and capacity, and noted the action plan. They noted that a further update will be made at the September meeting. They noted the reasonable assurance outcome assigned to

the EHC audit, and noted FSS decision to exit service from the remaining two seafood hubs.

3.18 The ARC noted the successful conclusion of the 2022-23 Official Controls Audit Programme and noted that the 2023-24 Audit Programme had commenced with the Allergen Controls audit scheduled for completion by the end of July 2023.

3.19 At the September meeting ARC received an update on the Official Controls Audit Programme. There were no audit reports to consider, the ARC noted that the Allergens Control audit was at a draft stage.

3.20 At the September meeting the ARC noted that implementation of recommendations for the Delivery of Feed Official Controls was progressing well and ARC noted the ongoing risk pending completion of the actions.

3.21 At the November meeting ARC received the final report of the Allergen Controls in FSS Approved Establishments and noted the limited assurance awarded, and noted controls were developing but weak. ARC heard that no previous audit had been undertaken specifically on the topic of allergen management and that an action plan comprising of eight recommendations had been implemented.

3.22 At the November meeting the ARC noted that the Feed Audit action plan was progressing well.

3.23 At the March meeting the ARC noted that the egg hygiene audit had been completed and recommendations agreed. The ARC noted the insufficient rating and that an action plan would be presented in June 2024.

3.24 At the March meeting ARC received the audit plan for 2024-25, this is made up of 3 assignments: specified risk material controls verification, HACCP (meat hygiene), and the Scottish Food Enforcement Liaison Committee. The ARC approved the plan.

Annual Assurance Reports

3.25 At the June meeting ARC received the SGDIAA Annual Assurance Report for 2022-23 and noted the Reasonable overall assurance opinion.

3.26 At the June meeting ARC received the Annual Assurance Statement for 2022/23 from the Head of FSS Audit and Assurance. This indicated a continued strengthening of the processes and controls necessary to ensure that official controls are carried out in compliance with planned arrangements and that the planned arrangements are applied effectively.

3.27 Of the four audits carried out in 2022/23, one received a substantial assurance, two received reasonable ratings and one had insufficient assurance. The ARC noted the insufficient assurance rating given to the Feed Official Controls Audit, in particular concerns around the ability of FSS to fulfil the delivery of objectives. Auditors considered that immediate action was required as there are potentially

serious implications for FSS in respect of public health, finance, FSS reputation and trade as a result.

Annual Report and Accounts (2022/23) and Annual Statement of Assurance from ARC

3.28 During the summer, ARC gave scrutiny to early drafts of the ARA and at the September meeting, members had the opportunity to discuss both the draft ARA and Audit Scotland's draft Annual Audit Report for 2022/23.

3.29 The ARC agreed the draft annual Statement of Assurance for issue to the Board at the board meeting on 22 November to support the Board's consideration of the ARA. The Committee noted it had received appropriate, timely and regular information about FSS's control environment and the production of the 2022/23 ARA and based on assurances from its own work and those provided by the internal and external auditors, recommended that the Board approve the ARA to be signed off by the Accountable Officer.

Risk Management

3.30 Corporate Risk and associated Risk Registers are subject to regular discussion, both the Board and ARC discuss strategic risks, their ratings, controls and mitigations on a quarterly basis. Risks that have materialised are reported to ARC and the Board via a Strategic Issues Register, alongside the Strategic Risk Register until the issue is managed, and can, when appropriate, be reconsidered in terms of risk management. This addresses the situation when the proximity of strategic risk changes it from a risk to an issue that has materialised. The monitoring includes the priority and severity of the issue, controls in place, their status and intended completion date.

3.31 At the November meeting, the ARC noted that the annual discussion on risk appetite would take place at the December Board meeting and they discussed risk more generally. They agreed that an assessment refresh would be useful alongside the Corporate Plan. ARC observed that much risk arose from the external environment, specifically the food environment, OC delivery pressures such as industry costs, vet shortages and requirements, external policy pressures and public service reform.

3.32 At the March 2024 meeting ARC heard that following agreement of the Corporate Plan, all risks would be revisited, however in the meantime the detailed risk analysis and deliberations had taken place as normal. No new risks had materialised, however there had been some grade changes and further refining of risks.

Environmental Reporting

3.33 At the November 2023 meeting, the ARC received the Annual Environmental Report. ARC raised concerns regarding the significant increase in emissions in

2022/23, however noted this increase was not against a steady baseline due to changes in working patterns since the Covid-19 pandemic, they also heard that conversion factors for home working had been refined by SG. The ARC noted the expectation that emissions will increase again this year due to long-haul flights. The ARC heard that FSS management plan to deliver to the SG 2030 target, specifically the FSS Carbon Management Plan 2024-29 and the Policy Implementation Plan with clear linkages to the Sustainability Plan.

3.34 At the March meeting the ARC received the Carbon Management Plan and Policy Implementation Plan. The ARC noted with concern the challenging requirement to reduce emissions, currently trending up at 254 tonnes of carbon, which needs to be reduced to 63 tonnes by 2030. The ARC heard that management are exploring ways of working more remotely using digital and virtual inspections, as well as piloting reduced opening hours at Pilgrim House.

Health and Safety Reporting

3.35 At the June meeting, the ARC received the annual report on the organisation's performance with regards to how FSS measures, monitors and manages its obligations in relation to health, safety and the environment (HSE) and noted the positive safety culture and awareness across the organisation.

Other Matters

3.36 At the June meeting, ARC received the Annual Report on Cases of Fraud and Significant Losses (including National Fraud Initiative) which provided an annual update on any cases of fraud and significant losses within FSS. ARC were pleased to note that there had been no cases of fraud reported during the year.

3.37 At the June meeting, ARC also received the annual report on non-competitive actions (NCA) and were generally content.

3.38 At the November meeting the ARC proposed changes to its Terms of Reference (ToR) and it was agreed that an Annex would be added to differentiate what is and is not in scope for both the ARC and FBC committees.

Adequacy of Internal Audit arrangements

3.39 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 period reported to ensure continued effectiveness of Internal Audit.

4. MEMBERSHIP, RESOURCE IMPLICATIONS & SUSTAINABILITY ISSUES FOR THE ARC

4.1 Kate Richards joined the FSS Board on 01 April 2023 and attended her first ARC meeting on 07 June 2023. Aileen Brown continues as Chair, and Carol Evans and Phillip Couser as members of the ARC committee.

4.2 The ARC expects to meet 4 times in 24/25. No material increase in resource requirements is anticipated.

5. CONCLUSION AND RECOMMENDATIONS

5.1 The ARC continues to fulfil its role of scrutiny and providing assurance to the Board and the Accountable Officer.

5.2 Thanks go to SG DIAA, representatives of Audit Scotland and Deloitte who have attended the meetings throughout the period, presented reports, and have also provided advice which is the basis for much of the ARC's work.

5.3 ARC also thanks FSS staff for their contribution in supporting the Committee and its work.

5.4 The ARC is asked to:

- **Note** the work undertaken by the Audit and Risk Committee during the course of the period 01 April 2023 to 31 March 2024 inclusive.

Aileen Brown
Chair, Audit and Risk Committee
June 2024
Final Version

Annex A – Membership of the FSS Audit and Risk Committee April 2023 to March 2024

Members:

Aileen Brown (Chair)
Carol Evans
Phillip Couser
Kate Richards – from June 2023

Attendance:

Member	Attendance	Number of Meetings 2023-24
Aileen Brown (Chair)	3	4
Carol Evans	4	
Phillip Couser	4	
Kate Richards	4	

Regular Attendees:

Executive

Geoff Ogle, Chief Executive and Accountable Officer
Ian McWatt, Deputy Chief Executive
Garry McEwan, Head of Governance & Infrastructure
Head of Audit Assurance
Head of Finance & HR
Head of Private Office
Board Secretary

Scottish Government Internal Audit and Assurance Directorate

Senior Internal Audit Manager
Internal Auditor
Internal Audit Manager

Deloitte – from September ARC meeting

Senior Manager Audit and Assurance

Occasional Attendees:

Executive

Head of Corporate Support
Health & Safety Advisor

Annex B – Audit and Risk Committee Forward Plan)

Agenda Format - Headings as per below Titles of papers in full on Agenda													
	ARC Forward Programme - Agenda Items	08/03/2023	07/06/2023	06/09/2023	29/11/2023	18/03/2024	05/06/2024	04/09/2024	27/11/2024	12/03/2025	04/06/2024	03/09/2024	26/11/2024
1	Private Meetings												
1.1	Private meeting between ARC Members & SG DIAA			11:30 - 11:50									
1.2	Private meeting between ARC Members & Deloitte			11:50 - 12:10									
1.3	Private meeting between ARC Members & FSS Head of Audit and Assurance			12:10 - 12:30									
2	Miscellaneous Standing Agenda Items												
2.1	Minutes and Action log tracker												
2.2	Executive oral update or report by exception (topical issues)												
2.3	Review ARC forward programme												
2.4	Any Other Business												
2.5	Meeting Review												
2.6	Executive and ARC closed session												
2.7	ARC members closed session												
3	Risk												
3.1	Risk Management (Risk Register) report (including, Strategic, ELT, Risk Registers and Deep Dives)												
3.2	Prepare for Board's annual discussion on risk (oral)												
4	Other Matters												
4.1	Audit Implementation Management Report – this item has now been incorporated into another report												
4.2	Health and Safety Report: any significant non-compliance (Annual – May)												
4.3	Environment Report - (Annual November)												
4.4	Cases of Fraud and Significant Losses (incl NFI) and Single Tender Actions Paper												
4.5	Governance Report (Accountable Officer) (this is part of the ARA and not a standalone item)												
4.6	Review ARC Effectiveness & ARC Terms of Reference (Annual)												
4.7	Review of draft audited Annual Report and Accounts												
4.8	Preparation of Annual Report from Chair of ARC												
4.9	ARC Statement of Assurance												
5	Internal Audit												
5.1	Corporate Internal Audit Progress Report (SGDIAA)												
5.2	Official Controls Audit Programme - Progress Update (for current year) (FSS)												
5.3	Internal Audit reports (as available) (SGDIAA)												
5.4	Official Controls Audit reports (as available) (FSS)												
5.5	Corporate Internal Audit Plan for following year discussion (SGDIAA)												
5.6	Official Controls Audit Plan for following year for discussion (FSS)												
5.7	Annual Assurance Report (SGDIAA)												
5.8	Annual Report and Statement (FSS)												
5.9	Annual Assurance Mapping Report (FSS) (this may be incorporated as part of the Risk Register Report)												
5.10	Official Controls Map												
6	External Audit - Deloitte												
6.1	External Audit Plan (Deloitte)												
6.2	External Audit Progress / Management Report												
6.3	Annual Audit Report and audit opinion for financial year just finished												
6.4	If required, consider the External Audit Management letter for the previous financial year and the response, including implementation of any recommendations												