

Minutes of the MHS Audit Committee held on 17 September 2007

Summary

Board members are asked to note the minutes of the MHS Audit Committee held on 17 September 2007. No action is required.

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**Minutes of the MHS Audit Committee Meeting held on
Monday 17 September 2007 at Monks Cross, York**

Attendees:

| | |
|---------------|------------------------------|
| Deryk Mead | Chair of MHS Audit Committee |
| Tim Bennett | MHS Audit Committee member |
| Steve Orledge | Observer |

Officials:

| | |
|----------------|-------------------|
| Steve McGrath | MHS |
| Kathryn Davies | MHS |
| Mike McEvoy | MHS |
| David Bramley | MHS |
| Freedom Mpande | MHS |
| John Cragg | FSA |
| Peter Clarke | NAO |
| Keith Lloyd | KPMG |
| Linda Rozee | KPMG (Items 1-6) |
| Sam Dunwell | MHS (Secretariat) |

1 Introduction and Apologies for absence

1.1 The Chair welcomed attendees to the Audit Committee and particularly Tim Bennett, who was attending his first meeting as a member of the Audit Committee, and Steve Orledge who would be appointed to Audit Committee subject to completion of pre-appointment checks and clarification of a possible conflict of interest. No apologies for absence had been received.

**2 Item 2: Minutes of the 22 May 2007 MHS Audit Committee meeting
(Paper (07) 38)**

2.1 The Chair noted that the draft minutes had also been circulated to Ian Reynolds, former member of the MHS Audit Committee and Chair of the MHS Board. The Audit Committee agreed the minutes as an accurate record of the meeting held on 22 May 2007.

2.2 With regard to audit of the MHS:

Relationship between MHS and NAO Audit

- Each year, the MHS and NAO consider the work that will be undertaken as part of NAO's external audit of MHS accounts at the year end. This takes account of work that has already been completed by MHS internal

- audit, which NAO review, and any additional audit work NAO need to undertake to be satisfied that the accounts are true and fair;
- this arrangement appeared to work well and resulted in a fairly low external audit fee from NAO for 2006/07 of £33k.

Relationship between MHS and FSA Audit

- the MHS and FSA compare audit plans at the start of the year to make sure there is no unnecessary overlap;
- legislation currently requires:
 - audit and inspection of plants by the MHS and internal or external audit of the MHS's plant audit and inspection activities; and
 - independent scrutiny of these internal or external audit arrangements, which is provided by the MHS Audit Committee.
- the FSA sets its own audit and assurance arrangements in relation to its perception of risks. Greater trust of MHS governance processes may reduce the level of FSA audit;
- the terms of reference for FSA audits in relation to official controls need to be re-examined if concerns about the overlap are to be properly addressed;
- the FSA consider that the MHS has competent authority status;

Overall cost of audits as a proportion of budget

- audit costs for 2007/8 were forecast to be £800k a year, compared to a total MHS budget of £91m and was equivalent to around 0.9% of MHS budget being spent on Audit. This appeared to be a very high proportion;
- a significant contribution to the cost of audit was salary costs for veterinary verifiers. The number of posts is being considered and will need to be costed as part of any proposals to reduce the nature and scale of audit work under the MHS transformation programme;

The need for audit to be proportional to risk

- all audit activity requires MHS resources and it is therefore vital that the total amount of audit is proportional to the risk;
- consideration should be given to whether FSA can place more reliance on the work carried out by MHS Internal Audit to minimise overlap of audits and ensure the total audit burden is proportional to risk;
- the FSA internal audit function is currently contracted to PKF. Once the contract expires, the FSA will carry out internal audit in-house. This would be an opportunity to streamline the audit functions of the MHS and FSA;
- Lynda Rozee agreed to look at audit arrangements of other executive agencies;

Action: Linda Rozee

Benchmarking

- it was difficult to benchmark the audit of the MHS with other organisations due to the lack of similar organisations and that the costs of meat inspection are less transparent in other EU countries;
- further consideration would be given to benchmarking with the Department of Agriculture and Rural Development in Northern Ireland and other EU countries. Consideration should also be given to comparing audit procedures undertaken in USA, Australia and New Zealand, which may be more transparent;

Action: Freedom Mpande

Balance between Finance and Official Controls

- historically audit has been overly weighted towards official controls;
- there is no legal requirement to have both an internal and external audit of the delivery of official controls, however, the FSA view MHS as high risk therefore there is an overlap in the audits conducted by the FSA;

Future MHS Audit

- Freedom Mpande is preparing a paper for the SMT meeting in October, which will then be submitted to the Audit Committee in December. The paper will consider the future of internal audit including the style and frequency of audits, the overlaps with the FSA and the resources required.

3 Action points from previous meeting – 22 May 2007

(Paper (07) 39)

3.1 All Actions arising from 26 September 2007 were completed or in progress. In discussion:

- regarding the action at para 2.3 of the May minutes (Ref. no. 35) the May Audit Committee minutes would be submitted as an information paper to the MHS meeting on 26 September 2007;
- regarding the action at para 3.1 of the May minutes (Ref. no. 36), the audit recommendations report had now been reorganized and highlighted the audit recommendations that were overdue; and
- regarding the action at para 5.7 of the May minutes (Ref. no. 38), the NAO report was sent to the MHS Board on 14 September 2007.

4 Level 1 Risk Register

(Paper (07) 40)

- 4.1 Kathryn Davies said that the Risk Register had been reviewed by SMT and updated. The overall trend was that risks remained static. In discussion:
- Risk 13 – *change to the work and/or structure of the MHS because of a change in FSA/Defra policy* – remains the top risk and is now focusing on the TMHS project, consultancy resource is now in place and several work streams have been set up;
 - Risk 6 – *physical injury/death to staff because of insufficient health and safety arrangements and organisation* – H&S Advisors have been recruited in each region and the reporting structure has changed so that these all report directly to the H&S Manager at HQ to ensure better co-ordination of activities. The residual risk has been left at 6 to recognise that H&S Advisors have only recently been appointed;
 - Risk 10 – *inability to carry out support functions due to failure of computer systems* – the disaster recovery centre had now been built at Central Science Laboratories (Sand Hutton) and had been tested. There, the MHS were not reliant on Defra (Kings Pool) for disaster recovery;
 - Risk 5 – *staff and stakeholders being unaware of MHS priorities because of lack of proactive communication* – the MHS are undertaking an expansion of its MHS intranet which will enable trusted partners, including contractors, access to information; and
 - There are two risks numbered 14 on the risk register. This is an anomaly of the current policy and would not occur in the new risk management policy that was being developed.

5 Theft & Fraud Cases 2006/07 (Paper (07) 41)

- 5.1 Mike McEvoy introduced this paper summarising all cases of theft and fraud that had occurred during 2006/07. The MHS theft and fraud cases report would be consolidated with the FSA's and provided to Treasury. All cases are included in the Annual Report & Accounts.
- 5.2 Mike advised that there were 10 cases of theft and fraud during 2006/07, (one case was outstanding from the previous year-end)
- one case related to an employee withholding medical certificates whilst on suspension;

- two cases related to the fraudulent use of the Government Procurement Card. Both of which were external fraud and which MHS had been reimbursed by the bank;
- three cases related to theft from plants; and
- four cases related to fraudulent overtime claims (three were from employees who have now been dismissed and one from a contractor – MHS is aiming to reclaim the costs).

5.3 The Audit Committee expressed concern that the case involving an employee withholding medical certificates whilst on suspension had been allowed to receive full pay for a long period of time. Mike McEvoy agreed to provide more detail on this particular case.

Action: Mike McEvoy

6 MHS Internal Audit Report for Q1 2007/08 (Paper (07) 42)

6.1 Freedom Mpande provided a summary of the first quarter of audit work undertaken by his team. In discussion:

- audit opinion is that the delivery of official controls is satisfactory;
- based on the 35 audits carried out at plants, it is still too early to make any conclusions on issues relating to plant-based business controls;
- the approach to audits of official controls is currently being reviewed. A new approach is being piloted and a report will be issued to the Audit Committee in due course;
- the audit plan had been slightly affected by TMHS work, however the Audit Team were still on target to complete the agreed audit plan;
- in relation to the implementation of the recommendations from the Audit of overtime payments, nine of the 12 recommendations had been implemented and one of the remaining outstanding recommendations was not overdue;
- the Audit Team will undertake a review of audit recommendations this quarter to check how many of the recommendations have been implemented;
- the report on audit recommendations had changed so that the main part of the report showed any overdue recommendations in red; and
- at the next Audit Committee meeting, the front summary page should also show any overdue recommendations and the priority of the audits so as to enable the Committee to focus on the high priority uncleared recommendations.

Action: Freedom Mpande

- The MHS would investigate how many FBO's had up to date working hour agreements and list these by region.

Action: Freedom Mpande

7. Proposed meeting dates for 2008 (Paper (07) 43)

7.1 The Audit Committee agreed the provisional dates for 2008 subject to agreement of MHS Board dates. The Audit Committee provisionally agreed that three of the four annual Audit Committee meetings would be held by videoconference to minimise costs and travel time. The Audit Committee meeting to discuss the Annual Report and Accounts (May) would not be held by videoconference.

Action: Secretariat

8. Any Other Business

Date of next meetings

8.1 The next Audit Committee meeting will take place on 11 December in York.