

# Statement on Internal Control

## 1. Scope of Responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the VMD's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

As Chief Executive I am accountable to the Secretary of State for Defra for the performance and operation of the VMD in accordance with the Framework Document and the VMD's Business Plan. I am responsible for securing efficiency and the economical conduct of business and for the propriety and regularity of the public funds allocated to the VMD.

The Secretary of State for Defra determines the overall policy and financial framework within which the VMD operates, but is not involved in the day-to-day management of the Agency. The Secretary of State exercises the ownership function in relation to the VMD and receives advice on the Agency's strategic direction and performance from the Regulatory Agencies Strategy Board (RASB) until December 2008 and from the VMD Owner Advisory Board (OAB) thereafter. The role of the OAB, and previously the RASB, includes assuring Ministers that the VMD has appropriate and effective mechanisms for financial control, audit and risk management.

## 2. The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the VMD for the year ended 31 March 2009 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

## 3. Capacity to Handle Risk

The VMD has a comprehensive risk-management process reaching every level of the business under the leadership of the Chief Executive and taking advice from the independent Audit & Risk Committee. As Chairman of the VMD's Management Board, I have responsibility for providing the strategic leadership necessary to endorse the VMD's risk management procedures and to ensure that they are being implemented appropriately throughout the Agency.

The VMD's Risk Register, minutes of Audit & Risk Committee meetings and information on risk management procedures have been made available to all staff via a dedicated risk-management site on the VMD's Intranet. The continued use within the Agency of project management principles has increased the awareness of staff towards the management of risk and encouraged the use of good practice.

These measures are directed towards ensuring a common understanding of the terminology used in relation to the management of risk, identifying areas where best practice can be adopted and describing the procedures that have been put in place to manage risk within the Agency.

## 4. The Risk and Control Framework

The procedures in place at the VMD are designed to ensure a regular review of the risks facing the Agency and active consideration of the possible options for managing each risk down to an acceptable level.

The VMD's Risk Register contains the top ten risks facing the Agency. It is reviewed monthly by the Accounting Officer and the VMD's Directors to consider the current status of the risks and to consider whether any new risks are emerging that would threaten the achievement of the Agency's objectives. A Change Summary document is maintained to identify the date and reason for any changes made to each risk.

The VMD seeks to identify other risks that, although not significant enough to appear on the Risk Register, could still affect the successful outcome of the VMD's objectives. These risks are managed within individual business areas and are 'owned' by the respective Departmental Heads. Progress against them is reported to Directors at regular intervals. Operational Risk Registers are currently being developed to facilitate this process.

## Statement on Internal Control (continued)

### Programme and Project Management

Once the Business Plan is approved, action plans are formulated in order to facilitate its successful achievement. Business cases are prepared and, where appropriate, Office of Government Commerce (OGC) Gateway Reviews are conducted to inform significant investment decisions.

Programmes are governed by a Programme Board, which has a senior sponsor and which appoints Project Managers for specific projects. Programme and Project Management training is available to all staff and this helps to ensure that the appropriate skills and disciplines are applied. Risk registers are maintained for each programme/project to ensure the level of risk is identified at the planning stage and monitored throughout the life of the project. This plays an important role in ensuring that milestones are met and the desired outcomes are delivered.

### Strategy and Planning

The VMD produces a three year Business and Financial Plan. This describes the VMD's vision, how the VMD works to deliver Defra objectives and the VMD's key performance targets. The first year of the financial plans is the budget, which sets out the resources required to achieve the objectives in the coming financial year. The Business and Financial Plan is considered by the OAB (and before it the RASB) and signed off at Ministerial level following OAB and Corporate Owner advice.

The Directors and senior managers meet during the year to discuss their understanding of the VMD's operating environment, including anticipated political, operational and financial developments. From this, the VMD's Business and Financial Plans are formulated, discussed and integrated into one common corporate view of how the VMD's business is to be conducted.

Priority tasks are identified to deliver each target, which is owned by one or more Directors. The targets form the basis of group action plans that feed into personal work objectives for VMD staff. Performance against the key targets, including the financial targets, is monitored quarterly by the Management Board and reported on by Internal Audit following an end of year review.

### Governance Structures and Processes

The VMD operates according to the principles and responsibilities set out in the Agency's Framework Document. The Chief Executive Officer is appointed by and is directly accountable to the Minister for the day to day management of the VMD. As CEO, I am entitled to direct contact with HM Treasury with regard to the proper conduct of the Agency's finances. I am advised and assisted in my responsibilities by a Management Board and Governance oversight is provided by an Audit & Risk Committee. Three external non-executive Directors sit on the Management Board and form the Audit & Risk Committee. These committees are supported by the provision of a full range of management information, including financial performance, to support their deliberations.

As CEO I am a member of the OAB (and previously the RASB). The OAB is chaired by the Chief Veterinary Officer (the Defra Agency Owner) and is composed of two external members, senior officials from Defra (including the Defra Agency Customer), the devolved administrations and the FSA and is responsible for advising Ministers on strategic matters concerning the Agency.

The Head of Internal Audit provides an annual opinion on the adequacy and effectiveness of internal control including financial controls. This is based on a selection of risk-based audits carried out during the year, internal audit's annual Key Control Testing exercise, which seeks to provide assurance on the VMD's core systems, and other advice work on risk, control systems and governance given by Internal Audit during the year. Internal Audit also facilitate a workshop covering elements of Risk Management, Control and Governance. Our Internal Audit work was provided by RSM Bentley Jennison during the year.

The National Audit Office is responsible for the audit of the VMD's Annual Report and Accounts. Having subcontracted this work for a number of years, the NAO have conducted the work 'in-house' for the 2008/09 financial year.

The VMD holds regular internal and external meetings with a variety of stakeholders including representatives of the veterinary profession, pharmaceutical companies, consumers and staff. A full range of information about the VMD, its governance and operations is kept available on the VMD's website.

The VMD is accredited to Investors in People (IiP) following assessment against the higher standard of IiP profiles.

Our commitment and competency in relation to IT security is recognised by accredited policies and procedures through the ISO 27001 standard. An Internal Audit review of our data security during the year concluded that the VMD can take substantial assurance that the controls upon which the organisation relies for data management, as currently laid down and operated, are effective.

A significant proportion of the VMD's non-pay overhead costs are recharges for services provided by other Defra bodies. Accountability for these costs lies with the Agency Chief Executive, who seeks to manage operational and

## Statement on Internal Control (continued)

financial risks through Service Level Agreements that demonstrate value for money. On 1 April 2009 the responsibility for managing the delivery of a number of accommodation-related services transferred from the VMD to Defra under the Sustainable Workplace Management (SWM) programme. At the same time the land and buildings occupied by VMD staff transferred from the VMD's to Defra's Balance Sheet. Defra has negotiated a centrally-managed performance measurement mechanism with the service provider that is designed to encourage effective service delivery across the Defra family. At the time of this report, Key Performance Indicators are still under development and the VMD will provide input to this process to ensure that the measures are closely aligned to the VMD's business objectives.

### Management of Change

A programme to drive change at the VMD in the areas of Europe and Quality is in progress. Our recently-formed European Steering Committee has progressed the development of a clear strategy for the VMD's role in Europe and is providing training and information for staff on European matters. A Quality Systems Assurance project has begun to establish an agency-wide quality management system over the next three years and a dedicated Quality Manager has been appointed.

Every two years the VMD reviews its performance against the European Foundation for Quality Management standards and implements changes considered necessary to enhance the VMD's performance. A benchmarking process was completed in March 2009.

Adherence to the IIP principles and periodic re-assessment against the standard helps to embed a culture of performance improvement.

Programme and Project Management principles are followed and this provides an environment for effective team and cross-team working, communication and buy-in to change.

### Performance Management

All staff are involved in the development of the Business Plan and individuals are expected to be able to relate the objectives in their Personal Development Plan with the VMD targets.

Monthly meetings are held by all business groups to monitor performance against defined targets and budgets and to evaluate risk. Quarterly meetings are held by the Authorisation Division to review progress against their workplan and progress of projects.

Operational, Authorisation and Financial Performance Reports are produced monthly and circulated to the Directors and senior managers. Authorisations performance against published standards of service is published in MAVIS on a quarterly basis.

The VMD conducts formal Customer Surveys every two years and a programme of customer care visits throughout the year. The results and discussions are recorded and follow-up actions are communicated to the individual customers and in more general terms to the industry.

## 5. Review of Effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Management Board and the Audit & Risk Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Audit & Risk Committee's advice continues to be valuable in assisting the VMD in the development of corporate governance, risk management and control strategies. At each meeting the Committee is given the opportunity to:

- comment on the Risk Register;
- advise the Chief Executive and the Management Board on issues of risk, control and governance;
- review the VMD's business processes, providing assurance on the effectiveness of the systems of internal control;
- review the work and performance of Internal Audit and its recommendations, including the adequacy of management's responses;
- discuss progress reports and the management letter from the National Audit Office.

## Statement on Internal Control (continued)

The VMD's Management Board:

- reviews the VMD's operational management, risk management and service delivery;
- reviews progress towards achievement of key performance targets;
- receives reports from the Chairman of the Audit & Risk Committee.

The Internal Audit Service was previously provided by Defra's Internal Audit Division. For 2008/09 however the service has been provided by RSM Bentley Jennison, who:

- operate under the requirements set out in Government Internal Audit Standards and the IIA-UK's International Standards for the Professional Practice of Internal Auditing;
- provide regular reports following review and evaluation of the Agency's risk management, control and governance arrangements, making recommendations for improvements where appropriate; and
- facilitate workshops to help the Audit & Risk Committee and senior staff make informed judgments on risk management.

The Head of Internal Audit has provided an independent opinion on the adequacy and effectiveness of the Agency's governance, risk management framework and key control processes during the year. The report concluded that for the 12 months ended 31 March 2009, the VMD had adequate and effective governance, internal control and risk management processes to manage the achievement of the organisation's objectives.

While no significant internal control problems have been identified during the year, I recognise that the VMD needs to continue to build on the procedures and processes that it already has in place to manage risk.

A handwritten signature in blue ink, appearing to read "Steve Dean", is positioned above the printed name.

**Steve Dean**  
Chief Executive  
22 May 2009