

## **Joint Nature Conservation Committee**

### **Audit and Risk Assurance Committee (ARAC) – Report of the 45th Meeting**

#### **Paper by Colin A Galbraith**

#### **1. Introduction**

- 1.1. The following note is produced to inform members of the JNCC of the key issues discussed at the meeting of ARAC held on 8<sup>th</sup> June 2016. It provides a summary of the discussions only and anyone wishing to see the full minutes of the meeting should request these from Tracey Quince.

#### **2. Chairman’s opening remarks and adoption of the agenda**

- 2.1. The Chair welcomed members and attendees. Apologies had been received from Dr Susan Walker, Mr Tony Hams and Mr Guy Duke. He advised that this meant that the meeting would not be quorate and would therefore need to be an informal meeting with decisions agreed by all members outside the meeting.

#### **3. Matters arising**

- 3.1. The Chair asked for an update on AP01 of the March meeting. Mrs Quince confirmed that a draft letter to APHA had been produced which was now with Mr Yeo for sign off. It was agreed that Mr Reader would receive a copy of the letter and would advise the APHA Audit Committee Chair the letter was on its way.
- 3.2. Professor Galbraith noted that Mr Hams and Mr Reader were to be retained on ARAC as independent external members and the process for formalising arrangements was underway.

#### **4. Draft Internal Audit Annual Assurance Report 2015/16 and June Progress Report**

- 4.1. Mr McLeod (KPMG) introduced the item and advised the Committee that in 2015/16 ten recommendations were made, with none falling into the high priority category. He drew members’ attention to the Head of Internal Audit opinion which was ‘substantial assurance’. This should be seen as a positive outcome, confirming the good governance and financial management in JNCC.
- 4.2. The Committee noted the positive annual opinion and congratulated staff involved. Members raised a concern over the moderate rating for the scientific evidence area and were assured that this area is on an upward trajectory and that the rating referred to weaknesses in relation to the process rather than weaknesses in JNCC’s scientific evidence.
- 4.3. Members noted the formulaic nature of the report and requested that future reports were more “personalised” for JNCC.

## **5. Approval of the internal audit strategic (2015-18) and operational plan 2016/17**

- 5.1. Mr McLeod introduced the item and advised ARAC that the plan had been approved by EMB in April and no changes had been made to the draft that was seen by members in March. He provided a brief run through of the audit areas for 2016/17 and clarified the number of contingency days.
- 5.2. Members queried the timetable as the majority of reviews were scheduled towards the latter part of 2016/17. Mrs Quince and Mr Yeo were both content with the timetable and assured members that the plan would be achieved by the end of March 2017.
- 5.3. A review of scientific evidence was requested for 2017/18. It was agreed that another review in this area should be planned into the audit programme for 2017/18 with the emphasis on evidence quality assurance processes in offshore industries advice.
- 5.4. ARAC approved the internal audit strategic plan for 2015-18 subject to the inclusion of an audit on scientific evidence in 2017/18 and approved the operational plan for 2016/17.

## **6. Matters arising from internal audit reports**

- 6.1. Mr McLeod introduced the item drawing members' attention to the 'substantial rating' that was received for the review of financial management and budgetary control. He drew attention to the areas of good practice and informed members that no recommendations had been raised as a result of the audit.
- 6.2. In discussing the follow-up report members noted the low priority given to the recommendation on establishing a licence management and monitoring process.
- 6.3. Professor Galbraith drew members' attention to paragraph 3.1 of the paper which requested approval to remove two recommendations, one on office relocation in relation to business continuity and the other on Team Viewer software. Mrs Quince advised that it was not now feasible to take these recommendations forward and in respect of the business continuity recommendation, investment in new technology had lowered the risk of a relocation site not being identified. ARAC agreed to the removal of these two recommendations. Professor Galbraith requested a copy of the business continuity plan for information.
- 6.4. For future follow-up reports it was suggested that the report categorise high/medium/low priority recommendations.

## **7. Report on internal audit performance indicators**

- 7.1. Mr McLeod introduced the item explaining that the majority of performance targets had been achieved by KPMG. One audit report relating to the financial management and budgetary control audit report had taken longer to finalise than normal. The main indicator of audit quality had been met with KPMG receiving a score of 4.8 on customer satisfaction, the target being a score of 4.

7.2. Mrs Quince informed members that one performance target for JNCC had not been achieved, relating to the percentage of agreed medium/low priority recommendations implemented by the deadline set. Paper ARAC 16 16 had provided more detail on the outstanding recommendations.

7.3. ARAC discussed the 2015/16 report on performance indicators.

## **8. Recommend the post-audit JNCC Annual Report & Accounts for 2015/16 to the Company Board and endorse the final draft of the Governance Statement for inclusion within JNCC Annual Report and Accounts**

8.1. Mrs Bennett introduced the item which presented the latest version of the Annual Report and Accounts (ARA). Members were asked to note that NAO were yet to complete their audit and that there may be a few minor amendments required. Mrs Bennett informed members of some additional items added to the ARA this year: transactions relating to the Voluntary Exit Scheme and disclosures relating to a new financial reporting standard (FRS 102), which requires the cost of annual leave not taken by staff to be accrued. Mrs Bennett also advised members of the wording to be added to the ARA should the UK vote to leave the European Union on 23 June.

8.2. In discussing the ARA the following points were discussed:

- i. A Joint Committee member had raised the issue of the holiday pay accrual figure which they believed to be large in comparison with the size of JNCC. After discussion by ARAC this will now be “bench marked” against other organisations to ensure it is reasonable. (Update note August 2016 – this has now been done and confirmed to be the case).
- ii. Whilst ARAC were content with the added text this year on environmental reporting, they would like to see JNCC become an exemplar of good practice on environmental reporting in future years. Mr Yeo agreed to give this further consideration, subject to resources being available.

8.3. ARAC noted changes to the ARA requested by NAO, noted the additional paragraph to be added in the event of a ‘leave’ vote in the EU Referendum and recommended that the Company Board approve the JNCC 2015/16 Annual Report and Accounts.

## **9. Review of NAO’s draft Audit Completion Report on the 2015/16 Financial Statement audit (Discussion paper ARAC 16 19)**

9.1. Mrs Edwards from the National Audit Office (NAO) introduced the item and provided members with a brief run through of the report, noting that the final audit of the accounts was slightly behind schedule. The outstanding items were review of the holiday pay accrual, secondment income and remuneration report testing, together with the completion of the NAO internal review processes. Mrs Edwards reassured members that she wasn’t expecting any significant changes to the accounts at this stage. She drew members’ attention to the observations and recommendations from page 11 onwards and management’s response to them. She advised members that the work undertaken so far led NAO to believe that they would be giving an unqualified audit opinion. She asked members to note the unadjusted misstatements, in particular the one relating to the dilapidation provision.

- 9.2. ARAC noted the Audit Completion Report, noted the management responses to the recommendations, recommended to the Company Board that the Financial Statements were not adjusted for the identified misstatements shown and recommended that the Chief Executive should sign the Letter of Representation.

## **10. Significant risks register for 2016/17 and discussion on new, emerging and fast-evolving risks**

- 10.1. Mrs Quince introduced the item and informed members that a new version of the significant risks register was presented, which incorporated comments made by Joint Committee members at their meeting in March and by EMB at their meeting in May. Mrs Quince drew members' attention to the RAG traffic light system which had been added to the register to highlight the risk scores.
- 10.2. ARAC were appreciative of the addition of the RAG ratings to the register which they felt improved clarity. ARAC were advised by Professor Gilligan that the Joint Committee had encouraged greater ownership of the risks by moving ARAC updates to earlier in the Joint Committee agenda and instigating a more detailed look at the risks both quarterly and annually. Discussions ensued as to whether a target level of risk (the risk tolerance) would add further clarity. It was agreed to keep this suggestion 'live' and pose the question to the Joint Committee at an appropriate time.
- 10.3. Mr Yeo advised members of some emerging risks. These included:
- i. the review of JNCC, which was still ongoing. There was still a significant risk around the conclusions and the timing of the final report and sign off by Ministers;
  - ii. the Defra transformation programme and the new Target Operating Model (TOM), a far reaching initiative that could have implications for JNCC but these were as yet unknown; and
  - iii. the risks around income generation, with JNCC looking to diversify their income. This posed risks, but there was a need to become more comfortable with taking such risks in order to be successful. Mr Yeo advised members of a potential JNCC role in an EU LIFE funded project for £10m which the Joint Committee were discussing at their meeting the following day.

## **11. ARAC annual report to the Joint Committee 2015/16**

- 11.1. ARAC discussed whether in future years it would be useful for ARAC to provide an assurance statement to the Joint Committee based on the opinions of the internal and external audit and management representations. This would, in effect, be ARAC giving the Joint Committee its view on the assurance framework.
- 11.2. ARAC suggested future reports could be less formulaic in nature and present the insight and vitality of ARAC. This was agreed.
- 11.3. Overall ARAC discussed the annual report to the Joint Committee and approved the report for presentation to the Joint Committee the following day.

**12. Cases of fraud or presumptive fraud and significant losses and any significant health and safety, quality strategy, environmental performance and equality compliance issues**

12.1. It was noted that the evidence quality assurance (EQA) compliance rate had now reached a reassuring 98%. She informed members that there were no cases of fraud or presumptive fraud and the fruitless payment that was initially recorded for quarter 4 would be removed as a refund on a flight had been received. She also highlighted that there were no data security breaches.