



The one-hundred-and-eleventh meeting of the
Joint Nature Conservation Committee to be held at 08.45 on 8th June 2017,
at JNCC, Monkstone House, City Road, Peterborough, PE1 1JY

This paper was provided to the Joint Committee for decision/discussion
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Annual Report of the JNCC Audit and Risk Assurance Committee 2016-2017

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Professor Colin A Galbraith
Chair of ARAC

Members

Professor Colin A Galbraith (Chair, independent JNCC Member)

Mr Guy Duke (independent JNCC Member)

Dr Susan Walker (JNCC Member and SNH Deputy Chair)

Mr Nigel Reader (External Member)

Mr Tony Hams (External Member)

Dear Joint Committee member,

As Chair of JNCC's Audit and Risk Assurance Committee (ARAC), I am pleased to present the ARAC Annual Report for the year ended 31 March 2017, which has been prepared and approved by ARAC members. While a comprehensive description of ARAC's activities during the year is set out in the following pages, I would like to highlight a few key aspects of our work here.

One of ARAC's fundamental responsibilities is to review the organisation's internal control and risk management systems. ARAC has been established to support the Chief Executive and the Joint Committee in their responsibilities for issues of risk, control and governance, and associated assurance.

In addition to financial risks and controls, ARAC is also responsible for the oversight of risks and controls in a number of key compliance areas including Environmental Performance, Health and Safety, Science Evidence Quality, Cyber and Data Security, Fraud and Losses, Whistleblowing and Equality and Diversity. Executives with responsibility for these risk areas attend meetings of ARAC as required.

ARAC's role is a challenging one; it delivers strong, independent scrutiny via the members of the Committee who bring an appropriate range of skills and experience. ARAC benefits from a strong collaborative relationship with JNCC staff, ensuring that it gets the support and information it needs. ARAC is required to act as the conscience of the organisation and to provide insight and strong constructive challenge where required, such as on risks arising from financial and resource constraints, new service delivery models, information flows on risk and control, and on the agility of the organisation to respond to emerging risks and challenges.

During the past 12 months, ARAC has promoted a culture of financial discipline and internal control, and has overseen arrangements to attain value for money, regularity and propriety, and to reduce the risks of financial or other mismanagement within JNCC. ARAC, alongside the Joint Committee and Company Board, is fully committed to continuous improvement of financial and risk management within JNCC and it was particularly reassuring that this year the annual opinion of the Head of Internal Audit from KPMG was to give a substantial assurance rating over the framework of governance, risk management and control.

Key areas of decision and discussion in 2016/17

- ❖ Agreed the internal audit plan for 2016/17 and forward look to 2017/18 suggesting an audit in the scientific evidence area.
- ❖ Agreed the significant risks register for 2016/17 with the addition of a traffic light coding system and inherent risk scores, and approved a revised risk appetite statement.
- ❖ Recommended the Company Board approve the Annual Report and Accounts (ARA) for 2015/16.
- ❖ Recommended the Governance Statement for 2015/16 to the Company Board.
- ❖ Discussed the NAO Audit Completion Report and noted the need for management to build greater resilience in the finance team.
- ❖ Agreed how ARAC would monitor compliance in the areas of whistleblowing and cyber security. Agreed that staff should have confidential access to the ARAC Chair for reporting cases of whistleblowing.
- ❖ Made an annual declaration to the National Audit Office (NAO) to confirm that JNCC had complied with all relevant legislation.
- ❖ Stressed the need, alongside the Animal and Plant Health Agency (APHA), to develop a business case to replace the UNICORN IT system.
- ❖ Considered the external audit strategy and agreed an ambitious timetable for production of the ARA for 2016/17.
- ❖ Considered the risks and opportunities presented by the UK's exit from the EU.
- ❖ Reviewed the findings of a staff stress survey.

Governance

ARAC was in place throughout 2016/17 and held four meetings. There were no membership changes during the year. Individual attendance at meetings is good. In September, Nigel Reader and Tony Hams became remunerated members of ARAC.

All members are independent in accordance with the provisions of the Treasury Handbook on Audit Committees.

The PA to the JNCC Chair and Chief Executive is the ARAC Secretary.

Attendees at meetings

In addition to the members of the Committee ARAC invites the following to its meetings:

- ❖ Joint Committee Chair, Chief Executive, Head of Finance and Planning and Governance Manager
- ❖ Head of Internal Audit and Senior Auditor
- ❖ National Audit Office Audit Manager
- ❖ Representative from Defra's Internal Audit and Assurance Team
- ❖ Representatives from JNCC teams as appropriate.

ARAC holds annual closed session meetings with the internal auditors and NAO staff without management in attendance.

Professor Gilligan's (JNCC Chair) attendance at meetings provides a helpful link with the Joint Committee.

Summary of ARAC responsibilities

- ❖ Promote a climate of financial discipline and internal control, and oversee arrangements to attain value for money, regularity and propriety, and reduce the risks of financial or other mismanagement.
- ❖ Approve long-term and annual plans for internal audit and commission audits of specific projects and value for money audits as required.
- ❖ Advise on the comprehensiveness and reliability of assurances on strategic policies and processes for risk assessment and management; control and governance and related assurances including the annual Governance Statement.
- ❖ Advise on internal and external audit plans and strategies, findings and results, and on the adequacy of management responses to issues identified by audit activity.
- ❖ Ensure that a process operates effectively to enable matters involving significant risk to the JNCC's, UK Government's or devolved administrations' reputation, legal standing or financial position (where these lie within the bounds of the Audit and Risk Assurance Committee's remit) to be identified and referred to the Joint Committee.

Internal audit

In 2016/17 JNCC's audit programme comprised three audits in the areas of income generation, key financial controls and human resource processes. It was delivered by KPMG through a Defra framework contract. All audits received a moderate to substantial assurance rating.

The table below details the audits undertaken in 2016/17, the assurance rating achieved and the recommendations raised and agreed.

Internal audit	Days	Assurance rating	Recommendations raised				Recommendations agreed
			High	Medium	Low	Total	
Income generation	6	Moderate	0	6	1	7	7
HR - Time Recording HR - Recruitment	4	Moderate	0	1	0	1	0 ¹
		Substantial	0	0	0	0	0
Key Financial Controls	6	Substantial	0	0	1	1	1
Total	16	Annual assurance opinion Substantial	0	7	2	9	8

¹ The audit recommendation not agreed by management related to evidencing the monitoring of flexitime balances. ARAC agreed with management's view that the risk did not justify the time and resources needed to implement the recommendation.

Definition of assurance levels

Assurance level	Classification
Substantial	In our opinion, the framework of governance, risk management and control is adequate and effective.
Moderate	In our opinion, some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.
Limited	In our 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.
Unsatisfactory	In our 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.

The audit plan also included four days of management time for the internal audit team to meet management and attend ARAC meetings and two days of follow-up audit work to examine implementation of audit recommendations. The follow-up work was undertaken in house by the Governance Manager and the results showed good progress with all recommendations.

Defra Audit and Risk Chairs meetings

The JNCC ARAC Chair attends meetings of the Defra Audit and Risk Chairs to discuss activity across the Defra group of organisations. Meetings provide the opportunity to take an overview of current issues across the Defra group. Meetings take place twice a year in April and October. A summary of key points from the meeting is disseminated to ARAC members and relevant JNCC staff.

Risks

ARAC had regular sight of JNCC's significant risk register and considered the risks arising from the specific and generic topics which were subject to its scrutiny, together with management's mitigation measures.

ARAC has been greatly reassured by the impetus to the management of risks which the Chief Executive and other staff have provided throughout the year. This has engaged ARAC and the Joint Committee in thinking through the key strategic risks which the organisation faces, possible measures for mitigating them, and the Committee's particular role in the process.

New and emerging risks discussed in the past year

- ❖ The government review of JNCC Review – implications and risks
- ❖ The Defra Target Operating Model (TOM) – implications and risks for JNCC
- ❖ Greater devolution and its impact on JNCC
- ❖ The need to take increased but still balanced risks to diversify income
- ❖ JNCC's business-critical dependency on the CITES Unicorn system “owned” by the Animal and Plant Health Agency (APHA)
- ❖ Staff morale and engagement, including the effect of the EU referendum outcome
- ❖ JNCC's role following EU exit
- ❖ The need to maintain vigilance in relation to scientific evidence and any challenges to JNCC's advice
- ❖ Fitting the budget to customer needs
- ❖ Succession planning for the Joint Committee and the membership changes due to take place in the next few months along with the possible de-stabilising effect this would have for a period of time, particularly if gaps were not filled quickly

JNCC Review

The government review of JNCC played a major part in ARAC discussions in 2016, both in terms of the risks and the outcomes for JNCC. The review of JNCC was formally launched in December 2015 and was substantially completed by the end of July 2016. Recommendations have subsequently been agreed by officials in JNCC's four sponsor administrations.

ARAC programme 2016-2017

Standing items on agenda for every meeting

- ❖ Internal audit reports
- ❖ Cases of fraud or presumptive fraud and significant losses
- ❖ Forward plan
- ❖ Review of significant risks and discussion on new, emerging and fast-evolving risks
- ❖ Any significant non-compliance relating to health and safety, quality strategy and environmental performance
- ❖ Meeting feedback

June 2016 meeting (Edinburgh)

- ❖ Recommended the post-audit JNCC Annual Report and Accounts to the Company Board and endorsed the final draft of the Governance Statement for inclusion within JNCC Annual Report and Accounts
- ❖ Reviewed NAO's draft Audit Completion Report on the previous year's Financial Statement audit
- ❖ Final draft of internal audit's annual assurance report
- ❖ ARAC Annual Report to the Joint Committee
- ❖ Audit scopes for audits to be undertaken in the current financial year
- ❖ Report on internal audit performance indicators

September 2016 meeting (Peterborough)

- ❖ Mid-year annual internal audit assurance report and review of the operational plan in light of external audit findings and emerging risks
- ❖ Annual report on performance of external audit
- ❖ Report on legislative compliance.

- ❖ Report on ARAC effectiveness

November 2016 meeting (Cambridge)

- ❖ Commented on the draft annual strategy for external audit
- ❖ Considered the timetable to produce the JNCC Annual Report and Accounts
- ❖ Preparation for the Joint Committee's annual discussion on risk
- ❖ ARAC meeting dates.

March 2017 meeting (London)

- ❖ Approved the annual internal audit operational plan
- ❖ Summary of audit recommendations and report on outstanding recommendations (follow-up audit report)
- ❖ Draft of internal audit annual assurance report
- ❖ Annual report on performance of internal audit
- ❖ Commented on the draft Governance Statement
- ❖ Risk management in JNCC (Joint Committee paper)
- ❖ Review of ARAC effectiveness
- ❖ Annual report from the SIRO on information risks and cyber security

Intersessional items

- ❖ A pre-audit draft of the JNCC Annual Report and Accounts, for comment
- ❖ The annual report on single tenders over £7,500
- ❖ The annual report on fruitless payments, losses and special payments for the previous year

Annual assessment of ARAC effectiveness

The last survey on ARAC effectiveness took place in February 2016 and findings were reported to the June 2016 meeting. ARAC undertake annual reviews of effectiveness, but have postponed the 2017 assessment until later in the year to facilitate the views of the new internal audit service provider and Head of Internal Audit. The last survey on effectiveness concluded that ARAC was an effective committee.

A new formalised induction process for members was adopted in 2016.

In its quest for continuous improvement ARAC includes an instant feedback slot at the end of each meeting and uses the learning to inform the arrangements for, and conduct of, future meetings.

ARAC reporting to the Joint Committee

ARAC takes seriously its responsibility to ensure effective communication between itself and the Joint Committee. This is demonstrated by the presentations at Joint Committee meetings and routine reports by the ARAC Chair.

The agenda of each Joint Committee meeting includes a report from ARAC, which is used to present the highlights from each ARAC meeting, together with an update on activities conducted by ARAC and/or ARAC Chair since the last Joint Committee meeting.

This ARAC Annual Report for 2016/17 completes the reporting process for the year.

Looking ahead

ARAC will continue to review a range of issues to ensure that it covers its remit. Whilst this is driven by our forward programme, ARAC members may also request reports or details of follow-up actions on specific areas of concern. In addition, the Joint Committee Chair may commission reviews or investigations where ARAC scrutiny is needed to help address particular risks or issues.

Considerations for ARAC's 2017-18 programme of business will include:

- ❖ a standing invitation for Joint Committee members to raise any queries with the Chair of ARAC ahead of any ARAC meeting;
- ❖ standing over the recalibration of the risk appetite arising from the adoption of further income generation opportunities;
- ❖ scrutinising JNCC's whistle-blowing arrangements, in response to the latest guidance appearing in Treasury's revised Handbook for ARACs;
- ❖ ensuring full ARAC business continuity, notwithstanding the changes in ARAC and Joint Committee membership as well as in the Head of Internal Audit role.

Acknowledgements

ARAC would like to extend its sincere thanks to the Chief Executive and his team and to the Joint Committee for the invaluable support which they have given to ARAC, as well as for contributing to the spirit of openness and constructive challenge which ARAC continues to espouse in the conduct of its business.

My personal thanks go to Guy Duke, our retiring member and previous Chair of ARAC, who helped lay the foundations for the excellence in governance to which ARAC and the Joint Committee aspire.

ARAC's assurance statement to the Joint Committee

ARAC is a sub-committee of the Joint Committee and has been established to support the Chief Executive and the Joint Committee in their responsibilities for issues of risk, control and governance and associated assurance. ARAC has operated to a high standard during the year and has received appropriate, regular and timely information about the production of JNCC's Annual Report and Accounts and about JNCC's control environment.

Financial management has continued to be applied with rigour, and reliance can be placed on the accuracy of the financial reports which have been routinely presented to the Joint Committee, as well as of the financial statements and disclosures presented in JNCC's Annual Report and Accounts for 2016-17.

As set out in the overview and summary of key areas of discussion and decision during the year, ARAC received and reviewed reports on internal control and risk management from internal and external audit and from the Head of Internal Audit. ARAC, on behalf of the Joint Committee, has conducted an annual assessment of the operation of the organisation's systems of risk management and internal control and found the controls to be effective.

This assessment was informed by the detailed reviews carried out by KPMG and the National Audit Office and the subsequent Head of Internal Audits' opinion of "substantial assurance" contained in the annual assurance report. Where areas for improvement have been identified the necessary actions in respect of the relevant control procedures have been or are being taken. This review took account of the significant risks facing the organisation, the controls in place to manage those risks (including financial, operational and compliance controls) and the procedures in place to monitor them.

Professor Colin A Galbraith
On behalf of ARAC

7 June 2017