



The one hundred and nineteenth meeting of the  
Joint Nature Conservation Committee to be held  
at 08.45 on 6 June 2019 at The Park Avenue Hotel, 158 Holywood Road, Belfast,  
BT4 1PB

This paper was provided to the Joint Committee for decision/discussion or  
information. Please refer to the minutes of the meeting for Committee's position  
on the paper.

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**Annex 1**

# Annual Report of the JNCC Audit and Risk Assurance Committee 2018-2019



**Caerhillian Cove – the Lizard (picture courtesy of Natural England)**

## Annual Report of the JNCC Audit and Risk Assurance Committee 2018-2019



### **Professor Colin A Galbraith**

Chair of ARAC

### **Members**

Professor Colin A Galbraith (Chair, independent JNCC Member)  
Ms Cath Denholm (Scottish Natural Heritage from 28 November 2018)  
Mr Nigel Reader (External Member)  
Mr Tony Hams (External Member to 31 August 2018)  
Mr Charles Banner (independent JNCC 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 2019, 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 all business areas which include a number of key compliance areas such as Environmental Performance, Health and Safety, Science Evidence Quality, Cyber and Data Security, Fraud and Losses, Whistleblowing and Equality and Diversity.

ARAC's role is a challenging one; it delivers strong, independent scrutiny via its members who bring an appropriate range of skills and experience. 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. ARAC benefits from a strong collaborative relationship with JNCC staff, ensuring that it receives the support and information it needs. A particular challenge this year was reviewing the organisation's response to IT security issues.

During the past 12 months, ARAC has continued to promote a culture of financial discipline and internal control, and has overseen arrangements to ensure value for money, regularity and propriety, and to reduce the risks of financial or other mismanagement within JNCC.

The conclusion at the end of this report presents the outcome of ARAC's work in relation to its areas of responsibility. ARAC also highlights some focus areas for its work going forward.

## Governance

ARAC was in place throughout 2018/19 and held four meetings. There were two membership changes during the year, with Mr Tony Hams leaving ARAC at the end of August 2018 and Ms Cath Denholm joining in November 2018. Individual attendance at meetings has been excellent.

All members are non-executives and 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. The role is overseen by the Governance Manager.

## Key areas of decision and discussion in 2018/19

- ❖ Agreed the internal audit plan for 2018/19 and forward look to 2019/20, taking into account historical coverage of risk.
- ❖ Reviewed and endorsed the significant risks register for 2018/19, and agreed a new role overseeing risk mitigation in 2019/20.
- ❖ Recommended the Company Board approve the Annual Report and Accounts (ARA) for 2017/18.
- ❖ Recommended the Governance Statement for 2017/18 to the Company Board.
- ❖ Discussed the NAO Audit Completion Report and associated recommendations.
- ❖ Noted the collective approach to risk by the Defra group, linking risks to Defra's strategic objectives to provide a clear line of sight.
- ❖ Made an annual declaration to the National Audit Office (NAO) to confirm that JNCC had complied with all relevant legislation.
- ❖ Continued to stress the need, alongside the Animal and Plant Health Agency (APHA), to replace the UNICORN IT system, particularly in relation to day one EU exit readiness.
- ❖ Considered the external audit strategy and agreed the timetable for production of the ARA for 2018/19.
- ❖ Considered the risks and opportunities presented by the UK's exit from the EU.

## Attendees at meetings

In addition to its membership, ARAC invites the following to its meetings:

- ❖ Chief Executive and Accounting Officer
- ❖ Director of Finance and Resources
- ❖ Head of Finance and Planning
- ❖ Governance Manager
- ❖ Head of Internal Audit
- ❖ National Audit Office Manager

and from time to time:

- ❖ Deputy Chief Executive/Chief Scientist
- ❖ Representatives from JNCC teams

ARAC also benefits from the regular attendance of the Joint Committee Chair as an observer.

The ARAC Chair holds annual closed session meetings with the internal auditors and NAO staff without management in attendance. These sessions ensure an open and frank relationship between ARAC and the external and internal auditors. Issues of note are reported back to ARAC.

## Summary of ARAC responsibilities

- ❖ Promote a climate of financial discipline and internal control and oversee arrangements to ensure 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 and follow-up 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 2018/19 JNCC's audit programme comprised five audits in the areas of scientific evidence, key financial controls, income generation, organisational change and General Data Protection Regulation (GDPR) implementation. The plan was delivered by the Government Internal Audit Agency (GIAA) through a Defra Memorandum of Understanding. In accordance with new guidelines that Heads of Internal Audit (HIA) be civil servants, JNCC recruited a HIA from the Defra Shared Service and appointed Mr Paul Lambert in January 2017. In November 2018, Mr Lambert resigned and an interim HIA was appointed. ARAC have found the service to be satisfactory in 2018/19, however some improvements to the responsiveness of the HIA are required for 2019/20 to ensure the smooth running of the audit programme and associated tasks.

The HIA devised an audit programme from discussions with senior JNCC staff and from consideration of the risk registers. The table below details the audits undertaken in 2018/19, the assurance rating achieved and the recommendations raised and agreed.

Internal audit	Days	Assurance rating and risk to CEO	Recommendations raised				Recommendations accepted by management
			High priority	Medium priority	Low priority	Total	
Scientific evidence (follow-up)	4	Moderate	0	3	0	3	3
Key Financial Controls	8	Limited <sup>1</sup>	0	5	0	5	5
Organisational Change	10	Advisory audit no assurance rating given	<sup>2</sup> 0	0	0	0	0
Income generation	7	Substantial	0	0	3	0	3
GDPR implementation (across the Defra Group)	3	Moderate	0	4	1	5	N/A Recommendations to be implemented by Defra.
Total	32		0	12	4	13	
		Annual HIA assurance opinion  Moderate					

**Definition of assurance levels used across the Defra Group**

**Overall opinion key**

RAG	Definitions for annual and assignment opinions	Definitions for CEO residual risk	RAG
	<b>Substantial</b>  The framework of governance, risk management and control is adequate and effective.	<b>Low</b>  Risks to the CEO are well managed in the areas examined.	
	<b>Moderate</b>  Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.	<b>Medium</b>  Risks to the CEO are generally well managed; effective processes are in place to identify and rectify material errors and failures that arise.	
	<b>Limited</b>  There are significant weaknesses in the framework of governance, risk management and control such that it could	<b>High</b>  The CEO is exposed to high levels of risks of error or failure in some parts of the audit, which, if not addressed, could lead to	

<sup>1</sup> The focus of this audit was on new financial models which are enhancements to the current financial systems. The audit rating does not reflect current systems of control in the finance area, which have been audited in previous years and received substantial assurance.

<sup>2</sup> Advisory audits do not include recommendations.

	be or could become inadequate and ineffective.	external reputation damage or additional material disallowance exposure.	
	<b>Unsatisfactory</b>  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.	<b>Very high</b>  The CEO is exposed to a very high level of risk of error or failure, which, if not addressed, could lead to significant external reputation damage or disallowance exposure.	
<b>Factors influencing choice of opinion</b>			
<ul style="list-style-type: none"> <li>• Adequacy and effectiveness of the governance, risk management and control framework</li> <li>• Impact of any weakness on delivery of objectives</li> <li>• Extent of risk exposure</li> <li>• Materiality: by value to the entity, by value in the engagement context and by nature (e.g. irregularity and reputational risk)</li> <li>• We may also take account of management responses to recommendations/ management actions</li> </ul>			

The audit plan also included 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 for 2018/19 was undertaken in house by the Governance Manager and the results showed good progress with implementation. This follows ARAC's concerns earlier in the year over the number of recommendations that had not been implemented to agreed deadlines. ARAC expect that all recommendations agreed by management are implemented within deadlines. To help achieve this, ARAC agreed back in June 2018 that the following improvements would be implemented:

- ❖ an implementation status update would be annexed to the Head of Internal Audit progress report and brought to each meeting;
- ❖ an accountable rather than responsible owner would be identified for each of the recommendations; and
- ❖ the profile of internal audit would be raised with Team Leaders, emphasising the positive influence of audit and review.

The annual opinion of the Head of Internal Audit in 2018/19 was to give moderate assurance. This means that there is a sound system of internal control, designed to meet JNCC's objectives, and that controls are being applied consistently. Some improvements, however, are required to enhance the effectiveness of risk management, control and governance.

## 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. In 2018/19 two meetings took place, in September 2018 and March 2019. A summary of key points from each meeting was disseminated to ARAC members and relevant JNCC staff. Alongside attendance at this meeting, ARAC receives the minutes from Defra ARAC meetings for information.

## 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 12 months*

- ❖ Greater devolution and its impact on JNCC.
- ❖ The need to take increased but balanced risks to diversify income.
- ❖ Staff morale and engagement.
- ❖ Staff resource stretch.
- ❖ Balancing day to day work with EU exit work.
- ❖ Cyber security.
- ❖ JNCC's role following EU exit.
- ❖ Funding implications for 2019/20 and beyond.

### **Other matters considered by ARAC**

Over the past 12 months ARAC has considered and advised on a number of issues. These have included:

- ❖ Cyber security.
- ❖ Additional posts for EU Exit work.
- ❖ The JNCC organisational restructure.
- ❖ Staff turnover and churn.
- ❖ Anti-fraud training for staff.
- ❖ Internal audit engagement with staff.
- ❖ CITES IT system (Unicorn)
- ❖ Sustainability reporting in the Annual Report & Accounts
- ❖ GDPR implementation.
- ❖ The proposed new environmental body to be established post Brexit and potential impact on JNCC.
- ❖ Integrated assurance framework for JNCC.
- ❖ 2019 Spending Review.
- ❖ Governance in Northern Ireland.
- ❖ Review periods for JNCC policies (equality and diversity was given specific consideration by ARAC).
- ❖ Application of government guidance and rules.
- ❖ Holistic risk approaches.
- ❖ JNCC's approach to project and programme management.
- ❖ Science quality.
- ❖ Collaboration with the country nature conservation bodies on cyber-security issues.

### **Health and Safety reporting**

Over the past 12 months, ARAC received quarterly reports from the Health and Safety Manager on issues arising and new developments. In June 2018, ARAC noted the workshops to promote the new annual stress risk assessments and escalation procedures. A more active stance on the management of stress was welcomed. Manual handling training was also promoted to raise staff awareness.

In September, ARAC were made aware that fire and health and safety risk assessments had been undertaken in the Peterborough office, with issues of housekeeping highlighted. These have subsequently been addressed by team managers. ARAC were pleased to see the Greening Group had been re-established and looked forward to hearing more about their work over the coming months.

In November, ARAC were pleased to see that all health and safety forum meetings had been held quarterly with the Aberdeen Office Manager in attendance. ARAC were also informed that cross checks were made on overseas travel on a monthly basis to ensure travellers were submitting the appropriate risk assessments. This included establishing a new travel folder that senior managers have access to in the event of an emergency situation.

In March 2019, ARAC noted management's decision not to continue to undertake diving. The decision had been taken due to a number of external considerations. ARAC were informed that risk assessments were up to date and all third-party risk assessments were approved before any work had commenced. ARAC were pleased to see

that risk assessments for overseas travel had been amended to include cyber security. All travellers are now asked to consider cyber security issues and ensure they take secured laptops and restricted mobile phones if required.

## ARAC programme 2018-2019

### 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 in the seven compliance areas
- ❖ Meeting feedback

### June 2018 meeting (Peterborough)

- ❖ Recommended the post-audit JNCC Annual Report and Accounts to the Company Board and endorsed the final draft of the Governance Statement
- ❖ 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
- ❖ Report on internal audit performance indicators
- ❖ Summary of audit recommendations and report on outstanding recommendations (follow-up audit report)

### September 2018 meeting (York)

- ❖ Internal audit update
- ❖ Annual report on performance of external audit
- ❖ Report on legislative compliance
- ❖ Report on ARAC effectiveness review.
- ❖ Update on implementation of audit recommendations

### November 2018 meeting (Peterborough)

- ❖ 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
- ❖ Preparation for ARAC's annual report to the Joint Committee
- ❖ Review of ARAC effectiveness
- ❖ Internal audit progress report
- ❖ Presentation on the protection of JNCC from cyber-attacks,

### March 2019 meeting (Bangor)

- ❖ Discussed the audit strategy plan for 2019/20
- ❖ Annual report on performance of internal audit
- ❖ Commented on the draft Governance Statement
- ❖ Risk management in JNCC (Joint Committee paper)
- ❖ Annual report from the Senior Information Risk Owner on information risks and cyber security incident
- ❖ Measures to mitigate staff turnover and churn

### 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
- ❖ Internal audit reports for the year
- ❖ Internal audit service 2019/20
- ❖ Update on GDPR implementation

## Annual assessment of ARAC effectiveness

The last survey on ARAC effectiveness took place in July 2018 and findings were reported to the September 2018 meeting. This review concluded that ARAC was an effective committee and members were confident in the direction of travel. To strengthen and develop ARAC, members agreed to:

- ❖ improve communications and build better relationships between JNCC's ARAC and Defra;
- ❖ explore options to share information and best practice with ARACs across the Defra group through the Defra intranet site and through Mr Reader's extensive network and unique overview;
- ❖ explore options for filling an IT skills gap on ARAC; and
- ❖ improve induction processes with a hand-over discussion with the departing member built into the programme.

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 2018/19 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 agreed 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.

ARAC's forward programme for 2019/20 will contain most of the same items as for 2018/19. Additional considerations for 2019/20 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 implementation of new processes to manage income generation opportunities.
- ❖ scrutinising JNCC's cyber security arrangements.
- ❖ advising on the effectiveness of risk mitigation and the balance of resources allocated to mitigation.
- ❖ consideration of the new comprehensive assurance framework. Work on developing a framework was undertaken by the Governance Manager in 2018/19.

## 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 adopt in the conduct of its business.

My particular thanks go to Nigel Reader for his time and dedication in ensuring that the annual accounts receive sufficient scrutiny and the join-up he provides through his membership of the boards of other organisations. I welcome our newest ARAC member, Cath Denholm, whose knowledge and experience will ensure 2019/20 will again be a successful year for ARAC.

## 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 internal control environment. ARAC assists the Accounting Officer and Joint Committee to formulate their assurance needs and consider how well assurance received meets these needs by gauging the extent to which assurance on the management of risk is comprehensive and reliable.

Assurance draws attention to the aspects of risk management, governance and control that are functioning effectively and, just as importantly, the aspects which need to be given attention to improve them. An effective risk management framework and a risk-based approach to assurance helps the Accounting Officer and Joint Committee to judge whether they are focussing on the issues that are most significant in relation to achieving the organisation's objectives and whether best use is being made of resources. Assurance cannot be absolute, so ARAC needs to know that the organisation is making effective use of the finite assurance mechanisms at its disposal, targeting these at areas of greatest risk.

The establishment of JNCC's internal control and risk management systems is based on the identification of external and internal risk factors that could influence the operational and financial objectives of the organisation and contains a system of monitoring, reporting and operational reviews. All material risk management activities have been discussed with ARAC and subsequently reported to the Joint Committee through quarterly performance reports and an annual discussion paper on risk.

Financial management in JNCC 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 on the financial statements and disclosures presented in JNCC's Annual Report and Accounts for 2018-19. In 2019/20, ARAC look forward to seeing the outputs from the investment in new financial models which have been developed to assist staff in the management of the organisation's financial resources.

Cyber incidents pose an increasing threat to management of JNCC's information, with hacking, ransomware, cyber fraud and potential accidental information losses. An additional complexity arises when JNCC need to share data. JNCC and its partners need to have mutual trust in each other's ability to keep data secure and take assurance from each other's risk management and information assurance arrangements for this to happen successfully. Cyber security is now an area of management activity that ARAC scrutinises regularly. This an important role for ARAC in understanding whether management is adopting a clear approach, if there is compliance with rules and standards and whether the work area is adequately resourced to carry out these activities. ARAC are content that risks are being managed in this area and work is ongoing to mitigate threats.

The shifting nature of cyber threats is a challenging area for any organisation, particularly to a medium size organisation with constrained budgets such as JNCC. The emerging government interest in JNCC activities as part of EU exit work has been a step change this year. The perception that hostile actors have increased activity to acquire information assets has led to an investment in specific hardware for raised threat environments. Educating staff to the threats presented is ongoing, alongside regular communication on the need to maintain awareness.

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 in all areas it has considered to be effective.

Professor Colin A Galbraith  
On behalf of ARAC

5 June 2019