Audit & Risk Assurance Committee 36th meeting, 24 March 2014, Report to Joint Committee

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Audit & Risk Assurance Committee
36th meeting, 24 March 2014
Report to Joint Committee

Guy Duke, Chair ARAC

1   Introduction

1.1   The Chair welcomed members Susan Walker, Judith Webb and Tony Hams and attendees David Hakin (National Audit Office - NAO, external audit – by phone), Andrew Larsen (NAO), Louise Davies (Baker Tilly, Internal Audit (IA) outgoing), Tamas Wood & Sally-Anne Eldridge (KPMG, incoming IA) and staff. Apologies were received from Helen Morris (Defra).

1.2   The meeting focused on: (1) internal audit, including the draft IA strategy 2014-17 and operational plan 2014/15, four IA reports, the draft Annual Assurance Report 2013-14, and a report on IA performance indicators; (2) the quarterly review of risks; (3) other items, including a first look at the draft Governance Statement for 2013-14, updates on the Triennial Review and on Defra's Strategic Alignment programme, and a paper on ARAC succession planning.

1.3   A closed session addressed papers on performance of the outgoing IA (Baker Tilly) and on the MoU for the incoming IA (KPMG)

INTERNAL AUDIT

2   Draft IA strategy 2014-17 and operational plan 2014/5

2.1   KPMG presented the draft IA strategy 2014-17 and operational plan 2014/15. KPMG take over as internal auditor for JNCC following their recent selection for the provision of shared IA services across the Defra network. The strategic approach (including assurance levels and a set of standard key performance indicators) is standard for all network bodies (and still being refined) but the annual operational plan is designed in close consultation with JNCC, based on analysis of JNCC risks. ARAC noted the positive collaboration between KPMG and JNCC staff at the outset of this contract

2.2   Audits planned for 2014-15 are: (1) key financial controls, (2) scientific evidence (this audit was postponed from 2013/14 pending roll-out of the new evidence quality policy); (3) risk management (compliance) and monitoring by the board of support company performance; (4) IT data management. Detailed scopes and

schedules for these audits will be discussed with ARAC in due course.

2.3   ARAC will revisit key performance indicators with a view to adding JNCC-specific KPIs (for both KPMG and JNCC performance of IA) at its June meeting.

2.4   As a courtesy to the outgoing IA team (Baker Tilly), the incoming IA team (KPMG) left the meeting following this item.

3   Matters arising from IA reports

3.1   ARAC discussed four IA reports on: (1) key financial controls – focussing on real-time payroll information, and T&S payments; (2) IT and data security; (3) risk management and corporate governance; (4) follow-up audit.

3.2   ARAC thanked staff for the high level of assurance (green) again achieved for key financial controls (David Burton and his team). ARAC asked EMB to clarify where the assurance provided by Defra shared payroll services stops and that provided for JNCC payroll operations starts, to ensure there are no gaps.

3.3   ARAC thanked staff for the good assurance (amber/green) achieved for risk management and governance (Tracey Quince).

3.4   The follow-up audit was also generally positive with 75% of recommendations implemented. ARAC suggested that greater attention be given to making actions time-bound, to avoid the build-up of too many 'ongoing' actions on the follow-up list.

3.5   ARAC expressed concern about the outcome of the IT and data security audit. While this was an advisory rather than an assurance audit, the outcome was equivalent to an amber/red rating. ARAC stressed the need to take the recommendations seriously. EMB informed ARAC that: (a) an action plan has been developed for short-term (6-12 months) action to address these and other data security issues identified through internal review; (b) the 2014/15 follow-up audit will assess follow-up of the audit recommendations; (c) the 2014/15 audit on IT data management will address issues to do with the risk of external penetration of JNCC IT systems; (d) a mid-year report will be presented to ARAC on progress with IT and data security issues.

4   Draft Annual Assurance Report – Year ended 31 March 2014

4.1   ARAC discussed the draft Annual Assurance Report (AAR) from the internal auditors, which confirms substantial assurance of governance and risk management, and similarly high assurance of internal controls audited during the year. The AAR will be annexed to the annual report from ARAC to the Joint Committee in June.

5   Report on IA performance indicators for 2013-14

5.1   ARAC discussed the report on indicators of IA performance for 2013-14. All but one indicator of IA performance was achieved, suggesting effective and timely delivery of IA functions. There were two indicators not met by JNCC. One of these

was the indicator relating to the time taken for management to provide comments on IA draft reports. ARAC advised that when setting new indicators in June, management should consider giving more time to allow for effective dialogue between the IA team and management.

5.2   ARAC discussed the expectation that the new indicators under the Defra-KPMG IA contract would set a target of 100% of recommendations implemented within the agreed timeframe. ARAC felt this might be counterproductive and stressed the need to set realistic timeframes.

5.3   The Chair thanked the outgoing IA team (Baker Tilly) for their services to JNCC.

RISK MANAGEMENT

6   Update on Significant Risks and Discussion of New, Emerging and Fast-evolving Risks

6.1   ARAC considered the table of significant risks and updates on each risk. ARAC discussed in particular staff turnover. While this was above 10% in Q1 of 2013/14, it has since reduced. As reported last quarter, feedback from leavers does not reveal any systemic cause of turnover. Most is at junior levels, notably in the marine teams. ARAC suggested that, if substantial turnover is to be expected at certain levels, an approach should be developed to live with this as efficiently and effectively as possible. Work to benchmark JNCC staff turnover against that in other network bodies is ongoing. ARAC asked that this look at turnover at various grades to throw light on whether the observed JNCC pattern is common to other bodies.

6.2   ARAC discussed new and emerging risks. Given the 'amber/red' result of the IA on data security, ARAC felt that data security issues should be registered as a significant risk. These are indeed already identified as such in the draft governance statement, but may need some re-wording to ensure the risk is captured sufficiently. The risks as identified in the governance statement will form the new basis for ARAC consideration of significant risks going forward.

OTHER ISSUES

7   Draft Governance Statement 2013-14

7.1   ARAC took a first look at the draft GS for 2013-14, which is the Chief Executive's opinion on risk management, internal control and corporate governance for the year. A first draft of the GS will be sent to Defra on 1 April, a second draft by 20 May and the final GS will be incorporated in JNCC's Annual Report and Accounts to be submitted following the June Board meeting. The External Auditor (NAO) encouraged JNCC to check that the risks in the GS were indeed those in the 'red' category in the corporate risk register as there is a perceived tendency for network bodies to exclude these from their GS and add 'amber' risks. ARAC suggested adjusting some wording to better reflect the data security risks identified in the recent advisory audit, and to strengthen the links between risks related to workforce management and delivering quality evidence. ARAC will make further

comment on the draft GS intersessionally and recommend the GS to the Board at its June meeting.

8   Update on Triennial Review Implementation Plan

8.1   ARAC received a progress update on the Triennial Review implementation plan. Most actions are well advanced. Development of JNCC's role in science leadership will require further work.

9   Update on the Defra Strategic Alignment Programme

9.1   ARAC received an update on Defra's Strategic Alignment Programme. As part of this, Defra is setting up a new corporate services directorate covering estates, IT, procurement and communications. JNCC is listed in the 'second tranche' of bodies to join these shared services, but a final decision will be based on an assessment of value for money and quality of service. Despite constant reminders in one-to-one meetings, there is a tendency for generic strategic Alignment Programme documents from Defra to overlook JNCC's UK remit; ARAC stressed the need for the Support Company to continue to flag the UK remit at every opportunity.

10   ARAC Succession Planning

10.1   ARAC currently has the bare minimum of four members, one of whom,(Judith) leaves JNCC at the end of June 2014. The current Chair (Guy) leaves JNCC at the end of November 2015. ARAC supported proposed actions to address these issues, including: recruitment of an additional external member; a formal approach to CCBs (perhaps by the incoming Chair of JNCC) to provide an ARAC member; the inclusion of ARAC-relevant skills as desirable skills within the profile for forthcoming recruitment of new JNCC Independent Members (i.e. the replacements for Dave Pritchard and Judith Webb); identification by March 2015 of a candidate (an Independent Member of JNCC) for the role of ARAC Chair, to 'shadow' the current Chair prior to taking over the role from December 2015.

11   ARMC Forward Programme

11.1   ARAC considered its Forward Programme and noted minor changes.

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   No cases of fraud or presumptive fraud or significant losses were reported and no significant issues in relation to the other areas of control had been reported.

13   Anti-fraud and corruption policy

13.1   ARAC received a copy of this policy intersessionally between the November and March meetings.

CLOSED SESSION – CONFIDENTIAL ITEMS

14 Annual Performance Report on Internal Audit 2013-14

14.1 ARAC discussed a report on the performance of the outgoing audit team (Baker Tilly). Performance had generally been good over the first 3 quarters, with a fall off in performance (delays, rather than quality) over the last quarter following award of the shared services IA contract to KPMG. The executive is chasing final outputs and does not anticipate problems in securing these.

15 Internal Audit contract 2014-17

15.1 ARAC received for information a copy of the MoU between KPMG and JNCC. ARAC noted the KPMG contract represents a >30% cost increase compared with the Baker Tilly contract and suggested this should be flagged to Defra.