



**Audit & Risk Assurance Committee 37th meeting, 11 June 2014  
Report to Joint Committee**

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.

To view other Joint Committee papers and minutes visit <http://www.jncc.gov.uk/page-3326>

To find out more about JNCC visit <http://www.jncc.gov.uk/page-1729>

**Audit & Risk Assurance Committee  
37<sup>th</sup> meeting, 11 June 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), Sally-Ann Eldridge (KPMG, internal audit), Nikki Savidou (Defra, representing Helen Morris) and staff.
- 1.2 The meeting focused on: (1) internal audit, including the final 2013/14 IA Annual Assurance Report, the strategy and operational programme for 2014/15, and performance indicators for IA 2014-17; (2) external audit, including the post-audit JNCC Annual Report and Accounts (including the Governance Statement) and the NAO's draft Audit Completion Report; (3) a review of risk management processes and the regular review and update on risk; and (4) ARAC's Annual Report to the Joint Committee, and a progress report on the Corporate Change Programme 2013/14.

**INTERNAL AUDIT**

**2 Final IA Annual Assurance Report 2013/14 and Defra Shared Audit Service Group Assurance Declaration**

- 2.1 ARAC discussed the final IA Annual Report which, as reported to Joint Committee in March, confirms substantial assurance of governance and risk management, of the internal control framework, and of health and safety compliance, resulting from audits completed during the year. The Annual report also confirms good progress with follow-up of 2012/13 IA recommendations, with no high or medium recommendations receiving inadequate attention. ARAC congratulated the staff on the assurance obtained.
- 2.2 ARAC also endorsed the Head of IA's Assurance Declaration to Defra. Consistent with the IA Annual Report, this confirms that JNCC has adequate and effective governance, risk management and control processes in place and gives 'substantial' assurance overall on JNCC's framework of governance, risk management and control.

**3 IA strategy 2014-17, operational plan 2014/15 and forward look to 2017**

- 3.1 KPMG presented the IA strategy 2014-17 and operational plan 2014/15 together

with a forward look for IA to 2017. This is KPMG's first year undertaking IA for JNCC. As reported in March, the strategic approach (including assurance levels and KPMG performance indicators) is standard for all Defra network bodies. The operational plan is however designed in close consultation with JNCC.

- 3.2 The strategy includes an assessment of the range of internal and external risks pertinent to JNCC and identifies which areas will be audited this year and, on an indicative basis, in 2015/16 and 2016/17. Not all areas of risk are addressed over the three years; areas have been selected on the basis of the perceived level of risk and the amenability of each area to IA procedures. Audits planned for 2014/15 are: (1) key financial controls; (2) roll out of JNCC's new scientific evidence quality strategy; (3) compliance with risk management processes, and quarterly performance reporting to the Joint Committee; (4) IT data management ('penetration testing'). These are scheduled to take place in Q2 and Q3. Detailed scopes for these audits will be discussed with ARAC at the September meeting.
- 3.3 ARAC endorsed the strategy and operational plan for 2014/15 and the indicative forward look to 2017, on the understanding that operational plans for 2015/16 and 2016/17 will be kept under review and firmed up in the light of evolving risks.

#### **4 IA performance indicators for 2014-17**

- 4.1 ARAC discussed and endorsed proposed indicators of IA performance for 2014-17. These include indicators of KPMG performance and indicators of JNCC performance. The latter include implementation by due date of 100% of high priority IA recommendations and 90% of medium priority recommendations. ARAC advised management to ensure tracking of implementation and prompt staff where necessary well in advance of due date. ARAC requested an annual report on the full set of performance indicators, to allow ARAC to have full assurance in this regard. ARAC will also be informed of progress during the course of the year.

### **EXTERNAL AUDIT**

#### **5 Post-audit Annual Report and Accounts for 2013/14 and Governance Statement**

- 5.1 ARAC discussed the post-audit Annual Report and Accounts, including the Governance Statement. These paint a general picture of a healthy and efficient organisation. ARAC recommend that the Company Board approve the JNCC 2013/14 Annual Report and Accounts, subject to inclusion of outstanding information required for the remuneration report and to this information being signed off by the Chief Executive.
- 5.2 The outstanding information is awaited from MyCSP, the civil service pensions administrator, and relates to clarifications on pension figures for 2012/13 and 2013/14. The executive and NAO informed ARAC that this is a problem affecting many bodies across government, not just JNCC. There is a risk that this could delay the laying of JNCC accounts. Noting the potential reputational risk to JNCC, ARAC advised the Chief Executive to inform JNCC's sponsorship team in Defra, in writing, of the possible delay and the fact that the matter is beyond JNCC's control. NAO informed that any delay to the laying of JNCC accounts would not delay

laying of Defra accounts. [Note: the missing pensions information was subsequently obtained on 12 June, allowing Joint Committee to approve the Annual Report and Accounts without reservation]

- 5.3 The attention of Company Directors is drawn to the assertion (pp 14-15) that “Directors confirm that there is no relevant audit information of which the auditor is unaware; and that they have taken all the steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the JNCC’s auditor is aware of that information.” Directors are advised that such steps include review of reports from ARAC to Joint Committee, and requesting sight of ARAC papers as and when this is felt to be necessary.

## **6 Review of NAO’s draft Audit Completion Report on the 2013/14 Financial Statement Audit**

- 6.1 ARAC reviewed the external auditor’s (NAO) Audit Completion Report and Management Letter on the 2013/14 Financial Statement Audit, which refers to the JNCC’s 2013/14 Annual Report and Accounts. This notes financial misstatements, which suggest that expenditure was approximately £29,000 more than that reported in the ARA, and capital assets approximately £29,000 less than reported.
- 6.2 ARAC recommend to the Company Board that the Financial Statements are not adjusted for these identified misstatements, as they are not material (NAO consider misstatements of >2% of turnover, equal to approximately £200,000 for JNCC, would be material). ARAC recommend to the Company Board that the Chief Executive should sign the Letter of Representation.
- 6.3 ARAC noted that the Support Company is currently required to seek prior authorisation from Defra for any capital purchases, and that this is administratively heavy in relation to the scale of the purchases. Management will seek a degree of flexibility in this requirement, and ARAC Chair will flag it as an issue at the next Defra ARC Chairs meeting.

## **RISK MANAGEMENT**

### **7 Review of risk management and reporting in JNCC**

- 7.1 ARAC discussed a paper reviewing risk management processes in JNCC. This paper was prompted by a feeling that the executive was giving undue attention to ‘slow-burning’ risks on the corporate risk register, and that there was something of a disconnect between this and the more immediate and current ‘significant risks’ addressed at each ARAC meeting.
- 7.2 ARAC endorsed proposed changes to the risk management process, notably:
- discussion, to take place one per year in Joint Committee, on high-level (significant) risks. ARAC considers this highly beneficial in terms of Joint Committee assuming ultimate responsibility for risk (major risks should not be delegated to ARAC). Joint Committee are requested to determine at which of its four meetings this discussion of high-level risks should take place [Note: Joint Committee subsequently decided on 12 June to hold this annual discussion at its November meeting; ARAC will therefore address preparation

of this discussion at its September meeting];

- quarterly review by EMB of the 'significant risks' addressed at ARAC meetings, and action by EMB to enhance read-across to the longer-term corporate risks (those inherent to JNCC as an organisation) as well as to programme- and project-level risks;
- based on the above, a quarterly report on significant risks, from the executive to Joint Committee, as part of the quarterly report on performance. This will keep the evolution of these risks visible to Joint Committee on a regular basis;
- a quarterly report (as now) from the ARAC Chair following each ARAC meeting. Company Directors are encouraged to request ARAC papers as necessary to satisfy themselves in relation to audit and risk assurance (see 5.3, above).

## **8 Update on significant risks and discussion of new, emerging and fast-evolving risks**

- 8.1 ARAC took its regular look at significant risks. A risk related to external staff turnover has been removed from the table, as this is no longer considered a problem. However, there does remain a risk in relation to a high level of internal staff churn, notably in the marine teams. This results largely from the government constraint on external recruitment and requirement that posts are first opened internally. This often leads to a chain of staff movements. Management is seeking a relaxation of this constraint from Defra to enable external recruitment for mission-critical posts. ARAC supported this move. The matter has already been raised with Lord de Mauley by the JNCC Chair.
- 8.2 ARAC also discussed briefly the risk to JNCC relating to the forthcoming Scottish Referendum. ARAC agreed with the executive that whatever the outcome, this risk is best addressed by continuing to provide a high quality of service to Scottish Government and SNH.
- 8.3 ARAC did not identify any new, emerging or fast-evolving risks beyond those already on the list of significant risks.

## **OTHER ISSUES**

### **9 ARAC annual report to Joint Committee and ARAC forward programme**

- 9.1 ARAC reviewed the draft ARAC Annual Report to Joint Committee. ARAC endorsed the report as a fair account of business carried out over the course of the year.
- 9.2 ARAC supported addition to the forward plan of an item to prepare an annual Joint Committee discussion of high-level risks (see 7.2 first bullet, above).
- 9.3 Following the discussion of ARAC succession planning at its last meeting, ARAC discussed progress. This was Judith Webb's last ARAC meeting before the end of her term as a Joint Committee member. Ongoing members are Guy Duke (Chair,

independent Committee member), Susan Walker (SNH) and Tony Hams (external). ARAC expressed appreciation of an offer from Nigel Reader, on behalf of Natural Resources Wales, to act as a back-up member of ARAC if and when necessary to ensure ARAC is quorate. ARAC believe Mr Reader would be a very welcome addition and decided to invite him to extend his offer, to become a regular member of ARAC, returning ARAC membership to four. ARAC also noted that ARAC-relevant skills have been specified as an 'essential criterion' in the terms of reference for the recruitment of two new Joint Committee independent members. The announcement of these posts is expected to be published by Defra shortly. It is hoped that at least one of these new independent members may join ARAC by the November 2014 meeting, or March 2015 meeting at latest. With Mr Reader, this would take ARAC membership to five.

## **10 Corporate change programme**

- 10.1 ARAC noted an end-of-year progress report on the corporate change programme 2013/14. Excellent progress has been made against the plan with 21 out of the original tasks completed in full. Only two tasks made limited progress. In future, ongoing change actions will be addressed at programme and project level by the executive and ARAC will not receive a separate paper on corporate change.

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

- 11.1 No cases of fraud or presumptive fraud or significant losses were reported and no significant issues in relation to the other areas of control. ARAC noted that work is ongoing to embed the new evidence quality strategy and that progress with this will be audited in Q3.