



**Audit & Risk Assurance Committee 38th meeting,
17 September 2014, Report to Joint Committee**

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**Audit & Risk Assurance Committee
38th meeting, 17 September 2014
Report to Joint Committee**

Guy Duke, Chair ARAC

1 Introduction

- 1.1 The Chair welcomed members Susan Walker, Nigel Reader and Tony Hams and attendees Tamas Wood (KPMG, internal audit), Nikki Savidou (representing Nathan Paget, Defra) and staff. The Chair welcomed in particular Nigel Reader to his first meeting. Nigel is a Board member of NRW and chairs NRW's Audit and Risk Assurance Committee. He also chairs the Natural England and MMO ARCs. The Chair also welcomed Joint Committee Chair Chris Gilligan who attended as an observer.
- 1.2 The meeting focused on: (1) Internal audit, including the scopes for three of the four audits scheduled for 2014/15 and a progress report on internal audit; (2) the regular review of significant risks; (3) intersessional papers on single tenders, and on losses; (4) in closed session, a report on external audit performance 2013/14. The meeting was also briefed by Defra on developments in relation to cross-government internal audit shared services.

2 Matters Arising

- 2.1 **Succession planning.** ARAC noted that, with the departure of Judith Webb, the Chair remains the only Joint Committee independent member on ARAC. Guy Duke leaves the Joint Committee at the end of November 2015. ARAC supported the recruitment of another independent member of the Joint Committee (possibly one of the two new members who will shortly be appointed) by the March or June meeting, to shadow the current Chair with a view to taking over the Chair from 1st December 2015. Nigel Reader's term on the NRW Board ends in October 2015. He would be able to extend his appointment to the JNCC ARAC should he be appointed to a second term on the NRW Board. Alternately, he might remain on JNCC ARAC another year in his capacity as an NE Board Member (expires late 2016).

INTERNAL AUDIT

3 Draft IA scopes 2014/15

- 3.1 At its last meeting, ARAC agreed the audit strategy and operational plan for the year, which specified the topics of this year's internal audits. At the current meeting, ARAC considered the draft scopes for three of the four, namely: (1) Risk management and Joint Committee performance monitoring; (2) Scientific evidence: quality control and assurance arrangements; (3) Key Financial Controls. ARAC noted and discussed these scopes. The draft scope for the remaining

internal audit, on IT data management, will be considered at the November meeting.

- 3.2 The audit of **risk management** will review the new risk management process. The auditors, KPMG, will draw on experience with other organisations to suggest improvements. The audit of **Joint Committee performance monitoring** will review quarterly performance reporting to the Joint Committee. Management anticipates a 'substantial' assurance rating from this audit. Chris Gilligan indicated that he would like the results of the risk management audit to be presented to the Joint Committee (this can be provided at the March meeting to inform the scheduled annual Joint Committee discussion of significant risks).
- 3.3 The **science evidence** audit will look at design of controls, operation of controls, and fitness for purpose. The audit will look at these issues across the breadth of JNCC evidence work. As the new science evidence processes are still being embedded, management anticipates a 'moderate' assurance rating from this audit.
- 3.4 The **key financial controls** audit will look at design of controls for general ledger, payroll and ordering and creditors, and operation of a range of financial controls. Management anticipates a 'substantial' assurance rating from this audit.

4 Mid-year annual assurance report 2014/15 (progress report on emerging findings from internal audit) and review of the operational programme in light of external audit findings and emerging risks

- 4.1 ARAC noted and discussed a progress report on internal audit for the year 2014/15, presented by KPMG. This reflects the work done to date on scoping of this year's internal audits and shows that work is proceeding to schedule. Two (scientific evidence, risk management and Joint Committee performance monitoring) will be completed by December, and the other two by March. The four audit reports will be available for ARAC review at the March meeting.
- 4.2 The progress report also includes a useful sector update on recent developments of relevance to audit, including in relation to scrutiny (e.g. by the Environment and Rural Affairs Select Committee, National Audit Office), Defra publications, wider civil service reform, and KPMG publications.

5 Briefing on Government single internal audit service

- 5.1 Nikki Savidou provided an update on recent developments. Following the development of a Defra group shared internal audit service, government is now moving towards the development of a single cross-government internal audit shared service. JNCC's internal auditors KPMG are currently supplied under the Defra shared service. In future, the supply is likely to move to the planned cross-government shared service. There should be few implications for JNCC. The principal relationship will remain between JNCC's Accounting Officer (the Chief Executive) and JNCC's head of internal audit (KPMG, for the duration of the contract). ARAC was informed that the cross-government service would not imply JNCC being obliged (following the current contract with KPMG) to take on internal auditors lacking appropriate sector experience, rather it would still permit the appointment of auditors experienced in the environmental sector.

RISK MANAGEMENT

6 Significant risks register and discussion of new, emerging and fast-evolving risks

- 6.1 ARAC welcomed the new arrangements for risk management. This provides a stronger join up between the high-level corporate risk register (principle, long-standing risks) and the annual significant risk register (significant, 'live' risks). It also strengthens Joint Committee ownership and oversight of risk, through an annual discussion of significant risks and quarterly sight of the significant risks register (as part of the quarterly performance report). ARAC will make preparations at its November meeting for the Joint Committee annual discussion of risk, refine this inter-sessionally (with any final touches at the March ARAC meeting) and submit to the Joint Committee meeting in March.
- 6.2 ARAC reviewed and discussed the 'significant risks register' including risks relating to staff turnover, to prioritisation of work with reduced resources, and to devolution.
- 6.3 As regards **internal staff turnover** (Risk 2) management is still seeking a level of delegation from Defra to allow external recruitment of mission-critical posts, and hopes for a positive decision on this matter within the next few weeks.
- 6.4 As regards **prioritisation of work with reduced resources** (Risk 3), management is preparing, at the request of Defra, scenarios for 5, 10 and 15% cuts in its four funding streams for 2015/16 (a paper is on the Joint Committee agenda for 18 September). There is very little scope to make savings other than by doing less in certain areas. Management expect a decision from Defra on the level of the cuts required in November. No in-year cuts are required for the current financial year.
- 6.5 As regards **devolution** (Risk 4), ARAC noted that there will be significant implications for JNCC whichever way the Scots vote in the independence referendum on 19 September, and that change would relate not only to Scotland but also to the rest of the UK. Management has not undertaken any detailed scenario planning, as the potential ramifications are too uncertain. However, the scheduled review of JNCC's strategy will consider the outcome of the referendum and inform JNCC discussions with government.
- 6.6 The JNCC Chair suggested that **financial stability, critical mass and related reputational risk** might be added as a significant risk. ARAC will reconsider this in the light of the financial settlement decision at its next meeting.

OTHER ISSUES

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

- 7.1 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 requested that management provide a little more detail in the area of health and safety in future

reports.

- 7.2 ARAC noted that work is on-going to embed the new evidence quality strategy, including staff training, and that there is generally a good level of compliance. Management has identified 11 high risk evidence provision activities and will provide this list to ARAC intersessionally between the September and November meetings.

8 ARAC forward plan

- 8.1 Taking into account recent changes in ARAC membership, ARAC agreed to increase the frequency of its self-assessments of effectiveness to annually, adopting a light touch approach. A light touch review will be undertaken at the end of the year and the results presented to the March ARAC meeting. National Audit Office have offered to design, collate and analyse results from the survey and facilitate a workshop at the March meeting.

9 Report on single tenders 2013/14

- 9.1 ARAC questioned one or two of the single tenders. Management assured ARAC that new procedures are being put in place to ensure a robust rationale is provided in all cases for the use of a single tender. Management will also review the thresholds being applied in relation to those used across government (management currently reports on all single tenders with a value of £7,500 or above).

10 Annual report of gifts, write-offs, losses and other special payments for the year to 31 March 2014

- 10.1 This report notes 18 fruitless payments for the year, mostly relating to travel bookings. ARAC requested that year-on-year payments be provided in this paper in future to permit ARAC to see any trends.

CLOSED SESSION

11 Annual report on performance of external audit (*Confidential*)