



**Audit & Risk Assurance Committee 39th meeting,
19 November 2014, Report to Joint Committee**

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Audit & Risk Assurance Committee 39th meeting, 19 November 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 Sally-Anne Eldridge (KPMG, internal audit), Debbie Edwards (NAO, external audit) and staff.
- 1.2 The meeting focused on: (1) internal audit, including the mid-year report and matters arising from the audit of risk management and governance; (2) external audit, including the draft annual strategy and timetable for the JNCC Annual Report and Accounts; (3) risk, including the regular look at significant risks and orientation of a paper for the planned new annual Joint Committee discussion on high-level risks to be held in March; (4) a closed session item looking at future internal audit options.

2 Matters arising

- 2.1 **Succession planning.** ARAC noted that two new members of the Joint Committee have been appointed (Colin Galbraith and Ian Bateman). The Chair will approach both in due course to explore their interest in joining ARAC with a view to becoming the Chair in December 2015.
- 2.2 **Delegation for external recruitment.** Both ARAC Chair and management have raised with Defra the need for a level of delegation from Defra to allow faster recruitment of mission-critical posts and reduce internal staff turnover. A decision is expected soon from Defra. If this does not resolve matters, there may be a need for the devolved administrations to add their voice to the effect that delayed recruitment is putting mission-critical work at risk.
- 2.3 **ARAC self-assessment.** This is planned for the March meeting, and will be facilitated by the NAO as part of NAO's service to JNCC, without extra charge (NAO to confirm this). ARAC currently carry out a self-assessment on a triennial basis, but ARAC will consider as part of the assessment whether this ought to take place more frequently.

INTERNAL AUDIT

3 Mid-year internal audit progress report

- 3.1 ARAC expressed its satisfaction with internal audit progress. Of the four audits planned for the year, one (risk management and governance) is completed, one (scientific evidence) is nearing completion, one (key financial controls) has agreed terms of reference with fieldwork started, and the last (IT data management, with a

focus on penetration testing) is pending preparation of terms of reference. KPMG assured ARAC that the agreed work for the year would be completed within the agreed resource allocation.

- 3.2 ARAC welcomed the sector update provided by KPMG, noting in particular the strong opinions of the Public Administration Select Committee in its report on arm's-length government, which calls for clear categories of arm's-length bodies and improved sponsorship.

4 Matters arising from internal audit reports

- 4.1 ARAC discussed the outcome of the risk management and governance audit, which achieved a green 'substantial' assurance status (as expected by management). ARAC noted the auditor's opinion that JNCC documentation of risk management and governance is 'the best they had seen.' KPMG were impressed, *inter alia*, by the rapidity with which JNCC has embedded the new risk management process and the quality and robustness of the data underpinning risk management. ARAC congratulated staff on this pleasing outcome. Nigel Reader voiced an intention to hold JNCC risk management and performance monitoring processes up as an 'exemplar' for the other arm's length bodies with which he is a non-executive board member.
- 4.2 Annex 1 of the audit report ('results of review of the risk management process and of the Joint Committee performance monitoring') is commended to Joint Committee as providing a clear overview of risk management and performance monitoring in JNCC. Management will review the small number of low-priority recommendations made to further enhance these processes.

EXTERNAL AUDIT

5 Draft annual strategy for external audit 2014/15 and timetable for production of the JNCC Annual Report and Accounts

- 5.1 ARAC discussed the draft annual strategy for external audit, produced in consultation with JNCC's external auditors, the NAO. The strategy focuses the planned external audit on the risks of material misstatement to the financial statements, notably any possible management override of controls. ARAC agreed with the assessment of risk outlined in the draft strategy. ARAC expressed no specific concerns relating to the possible management override of controls.
- 5.2 ARAC approved the timetable for production and laying of the Annual Report and Accounts, which is reduced by four weeks from last year's timetable. Management expressed confidence in the ability to meet the agreed timetable and thus avoid additional costs that could be triggered by slippage. NAO stated that the shorter timeframe effectively represents the external auditor's 'vote of confidence' in the ability of JNCC to complete the process in a shorter period, and is a reflection of JNCC's past performance in this regard. The Chair noted that JNCC is shown in the recent 'NAO digest' to be among the best performers in the Defra family in terms of timeliness and quality of ARA. ARAC expressed its appreciation of management's efforts to meet the new timeframe.
- 5.3 The cost of external audit is unchanged from last year at £18,500.

RISK MANAGEMENT

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

- 6.1 ARAC took its regular quarterly look at the significant risks register. Particular attention was given to the new risk (Risk 9), identified at the last meeting, which reads 'insufficient funding to remain effective in fulfilling JNCC's role and meeting customer's expectations.' Given the expectation of continuing cuts beyond the current round, ARAC considered the scoring of this risk (currently residual score of 16) should be even higher, making it JNCC's 'no 1' risk.
- 6.2 Management mentioned a number of constraints in dealing with cuts in 2015/16, including: (a) the fact that 60% of JNCC budget is tied up in staff costs and a further 10% in long-term agreements for which short-term adjustments are not easy; (b) the absence of clear direction from Defra and across sponsors on priorities over the medium-term. ARAC supported the need for a longer (3-4 year) horizon on funding allocations and a shared direction from sponsors on priorities in order to allow for more strategic planning.
- 6.3 Management indicated that the provisional allocation for 2015/16 amounted to an overall 6% cut against baseline and was 'manageable' (though the allocation may yet change for the worse). Further cuts beyond this would be increasingly challenging.
- 6.4 Regarding risk 2 (recruitment), ARAC formally registered its concern at the continuing absence of the requested delegation from Defra to provide more flexibility for external recruitment.
- 6.5 Regarding risk 6 (scrutiny of JNCC evidence), ARAC noted that this scrutiny extends beyond government to external actors (NGOs, private sector, etc.) and that JNCC may be exposed to higher risk from such actors if continuing cuts result in a weakening of evidence work.
- 6.6 No other new, emerging or fast-evolving risks were identified. Management confirmed that JNCC makes only very limited use of Defra shared services (for payroll) and therefore has little exposure to any problems with delivery of these shared services.

7 Preparation for the Joint Committee's annual discussion on significant risks

- 7.1 The Joint Committee agreed at its June meeting to hold an annual discussion on high-level significant risks, at its March meeting, with a view to reinforcing Joint Committee's joint and several ownership of risk. ARAC are very happy that Joint Committee has agreed to such an annual discussion, and will work with management to prepare a paper to inform this discussion. To kick off this preparation, ARAC discussed an 'orientations' paper by Chair and staff, outlining the purpose and scope of the paper for Joint Committee and the process for its preparation.
- 7.2 It was agreed that the paper should focus on two high-scoring risks on the significant risks register, namely, Risk 9 (risk of insufficient funding) and Risk 4

(risk that devolution and legislative changes result in diverging approaches and institutional arrangements). In addition, ARAC agreed that the paper should seek Joint Committee's views on JNCC's risk appetite, which is currently couched in rather generic terms. The tone of recent discussions in the first meeting of the strategy sub-group suggest a possible need to embrace a higher level of risk in the interests of JNCC's future relevance and survival. These three issues thus drive at the heart of JNCC's (and sponsors') interests, link closely to JNCC's current strategic review, and, well framed, should provoke lively debate in Joint Committee resulting in enhanced ownership of risk by Committee members / non-executive directors.

- 7.3 Chair and management will prepare a first draft paper for ARAC to comment on intersessionally, following which Chair and management will finalise the paper for Joint Committee. The paper will be informed by a management review of risk due to take place in January. ARAC will review the paper at its March meeting and the Chair will report any final amendments to Joint Committee the day after.

OTHER ISSUES

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

- 8.1 No cases of fraud or presumptive fraud or significant losses were reported and no significant issues in relation to the other areas of control.
- 8.2 Management agreed, at ARAC's request, to circulate a note identifying high-risk evidence areas.
- 8.3 In accordance with International Standards on Auditing, NAO recently sought the opinion of JNCC non-executives as to whether 'those charged with governance are aware of any non-compliance with laws and regulations affecting JNCC'. The Chair consulted with the non-executives and responded that the non-executives are not aware of any such non-compliance. However, to enable non-executives to respond to this question in future, Chair requested management to carry out a light-touch review of applicable laws and what assurance we have that we are compliant with each, identifying any possible gaps. NAO will assist by advising on those laws to be taken in to account.

9 ARAC forward plan

- 9.1 ARAC has moved its planned self-assessment to the March meeting. The self-assessment will be facilitated by NAO. This is a service provided within NAO's existing external audit role.

CLOSED SESSION

10 Internal audit options for 2015 and beyond (*Confidential*)