



Audit and Risk Assurance Committee 41st meeting, 3 June 2015, Report to Joint Committee

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Audit and Risk Assurance Committee 41st meeting, 3 June 2015 Report to Joint Committee

Guy Duke, Chair ARAC

1 Introduction

- 1.1 The Chair welcomed members Susan Walker, Nigel Reader and (new member) Colin Galbraith, and attendees Sallyanne Eldridge (KPMG, internal audit), Debbie Edwards (NAO, external audit), Nikki Savidou (Defra) and staff. Apologies were received from Tony Hams.
- 1.2 The meeting focused on: (1) **Internal audit**, including the Annual Assurance Report, report on internal audit performance indicators, scopes for the first two audits for 2015/16, and matters arising from the final audit from the 2014/15 programme; (2) the JNCC **Annual Report and Accounts** including the Governance Statement, and the NAO's Audit Completion Report; (3) **risk**, including the regular look at significant risks; (3) **other items** including follow-up to the ARAC effectiveness review, and ARAC's annual report to the Joint Committee.

INTERNAL AUDIT

2 Final internal audit Annual Assurance Report 2014/15

- 2.1 ARAC reviewed the final internal audit Annual Assurance Report for 2014/15, prepared by KPMG, including the Head of Internal Audit Opinion¹ (which is reflected in the Governance Statement in JNCC's Annual Report and Accounts). The Opinion is unchanged from the draft seen in March and considered by ARAC to be a fair reflection of the outcome of the audits conducted during the course of the year. KPMG used all 25 days of the 25 days planned for internal audit during 2014/15.

3 Scopes for first two audits under the 2015/16 programme

- 3.1 ARAC questioned the allocation of resources for a planned audit on risk management and corporate governance given that these areas received substantial assurance for 2014/15. KPMG noted that this meets a specific requirement that the Head of Internal Audit opinion address these issues, and noted that it includes examination of a new scheme of delegations. ARAC

¹ *'some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.'*

accepted that the three days allocated were appropriate.

- 3.2 ARAC sought and were given assurances that the planned audit of compliance with the new evidence quality procedures would revisit those areas that had received limited or unsatisfactory assurance in 2014/15. This audit will also take a close look at compliance in relation to the CITES and Offshore Industries Advice teams. ARAC stressed the importance of full compliance with the new quality assurance procedures, for example in case of judicial review, and urged management to aim for substantial assurance for this audit, which will be conducted in Q3 2015/16. ARAC requested, and management agreed, that progress on implementation be reviewed at the November meeting, along with the results of the audit, and that the responsible director should attend that meeting.

4 Internal audit performance indicators

- 4.1 ARAC reviewed a report on performance of internal audit during 2014/15 in relation to the agreed set of performance indicators. These indicators relate to both KPMG performance and JNCC performance. Most indicators have been met and in general both KPMG and JNCC are happy with the relationship. By year end, JNCC management had implemented 16 of 20 audit recommendations, with the one remaining high priority recommendation completed shortly after year end and the other three (low priority) in progress.

5 Matters arising from internal audit reports

- 5.1 ARAC discussed the outcome of the final audit for 2014/15 (completed in April) which addressed potential vulnerabilities in JNCC's IT systems through IT penetration testing. The testing focused on the risk of internal (rather than external) attack and found a number of vulnerabilities. KPMG explained that this was not unusual for an organisation of JNCC's size. JNCC's IT Manager explained that none of the vulnerabilities were business-critical though some could disrupt JNCC's work. The risks are manageable and being addressed. ARAC encouraged JNCC and KPMG to look at best practice in the country conservation bodies and the Defra network.
- 5.2 ARAC questioned measures to protect JNCC data on laptops and USB sticks. JNCC's IT Manager stated that these are all protected by strong encryption.
- 5.3 JNCC's IT Manager explained that a number of IT services will be shifted to the cloud and that there may be a good case for more comprehensive penetration testing within the next 9-12 months. This will be kept under review by the Executive.

6 Annual Report and Accounts and Governance Statement

- 6.1 ARAC commented on the draft Annual Report and Accounts intersessionally and in particular they were scrutinised by ARAC member Nigel Reader with some adjustments made as a result. ARAC requested that a reference on p41 to GIA from Defra be qualified to make clear that some of this originates from the devolved administrations. ARAC also endorsed final minor edits.

- 6.2 ARAC agreed that a minor misstatement in the accounts is not material and need not be adjusted. ARAC recommend that the Company Board approve the Annual Report and Accounts, as amended by ARAC and recommend that the Board authorise the Chief Executive to sign the Letter of Representation.
- 6.3 ARAC suggests rounding figures to the nearest £1000 in future accounts to provide greater clarity to the reader.

7 NAO's draft Audit Completion Report on the 2014/15 Financial Statement Audit

- 7.1 The NAO expressed strong satisfaction with the Annual Report and Accounts process and the quality of the report and accounts, which is all the more commendable given that the schedule has been brought forward by three weeks. NAO agrees that the small misstatement in the accounts is not material. NAO found no issues relating to the risk of management override of controls. ARAC congratulated the staff for the timely and high quality work on the Annual Report and Accounts.

RISK MANAGEMENT

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

- 8.1 ARAC took its regular quarterly look at the significant risks register, which has been newly formulated for 2015/16. Regarding the risk of insufficient funding, management noted the probability of significant cuts under the forthcoming Spending Review. ARAC recommended that the executive elaborate figures for the costs of each area of activity including salary allocations, to help inform decisions in this regard. ARAC also suggested adding a management action for the risk related to inadequate use of evidence, to the effect that management will adapt and develop JNCC evidence according to developing sponsor/client need.
- 8.2 The significant risks register has been newly developed and ARAC did not identify any additional new or emerging risks.
- 8.3 The Chair provided feedback to ARAC on the Joint Committee's annual discussion on significant risks, held at its March meeting. ARAC expressed some concern at the limited debate on the item, but recognised that the Joint Committee frequently addresses high level risk issues in the course of its business, for example in taking forward the new strategy. ARAC will review its approach to stimulating Joint Committee discussion of significant risks, including risk appetite, for the next annual discussion in March 2016.

OTHER ISSUES

9 Follow-up to ARAC effectiveness review

- 9.1 ARAC endorsed an action plan drafted by management with the NAO, to follow up on the effectiveness review carried out at the March meeting. This includes actions

(several already implemented) to enhance feedback to ARAC, build ARAC skills, enhance ARAC scrutiny of accounts, and enhance communication between the Joint Committee and ARAC.

10 ARAC annual report to Joint Committee

10.1 ARAC endorsed its annual report to Joint Committee with a minor amendment to the effect that one of the independent members of ARAC is assigned to ARAC by the NRW Board.

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 There were no cases of fraud or presumptive fraud, one small fruitless payment, and no significant compliance issues reported.