



JNCC SUPPORT CO. BOARD

AUDIT AND RISK COMMITTEE REPORT TO COMPANY BOARD

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**AUDIT & RISK MANAGEMENT COMMITTEE
REPORT TO COMPANY BOARD**

1. Introduction

The twenty-sixth meeting of the Audit & Risk Management Committee took place on 20 September in Peterborough.

2. Audit & Risk Management Committee membership

Following the decision reported at the previous meeting that Natural England do not wish to put forward a potential member of the ARMC, the Countryside Council for Wales have now given the same indication. The Committee has a sufficient number of members to be quorate at meetings, but remains somewhat vulnerable to unexpected absences.

Two long-serving members of the present Committee will be required to retire by rotation during 2012, and given the long lead times involved in recruiting new members, thought now needs to be given to planning for their succession. The Board may have useful suggestions to offer in this regard.

3. Regularly monitored significant risks, and performance measures

The six selected "significant risks" identified in the ARMC's report to the Board in June are now routinely reviewed at each ARMC meeting, and in tandem with this the Committee discussed the completion of details of the high level measures which form the basis of JNCC performance reporting to Defra for 2011-12. (Clarification has been received that such reports are now for the attention of the Defra Sponsorship Team, not the Supervisory Board as previously stated). Following the tabling of these items at the Board meeting on 23 June, scores have been added to quantify the severity and likelihood of the listed risks, while milestones and risks have been assigned to each of the performance measures. The resulting completed tables substitute for those presented in the ARMC's Annual Report to the Board in June (BD11D01), and they are therefore appended to the present report for information.

Concerning risk 2 on funding, a meeting of the JNCC Sponsors Group on 11 October will be important for confirming the views of sponsor bodies on stable future funding for JNCC, in relation to which there are still potential uncertainties and risks. Risk 4 (increased demands for robust underpinning of advice, especially peer-review of marine science) and risk 5 (marine commitments outstripping the time and person-power available) have the unfortunate effect of compounding each other. Staff turnover in some teams has increased recently, and the organisation is facing stiff competition for skilled personnel from other employers in the marine field at present. Concerning risk 6 on staff cohesion and morale, a survey of staff opinion is to be undertaken shortly which will provide intelligence on this issue. It will be comparable with previous surveys, thus allowing detection of trends.

Notwithstanding these sharpened processes for more responsively managing strategic risks, it would be healthy periodically to question whether JNCC is reading the emergence and development of such things sufficiently far ahead, and is articulating adequately the risk dimension of what is learned from its horizon-scanning and scenario-planning activities.

4. Additional (new, emerging and fast-evolving) risks

At every ARMC meeting, members take stock of any new or particularly fast-evolving risk areas in addition to those referred to above. On this occasion the main points that were raised are covered above. It was however also emphasised that funding bodies are likely increasingly to expect to see the relationship mapped out between their individual funding contributions to JNCC and the work that is delivered with it. While on one level this may be regarded as good budget management practice rather than a “risk” as such, it will pose some challenges, since the way JNCC has to structure its work to deliver interests shared across the UK does not make such disaggregated mapping straightforward.

5. Review of the corporate risk register and risk management process

JNCC’s risk management strategy and corporate risk register are reviewed at regular intervals to ensure they remain fit for purpose. Both have been considerably revised in 2011 to support further efficiency and embedded risk awareness in the organisation.

The ARMC discussed the revised risk register, commenting *inter alia* on scoring definitions and on the links to quarterly performance outturn reporting (updates of the register will now contain comments from risk owners which allow comparisons from one quarter to the next) and to the process of internal auditing of risk issues. The Committee then **endorsed** the revised register.

The overall risk management process has also been updated, primarily to enhance the coordination of regular reviewing of risk issues and to secure greater input from project managers, programme leaders and directors. A full review of the new risk management process is due to take place in November before the completion of the next planning round. ARMC members offered suggestions on issues which could feature in the scope of this review, including how to ensure realism in scoring the expected impact of controls, how to keep risk management issues fresh and “front of mind” among staff once the novelty of revised systems has worn off, and how to be sure that the process (where necessary) supports changed behaviours in practice rather than merely “box-ticking” or “lip-service”.

6. Changes to the Statement on Internal Control for 2011-12

Each year the ARMC examines the Statement on Internal Control which the Chief Executive (as Accounting Officer) submits together with the Annual Report and Accounts. HM Treasury have put forward changes for next year whereby the SIC will become a “Governance Statement”. Apart from its name, the main change to its content is that it will no longer be written to a template with standard wordings, but will be written according to the Chief Executive’s own perception of the coverage and emphasis required, informed by advice from the Executive Management Board and within parameters set

out in Government guidance. ARMC members saw this as a positive change. Input will also be made from the processes of internal and external audit.

The Audit & Risk Management Committee will examine the draft of the Governance Statement but will no longer be required to approve it. The ARMC's previous approval of draft SICs was one signifier of its ownership of risk management, control and governance issues, so it is important to recognise that the Committee's position on these issues will continue to be formally expressed through its Annual Report to the Board each June. The Committee will also be invited each year to "recommend" the Governance Statement for inclusion in the Annual Report and Accounts, so a form of endorsement role remains in that sense.

7. Progress with internal auditing

The Committee considered a mid-year report on the progress of the annual programme of internal audits which is now being implemented by JNCC's internal auditors, RSM Tenon. Although only one audit has been completed so far, this is consistent with the programme, and others are on schedule for completion during the remainder of the financial year. The programme has also been re-checked against current perceptions of corporate risk factors, and has taken account of the findings of JNCC's external audit. Members welcomed the additional voluntary information provided by the auditors in "client briefings" on matters of topical interest.

The Committee noted the scope which has been agreed with management for the planned audit relating to human resources, which is to focus on selected issues concerning the staff appraisal system. (This was the one audit scope which had not been available to review when the programme was discussed in June, and so with this the Committee has now considered the full set of scopes).

The report of the one audit completed for the year so far, on risk management and governance, was discussed, and its conclusions and recommendations were welcomed. Although much of this audit took place before the risk management system changes noted above were made, its findings remain relevant. (The timing was unavoidable, as the audit's assessments of organisational risk maturity and the risk register were required early in the year, so that judgements could be made about the degree of reliance which could be placed on these in devising the remainder of the audit programme). On a five-category scale of "risk maturity", JNCC was assessed as "risk defined" (the third category), with a target for the future of "risk managed" (the fourth category). (Aspiring to the fifth category would be likely to entail disproportionate cost).

8. External audit issues

Timetabling the annual external audit and preparation of accounts continues to pose challenges, next year having to fit around newly constrained NAO staff resources and an additional public holiday for the Royal Jubilee. The audit will have to take place later in 2012 than it did in 2011. The ARMC therefore faced a choice between scrutinising unaudited accounts with later amendments being addressed by correspondence, or putting back its June meeting which then leaves little time for final adjustments before the meeting of the Board. The latter option was chosen, and thus ARMC will now meet

and consider the accounts and the external audit one day before the meeting of the Board.

In a closed session the Committee discussed a routine confidential report on the performance of external audit, including observations on the process for producing the accounts for 2010-11. Performance overall is considered to be very positive.

9. Cases of fraud, presumptive fraud and significant losses

No cases of fraud, presumptive fraud or significant losses have been reported since the previous meeting.

Appendix

Table 1

Significant Risks 2011/12

Risk No.	“Significant risks” for consideration at each ARMC meeting*	Risk Score			Cross-reference to JNCC risk register.**	Some key control issues identified.***	Action by management (undertaken or planned)
		Residual likelihood	Residual impact	Residual score			
1	Implementing the spending restrictions introduced by the new Coalition Government	4	3	12	RA2, RA3, RA6,	The spending restrictions put in place by the Coalition Government (especially restrictions on external recruitment) have led to delays in taking forward some important programmes of work.	Internal procedures have been revised to take account of the spending restrictions and the need to gain Defra approval for certain types of expenditure. Robust forward planning and option evaluation should minimise the impact of spending restrictions in future.

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2	Implementing the outcomes of the 2010 Spending Review and associated processes	3	3	9	RA1, RA2, RR1	<p>Work associated with the Spending Review has been resource-intensive and has diverted effort from other tasks (e.g. improving the efficiency of back-office function). Uncertainty over JNCC’s future role and funding has hindered forward planning.</p> <p>The key issue at present is uncertainty about funding for 2012/13 and beyond.</p>	<p>Some of the uncertainty has now been resolved following completion of the Spending Review. Risk-based action to minimise the impact of budget cuts has avoided the need for costs (e.g. redundancy payments). Work is underway to prepare a corporate plan for 2012/13 and beyond, and discussions are being held with Defra, devolved administrations and country</p>

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							conservation bodies.
3	Managing increasingly complex funding arrangements due to changes in government policy and changing funding priorities in JNCC.	2	3	6	RA3, RA5,	Existing processes and systems have not always supported effective financial planning, management and reporting.	Actions to be taken in 2011/12 include enhancing technical expertise in JNCC’s finance team, reviewing the responsibilities of project managers and programme leaders, and improving the financial management system.
4	Ensuring that the evidence that underpins advice to government,	4	3	12	Q1, Q3	There has been increased scrutiny of the evidence underpinning JNCC’s advice to government, especially in relation to the identification of marine protected	JNCC is developing a corporate statement on quality assurance

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	especially on novel or contentious issues, remains able to withstand potential challenge.					areas.	for evidence and advice that will outline principles for different areas of our business; the aim is for the Joint Committee to endorse this in November 2011.
5	Ensuring delivery of marine work in the face of challenging timeframes and difficulties in recruiting suitably qualified staff.	5	4	20	RA2, Q6,	Some marine work programmes have been disrupted by failure to recruit suitably qualified staff.	Competency requirements for marine posts will be defined carefully to ensure that they are not too highly specified. Opportunities for recruiting in collaboration with other organisations will be explored. We will rigorously

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							prioritise our work, in discussion with government stakeholders, and where necessary reallocate resources.
6	Maintaining staff cohesion, morale and motivation in a time of change and of shrinking resources.	3	3	9	RA2, RA6, Q6	Resourcing restrictions and particularly the associated uncertainties with the current planning climate inevitably put stresses and strains on the spirit and fortitude of staff, with potential for impact on programme delivery, staff retention and the organisation’s reputation.	Senior managers have increased their skills in managing change through a series of training events. Improvements have been made to JNCC’s internal communications to ensure staff are kept well informed and have the opportunity to

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							discuss concerns with senior managers. Other steps being taken to manage stress include making corporate decisions in a timely fashion, robust management of external demands, effective line management, and removing unnecessary red tape.

NB: * source: SIC 2010-11, as refined by ARMC.

** the register includes scores for the likelihood and severity of each risk; which can in turn be related to the organisation’s statement of risk appetite.

*** source: SIC 2010-11; and for the last one listed, ARMC.

Table 2

5 high level performance measures to report to Defra

Performance Measure	Output	Milestones	Risks
Terrestrial species surveillance	Maintain and develop terrestrial species surveillance programmes	<p>Review and Modification</p> <ul style="list-style-type: none"> • Establish support and analytical services to provide information over the next five years on non native, directive, country strategy and functional species from biological recording by December 2011 • Review the contribution of goose and swan monitoring to meeting reporting and conservation delivery priorities and establish an efficient means of delivering any requirement by March 2013 • Review the contribution of bat and butterfly monitoring to meeting habitats directive reporting requirements, site condition monitoring, country conservation strategies and establish an efficient means of delivering any requirement by March 2014 • Review the contribution of breeding bird, and wintering wetland bird monitoring to meeting directive reporting requirements, country conservation strategies and site condition monitoring and establish an 	<ul style="list-style-type: none"> • Risk of delays in establishing contract in support of voluntary biodiversity surveillance and analysis of recording data may result in less effective use of scheme data in Article 17 reporting. It may also increase costs of completing the Article 17 process and/or result in a higher proportion of the report apparently based on poor quality information. The latter would increase infraction risk. • Risk of decreasing value for money and relevance of UK role in surveillance due to country led biodiversity/environment strategies still being developed and lack of fully specified surveillance plans.

Performance Measure	Output	Milestones	Risks
		<p>efficient means of delivering any requirement by March 2016</p> <p>Key published outputs</p> <ul style="list-style-type: none"> • Produce as official statistics trends based on data up to 2010 for Seabirds by April 2011, Bats by May 2011, Butterflies by June 2011, Breeding Birds by July 2011, and Wintering Wetland Birds by December 2011. • {these will repeat with minor variation} <p>Strategic Change</p> <ul style="list-style-type: none"> • Establish a UK plan for habitats directive surveillance that shows how the country plans together meet the directive requirements by March 2011 • Determine the fit of the programme with the LWEC measuring change in the countryside initiative, the requirements of country biodiversity strategies and requirements established by the review of countryside survey by September 2012 • Establish repeatable efficient methods for detecting priority and habitats directive habitats from remote sensing by 2014 • Determine how monitoring data sets can contribute to the quantification and valuation of ecosystem services by 	

Performance Measure	Output	Milestones	Risks
		2012	
Implementation of country biodiversity strategies	Contribute to the implementation of country environment strategies within the UK, in particular by facilitating links to international and European commitments, including those of the Convention on Biological Diversity and its framework of 2020 goals and targets agreed in Nagoya.	<ul style="list-style-type: none"> • Well supported meetings of the Four Countries Biodiversity Group (quarterly) • Completion of JNCC actions from Four Countries Biodiversity Group to deadlines set. • Engage with implementation of the EU Biodiversity Strategy. • Agreement of a plan for engagement of NGOs in UK framework by the end of 2011 • Completion of a working draft of the UK Biodiversity Framework by the end of 2011/12 • Consolidate plans for reporting on the achievement of the Aichi targets including through the use of Biodiversity indicators by mid 2012. • Publication of the final UK biodiversity framework by the end of 2012 	<ul style="list-style-type: none"> • Key risk of failure to agree UK-level activities in support of country implementation of the ecosystem approach. • Risk of failure to achieve a clear consensus about roles and responsibilities, resulting in gaps or duplication.
Implementation of the Marine Strategy Framework Directive	Support implementation of the MSFD in UK waters by working through the UK Marine Monitoring and Assessment Strategy and	<ul style="list-style-type: none"> • Deliver UKMMAS draft biodiversity targets and indicators [1, 4 & 6] to Defra -1 July • Deliver UKMMAS final biodiversity targets and indicators [1, 4 & 6] to Defra for Autumn formal consultation – 1 Aug. • Deliver post-consultation UKMMAS revision of biodiversity targets and 	<ul style="list-style-type: none"> • Key risk of failure to achieve consensus amongst UKMMAS scientists on amendments to proposed targets and indicators in a timely manner. • Regional risk of failure to engage OSPAR Contracting Parties early enough to coordinate targets and indicators at the regional scale and

Performance Measure	Output	Milestones	Risks
	OSPAR to facilitate development of biodiversity-related targets and indicators at a regional seas scale	indicators [1, 4 & 6] to Defra 28 Feb 2012.	influence UK targets and indicators.
Identification of Marine Conservation Zones	Advise Defra by 16 January 2012 on a suite of Marine Conservation Zones in offshore waters around England, Wales and Northern Ireland, accompanied by an Impact Assessment	<ul style="list-style-type: none"> Regional Projects deliver site recommendations to JNCC and NE (JNCC obligations to support Regional Projects met) – 31 Aug JNCC and NE deliver draft final advice to Defra – 30 November. JNCC & NE deliver Impact Assessment and final advice to Defra – 16 Jan. 	<ul style="list-style-type: none"> Key risk of insufficient staff resource to deliver the work in a timely manner. Risk that competing deadlines from other parts of Defra reduce the staff resource available to deliver MCZ responsibilities. Risk that the Impact Assessment (IA) process will not run smoothly and/or adverse comments are received at a late stage that will require significant SNCB resource to resolve. JNCC has limited specialist staff available to deal with such IA problems. Risk that high workloads may result in staff absence through ill health or staff leaving the organisation.
Organisational change	Deliver a programme of organisational changes in response to the Spending	<ul style="list-style-type: none"> 1st tranche of HR process streamlining by April 11. KPI reporting streamlining by May. Increase delegations to streamline financial management by June. Cost of WP reduced by July. 	<ul style="list-style-type: none"> Key risk: Recruitment of a Senior Planning and Review Manager is essential to take key parts of this objective forward. Risk of loss of key staff and changing priorities or workloads could also

Performance Measure	Output	Milestones	Risks
	Review settlement, including staff complement, management structures, working practices and process streamlining to deliver efficiencies	<ul style="list-style-type: none"> • Publications sales costs eliminated by July. • Simplify staff costing processes by August. • Revised strategy endorsed by Committee by September. • Structural changes (team and programme) agreed by September. • Staffing plans 12/13 and beyond established by September. • Improve salaries budgeting and monitoring systems established by November. • Kypera reports improved and outturns simplified by October. • Format for external reporting agreed by October. • T&S and corporate card automated by October. • Review/ confirm GIA funding arrangements with Sponsors by October. • High-level planning systems streamlined by November. • Revised strategy endorsed by Govt by December. • 11/12 redeployment exercise complete by December. • Coding structure revised to improve reporting by January 2012. 	affect our ability to achieve this objective.

Performance Measure	Output	Milestones	Risks
		<ul style="list-style-type: none"> • Structural changes made by March 2012. • 2nd tranche of HR streamlining by March 2012. • Systems developed to provide external reports by April 2012. 	