



JNCC SUPPORT CO. BOARD

AUDIT AND RISK COMMITTEE REPORT TO COMPANY BOARD

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JNCC SUPPORT CO. BOARD

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

1. Introduction

The twenty-seventh meeting of the Audit & Risk Management Committee took place on 16 November in Peterborough.

2. Regularly monitored significant risks, and performance measures

Information associated with the six “significant risks” identified for the year (previously circulated to the Board as an annex to the September version of this report) were reviewed by the meeting. The summary of management actions undertaken or planned in response to each risk has been updated. Associated with this is a tabulation (also circulated to the Board in September) of the five agreed 2011-12 high-level performance measures to be used for reporting (on an “exceptions” basis) to Defra. As this latter information will not change during the year, the Committee decided that there was no need to review it at each meeting; but any reports to Defra that become necessary will come to the Board in any event before being signed off.

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

The risk of failing to meet marine programme targets is one of the “top six” in the document mentioned above, but was also discussed in the context of “fast-evolving” issues, driven largely by continuing difficulties in rapidly recruiting suitably qualified staff (see below). MCZ deadlines have been revised and the timetable for monitoring R&D has been extended, with such decisions being weighed carefully in relation to the risks of EU infraction proceedings and the risks to JNCC’s reputation (NGOs are already being publicly critical of some aspects of the MCZ project). Mounting pressure for more robust substantiation and quality assurance of underpinning evidence is compounding these timeframe risks.

4. Staffing issues

One key risk area relates to staffing, as mentioned above. Although specific Defra approvals have been given for recruitment of new marine posts, competition is tough and filling these posts is proving very challenging. Creative thinking about graduate programmes to develop the right skills will be important for the medium term, but the main demands are more immediate, and the Committee supported the exploration of other options such as joint approaches with other agencies. An additional emerging risk is that even where posts can be filled this is often happening internally, with staff moving from other work areas where further shortfalls are therefore created - an impact that may be less visible to Defra and others. In those work areas where cuts have had to be made, the Committee was pleased to note that the organisation has so far managed to avoid redundancies.

5. Funding issues

The Committee considered a paper giving an update on the funding issues reported on in June. There is potential for a significant underspend at the end of the current year as a result of the staffing struggles mentioned above (because they lead to a reduced salary bill and delays in letting contracts). The scope for accelerating relevant processes and identifying priorities for additional spend is being examined in order to minimise the risk of having to return money to funding bodies, and the risks of this rebounding on future funding discussions. A further update will be provided in the coming weeks. Since the types of activity that deliver work often straddle the categories defined by JNCC's different funding streams, analysing the exact impact on each stream is not straightforward, especially for staff costs, but will be completed as a matter of urgency.

Funding allocations for 2012-13 and beyond are under discussion with the funding bodies. Reductions in core reserved and UK co-ordination grant in aid are being profiled over each year of the period covered by the Spending Review to achieve the required 20% reduction by 2015; which will require some tough prioritisation choices to be made. Questions about the overall JNCC funding formula are being raised by the Northern Ireland Department of Environment, but the other funding bodies consider (as do Support Company staff and the ARMC) that the Triennial Review of JNCC (currently scheduled for late 2012) would be the appropriate context in which to consider this and related issues.

While the ARMC properly addresses matters such as these from the point of view of risk management and appropriate auditing, the Board is once again reminded that a collective responsibility falls on all Directors of the Company in relation to awareness and oversight of the organisation's finances. Some vigilance should be maintained on how this is working during this first year of the new "streamlining" arrangements which involve reduced Board meeting activity; and it may be appropriate to review experiences of this after a suitable interval.

6. Preparations for external audit, and for the annual report and accounts

The Committee considered a draft plan by the National Audit Office for their annual external audit of JNCC's financial accounts for 2011-12. The NAO highlighted two particular risk areas requiring mandatory attention in their audit, concerning the potential for fraud in recognising revenue in the appropriate way, and the potential for fraud arising from management override of controls. In order to observe best practice, the Audit & Risk Management Committee ought to ensure that it reviews JNCC's accounting policies; and it was confirmed that existing processes should cover this adequately. The implications of consolidating JNCC's accounts into Defra accounts for the first time this year were discussed, and it was concluded that that this should be straightforward to accomplish.

The NAO's fee is proposed to increase by approximately 11% over the figure charged last year. This still however brings it to less than the full real cost of the audit, which in principle the NAO are expected to recover. JNCC therefore still receives favourable terms, and the overall revised cost of £19,500 is not seen as unreasonable for the service provided. The NAO has

also identified scope for streamlining some aspects of their sampling regime which can bring down the real full cost to some extent. As before, any unplanned additional work will be subject to an additional charge.

Members also discussed the timetable for production of the Annual Report and Accounts (ARA), which, as ever, has some new contingencies to take into account on this occasion and remains very tight. The process for 2012 incorporates lessons learned from experience and staff appear to have organised it very well. There is to be greater emphasis on rigorous management review of the ARA. The Committee agreed to add a step for intersessional pre-audit scrutiny by ARMC, which is in line with a suggestion arising from a study of financial audits of entities reporting to Defra (see next item below).

7. Review of financial statement audits of Defra reporting entities

A digest of NAO audits in 2010-11 of 18 Defra reporting entities (including JNCC) was discussed by the Committee. JNCC appears to compare well with the others on all of the indicators concerning (for example) timeliness of preparation of financial accounts, timeliness of ARMC processes and quality of coordination between internal and external audit. Defra have accepted the fifteen recommendations made by the NAO for continuing improvement in effectiveness. The only one which suggests any potential change in JNCC processes concerns Audit Committee scrutiny of draft accounts, which is now to be actioned as noted in the preceding paragraph.

8. Progress with internal auditing

JNCC's internal auditors (RSM Tenon) tabled a progress report which shows that the audit programme for the year remains on track, with results which so far are satisfactory. In addition to their audit reports the auditors periodically provide "client briefing" information on other issues such as developments in emerging good practice. On this occasion one of these concerned follow-up to recommendations emanating from the Public Accounts Committee, and staff have undertaken to check that internal monitoring procedures track the implementation of these recommendations adequately where relevant.

The report of the second specific audit completed for the year so far (on "partnership arrangements") was discussed, and its conclusion that there was "substantial assurance" was welcomed. All of the (low priority) recommendations have been accepted by management.

9. Review of JNCC's anti-fraud and corruption policy

This policy was last updated in 2009 and was reviewed by ARMC at that time. Oversight of these issues is also informed by the report produced by the Treasury each year on fraud in Government Departments. The policy has been reviewed again this year, prompted by the coming into force in 2011 of the Bribery Act 2010, which introduces a new offence (applicable to the JNCC Support Company and its Directors) of failing to prevent bribery.

The Committee agreed with the analysis of staff that the Support Company's existing risk management framework, and its policies and procedures on procurement and staff conduct, constitute an acceptable basis for a defence against a potential charge of failing to prevent bribery in the JNCC context. It

further considered that this analysis was sufficiently straightforward and robust as to make the commissioning of any specific legal advice on the new statute unnecessary. The anti-fraud and corruption policy itself has not required any substantive changes; but reference to bribery and the new Act has been added, and contact details of staff with relevant responsibilities have been updated. Some measures to raise awareness among staff are in hand, and the revised policy has already been sent to members of the Board in the package of ARMC papers circulated on 15 November. The ARMC will review these issues again in approximately two years time, unless any issues arise which need earlier attention.

10. Cases of fraud, presumptive fraud and significant losses

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