



**THE AUDIT AND RISK MANAGEMENT COMMITTEE'S ANNUAL REPORT TO THE
COMPANY BOARD 2011/12**

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**JNCC SUPPORT CO
BOARD OF DIRECTORS**

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Paper by Tracey Quince

1. Introduction

- 1.1 This paper sets out the Audit and Risk Management Committee's annual report for 2011/12 to the Company Board. The paper also includes a forward look at the internal audit and risk management programmes for 2012/13.
- 1.2 The report was considered by the Audit and Risk Management Committee in May and any amendments have been incorporated into the final report. Formal approval of the Audit and Risk Management Committee's annual report to the Board will take place at their meeting on 19 June. Any amendments following the meeting will be submitted to the Company Board as an addendum to this paper.
- 1.3 In September 2010 the Joint Committee agreed that each June the Company Board should help set the agenda for the Audit and Risk Management Committee for the next 12 months. The forward programme for the Audit and Risk Management Committee can be found in Annex 5.
- 1.4 The Audit and Risk Management Committee invites the Board to **discuss** the Report and to **consider** the forward programme in Annex 5 and propose any additional items as required.

2. Statement of Assurance from internal audit

- 2.1 As required by the Government Internal Audit Standards, the Head of Internal Audit, who is an employee of our internal audit providers, RSM Tenon, submits an Annual Assurance Report to the Audit and Risk Management Committee. This includes a summary of internal audit activity and gives his formal opinion on the adequacy, effectiveness and reliability of the organisation's internal control system. The Annual Assurance Report (attached at Annex 1) was noted and commented on by the Audit and Risk Management Committee at their meeting in March and by the Executive Management Board in April.
- 2.2 Based on the results of the audit work carried out for the year ending 31 March 2012, RSM Tenon has concluded that the JNCC has an adequate and effective system of internal controls which provides reasonable assurance regarding the effective and efficient achievement of the organisation's objectives. As in previous years, this assessment should be seen as a good achievement for JNCC Support Co. While this represents a positive opinion, there were areas of weakness noted that led to audit recommendations being raised to enhance the control framework, mainly in the risk management area

where more work is required to move from JNCC's current position on the risk maturity spectrum 'Risk Defined' to 'Risk Managed'. None of the audit recommendations raised in 2011/12 related to serious weaknesses in systems and processes but JNCC remains committed to a programme of continual improvement. The Annual Assurance Report in Annex 1 contains the full list of audit recommendations raised last year.

3. Overview of the year

Risk management

- 3.1 The major themes in this area of work during 2011/12 are summarised below. In 2011/12 a new risk management process was implemented which streamlined the risk management process in order to bring together the various elements of risk management in the organisation to ensure that risks are managed more effectively. The flow chart in Annex 3 summarises the process for managing risk within the organisation.
- 3.2 During the year, the Executive Management Board reviewed the corporate risk register quarterly and made changes to the corporate risks, as required. These changes were based on information collated at the project level and from discussions on risk at Executive Management Board and Audit and Risk Management Committee meetings. High risks were escalated to Directors and, where possible, action was taken to mitigate the risks. The main risk priorities for the year are highlighted in the Governance Statement (included with the Annual Report and Accounts 2011/12) and in Annex 2 of this paper. The Audit and Risk Management Committee regularly considered new, emerging or fast-evolving risks, and received an oral report from the Executive Management Board of such risks. A summary of the new and emerging risks that were discussed can be found in Annex 4. To strengthen its process for reporting on high priority risk issues to the Company Board, ARMC introduced a regular review of the 'significant risks' included in the Statement on Internal control for 2010-11 which was incorporated into the standing agenda item on 'new, emerging and fast-evolving risks'. Comments on trends or controls were reported to the Company Board through the ARMC Chair's written reports.
- 3.3 In 2012/13 the following key attributes of JNCC's risk management process will be maintained or reinforced:
- i. specific risks associated with the core objectives of the organisation will be identified, assessed and monitored. The internal audit programme will be risk-based against this same context;
 - ii. the corporate risk register will contain assessments of impact, likelihood and consequence using Treasury definitions, control measures, actions and contingencies. The register will be subject to annual review by the Audit and Risk Management Committee and will be updated as required;
 - iii. high risk projects and programmes for 2012/13 will be monitored and managed through JNCC's management groups;

- iv. 'significant risks' will be discussed by the Audit and Risk Management Committee at each of their meetings and changes reported quarterly to the Company Board;
- v. a clear and embedded process for risk management in JNCC, which is responsive to in-year changes, will continue and will be strengthened through input from all internal management groups and through a series of training workshops on finance, risk and project/programme performance monitoring;
- vi. the organisation's risk appetite will be reviewed in light of the current risk climate. Changes made will be communicated to all staff; and
- vii. the risk management area is audited annually.

Internal audit

- 3.4 In 2011/12 RSM Tenon undertook five audits as agreed in the operational plan (see Annex 1). The audit programme was completed in good time and five final reports were issued during the year. Alongside the five audits a follow-up audit was conducted in February which included an update on the implementation of previous audit recommendations. All audit reports were reviewed by the ARMC.
- 3.5 At the June 2011 ARMC meeting, members agreed a set of performance indicators for both RSM Tenon and JNCC (AC11P07). Members agreed that they wished to receive an annual report on all indicators. Alongside the agreed performance indicators management agreed with RSM Tenon a second set of indicators which would provide additional information on the numbers of recommendations in draft reports and those included in final reports together with the number of recommendations accepted or rejected and the reasons why.
- 3.6 In 2011/12, RSM Tenon achieved all of their performance indicators with JNCC achieving all but one. The one indicator not achieved related to the implementation of audit recommendations to agreed deadlines. A new system of monitoring implementation of audit recommendations was introduced part way through 2011/12 which will provide early warning of failure to achieve implementation with escalation to Directors if deadlines for implementation look like they might be missed.
- 3.7 During the year, RSM Tenon sought regular feedback from JNCC staff through the use of client questionnaires. These were issued on completion of each audit and enabled both RSM Tenon and JNCC to monitor performance. RSM Tenon is required to achieve an overall mark of 'satisfied'. An overall mark of 3.1 has been achieved this year, 3 being satisfactory. It is however of some concern that one audit, Business and Strategic Planning and Financial Planning, Budget Setting and Control, only received an average mark of 2.5 with communications, quality of the audit report and attitude of RSM Tenon staff only receiving an adequate mark. The issues have been discussed with the internal audit team with a view to preventing problems in the future.
- 3.8 In preparation for the new financial year, work with RSM Tenon on a new operational plan began at the end of 2011 when the annual plan and revised strategy up to 2014 were prepared. These were presented to the Executive

Management Board in January for their consideration, and were discussed and approved by the ARMC at its meeting in March.. Changes were made to the documents which included:

- i. narrowing the scope of the 'communications strategy and implementation' audit to focus the audit on key risks;
- ii. asking that the risk management and corporate governance audit look at a different corporate governance aspect to that covered in 2011/12;
- iii. changing the timings of some audits relevant to the triennial review to ensure they are undertaken prior to the start of the review; and
- iv. replacing the contract management audit with an audit of staff induction processes in the context of rapid growth in some JNCC teams. This audit will also include contract management as an aspect of induction.

3.9 An audit programme of 30 days has been agreed with RSM Tenon for the financial year 2012/13. This level is considered sufficient to allow RSM Tenon to provide JNCC's Accounting Officer with an overall opinion on the organisation's risk management, control and governance, as well as meeting the Government's internal audit standards. This level of audit coverage should also provide sufficient assurance for the National Audit Office (NAO). To this end, coverage in this area will be agreed between RSM Tenon and the National Audit Office in order to prevent duplication of effort and allow NAO to place reliance on the work of internal audit. The cost of internal audit for 2012/13 has not increased from 2011/12 and will be charged at the same rate.

External audit

3.10 The Audit and Risk Management Committee continued to review the external audit programme and strategy provided by the National Audit Office (NAO), and lessons from the previous year's experience. The external audit is an important part of the preparation of the Annual Report and Accounts (ARA), which are themselves also reviewed in detail by the ARMC, including the annual Governance Statement which forms part of the ARA. The ARMC were pleased to note good progress since last year's audit of the accounts. JNCC had benefited from using auditors working across government rather than in the private sector.

Audit and Risk Management Committee meetings, membership and Terms of Reference

3.11 The Audit and Risk Management Committee met four times during the year, in June, September, November and March. Business follows a rolling forward plan of priorities, and has included:

- consideration of internal audit plans and associated progress;
- the draft Statement on Internal Control;
- the move to the new Governance Statement for 2011/12;
- review of the anti-fraud and corruption policy;
- updates on funding and staffing issues; and

- annual reports on internal and external audit.
- 3.12 Information papers on single tender approvals, fruitless payments, losses and special payments and procedures for staff travelling abroad were also considered, and through a standing agenda item the Committee maintained its vigilance in relation to fraud-related risks.
- 3.13 Membership issues were a key consideration in 2011/12. On 1 April 2011, Patrick Casement joined ARMC as a new member, in February 2012 Judith Webb stepped down in order to assume the role of Deputy Chair of the Joint Committee, and in March 2012 Guy Duke was recommended for appointment to ARMC subject to ratification by the Company Board. Two members, Dave Pritchard (currently the ARMC Chair) and David Crawley, are leaving shortly. Dave Pritchard has completed two terms on the Joint Committee so will be leaving this year. David Crawley will be leaving as his appointment to the SNH Board ends in July.
- 3.14 In March 2012, members received a paper on succession planning. It was agreed that a forward-looking Committee should give thought in advance to the expected rotation of its members, and to the options that might be available in the event of needing to respond to change. Appointing new members in a structured manner with minimum disruption to business was considered a key priority. To achieve this, members agreed to:
- i. not increase the size of ARMC significantly as five members were sufficient;
 - ii. approach the new independent member replacing Lynda Warren to see if they wished to join ARMC, if they had the required skills;
 - iii. approach again the Countryside Council for Wales and Natural England to see if they wished to nominate a member for ARMC. Individuals with appropriate skills and knowledge who are not JNCC representatives could also be considered, as potential external members;
 - iv. maintain the approach whereby the Chair of the Audit and Risk Management Committee is a member of the Company Board and an independent member of the Joint Committee;
 - v. seek to identify a replacement Chair as soon as possible to allow for some shadowing with the current Chair; and
 - vi. actively pursue the identification of a list of potential external members.
- 3.15 During the year, the ARMC's Terms of Reference were updated to make it clear that in the event that the Chair is not present, the members may appoint any member to be a 'substitute Chair' for that particular meeting. An additional sentence was added to clarify the existing provisions as to the quorum for meetings, by stating that at least half the members must be present for the meeting to be deemed quorate.

4. Forward look for 2012/13

- 4.1 In March 2012, the Audit and Risk Management Committee approved the operational plan for internal audit for 2012/13. In June, the Audit and Risk Management Committee will consider draft scopes for the audits to be undertaken through the year. The internal audit programme for 2012/123 includes:
- key financial controls (including payroll, external audit reliance work and travel and subsistence);
 - corporate governance (MPA Sub-Group governance) and risk management;
 - Corporate/Business Plan consultation;
 - staff induction and training (including contract management training; and
 - business continuity/disaster recovery
- 4.2 The forward programme for the Audit and Risk Management Committee can be found in Annex 5. In 2010 the Joint Committee agreed that the Company Board should help set the agenda for the Audit and Risk Management Committee for the next 12 months. The Board are invited to comment on the forward programme and propose additional items as necessary.

Annex 1 (Provided separately)

Annex 2. Significant Risks 2011/12 (Final two columns current as at mid-March 2012)

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 (e.g. for staff recruitment) have been revised to take account of the spending restrictions and the need to gain Defra approval for certain types of expenditure. Recruitment restrictions continued to cause delays throughout 2011/12.
2	Implementing the outcomes of the 2010 Spending Review and associated processes	3	3	9	RA1, RA2, RR1	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	As the uncertainty was resolved following completion of the Spending Review, emphasis shifted to implementing the outcomes of the Review. The key

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						<p>funding has hindered forward planning.</p> <p>The key issue at present is uncertainty about funding for 2012/13 and beyond.</p>	<p>activity in 2011/12 was the preparation of a corporate plan for 2012-15. Discussions on priorities and funding were held with Defra, devolved administrations and country conservation bodies and a final-draft plan has been produced which will be discussed by Joint Committee on 21 March. Developing a realistic and affordable marine work programme has proved particularly challenging.</p>
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.	The finance team have enhanced their technical expertise, reviewing the responsibilities of project managers and programme leaders,

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							and improving the financial management system. The business planning process has been strengthened in 2011/12 with the appointment of a Senior Planning Officer. The performance management process has been reviewed with changes planned for 2012/13. Financial training is also planned for 2012/13.
4	Ensuring that the evidence that underpins advice to government, especially on novel or contentious issues, remains able to withstand potential challenge.	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 areas.	This is a rapidly developing area with a considerable amount of activity in various fora. Within JNCC a Science Quality Task Force is considering what action is needed to improve current practice. More specifically, JNCC,

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							Natural England and Defra are discussing evidence quality assurance in relation to the Marine Conservation Zone project.
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.	The issue continued as manpower plans for growth in marine staffing were not fulfilled leading to under-performance against targets and underspend of GIA funding. Action being taken is more robust manpower planning taking account of impact of recruitment restrictions; exploring options to address this with other arms-length bodies with marine responsibilities; increase in management and corporate services

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							capacity to recruit; better induction and training of new staff; and scrutiny of assumptions underlying salaries budgeting. Where necessary, we also sought to manage expectations within government and renegotiated deadlines.
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 are continuing to implement actions agreed by EMB to manage stress and maintain morale by: <ul style="list-style-type: none"> • improving internal communications; • making corporate decisions in a timely fashion; • robust management of external demands; • effective line management; and

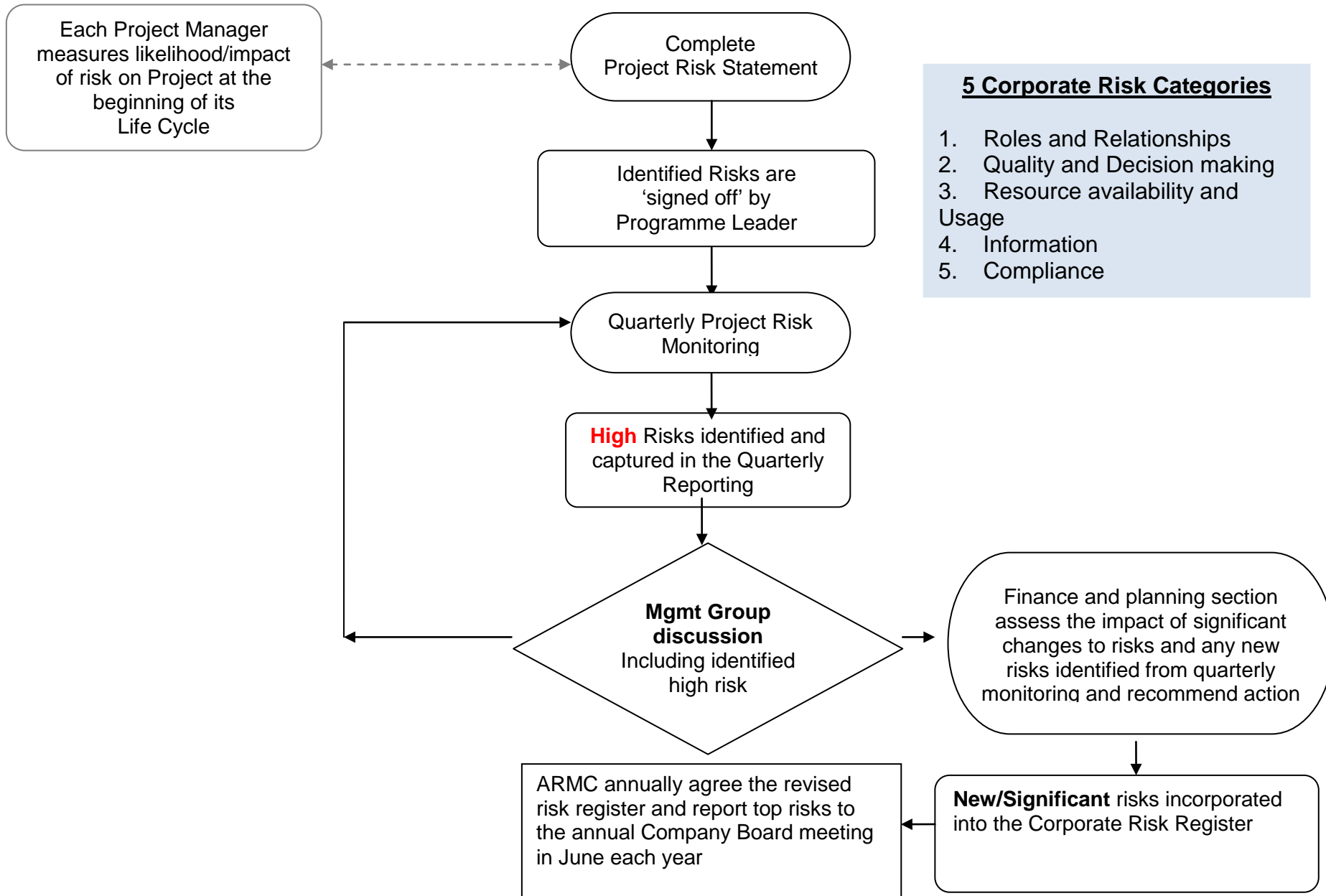
Risk No.	“Significant risks” for consideration at each ARMC meeting*	Risk Score			Cross-reference to JNCC risk register.**	Some key control issues identified.***	Action by management (undertaken or planned)
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							<ul style="list-style-type: none"> removing unnecessary red tape. <p>A staff survey was undertaken in November and was discussed by EMB in March. An action plan will be prepared to address the main concerns raised by staff.</p>

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.

Annex 3. Risk management process



Annex 4. Summary of “new and emerging risks” considered by ARMC at its meetings in 2011/12

June 2011

- Inability to recruit staff in the marine area with the necessary skills and experience.
- Increased staff turnover in the data services area.
- JNCC being perceived as being ‘Anglo-centric’.

September 2011

- Increasing staff turnover in the marine area due to recruitment in the private sector.
- Maintaining staff morale at a time of change and uncertainty.
- Potential questioning of JNCC's funding formula.

December 2011

- Damage to JNCC's reputation with Defra following delays with delivery of the Marine Conservation Zone project.
- Risk of fresh austerity measures following difficulties within the euro zone and the coalition government's commitment to reduce the deficit.
- The external picture of staff being successfully recruited was hiding the reality of multiple internal moves and lengthy delays due to the government's recruitment restrictions.
- Insufficient resource to implement complex marine legislation and undertake rigorous assurance processes for scientific evidence.

March 2012

- Resource implications of the forthcoming Triennial Review.
- Potential for low staff morale in very challenging times.
- An increase in the demand for marine contractors leading to increased costs and difficulty in securing the best contractors.
- Impact on work in the coming months of the government's position in relation to EU legislation, particularly relating to Directives.
- Repercussions following the closure of the Brussels Office.

Annex 5. ARMC forward programme

1. Standing items on agenda for every meeting

- i Internal audit reports
- ii Cases of fraud or presumptive fraud and significant losses
- iii Forward programme
- iv Update on significant risks and discussion on new, emerging and fast-evolving risks

2 Every March meeting

- i Approve the annual Internal Audit Operational Plan
- ii Report on internal audit performance indicators
- iii Summary of audit recommendations and report on outstanding recommendations (follow-up audit report)
- iv Draft of internal audit annual assurance report
- v Annual report on performance of internal audit*
- vi Comment on the draft Governance Statement.

3. Intersessionally between March and June

- i Annual Report on single tenders over £7,500
- ii Endorse the final draft of the Governance Statement for inclusion within JNCC Annual Report and Accounts.
- iii. Annual report on fruitless payments, losses and special payments for the previous year
- iv. A pre-audit draft of the JNCC Annual Report and Accounts, for comment.

4 Every June meeting

- i Recommend the post-audit JNCC Annual Report and Accounts to the Company Board and endorse the Governance Statement
- ii Initial review of NAO's draft Audit Completion Report and Management Letter on the previous year Financial Statement audit.
- iii Finalise internal audit's annual assurance report
- iv ARMC annual report to Company Board
- v Audit scopes for audits to be undertaken in the current financial year.

5 Intersessionally between June and September

- i. High risk projects for the relevant year

6 Every September meeting

- i Mid-year annual internal audit assurance report and review of the operational plan in light of external audit findings and emerging risks
- ii Review the process for producing the accounts for the previous year.
- iii Approval of the corporate risk register.
- iv External audit – if required, review and consider the management responses to recommendations raised in the external auditor's Audit Completion Report and progress on implementation.
- v Annual report on performance of external audit*

7 Every November meeting

- i Comment on the draft annual operational plan for internal audit
- ii Comment on the draft annual strategy for external audit
- iii Timetable for the production of the JNCC Annual Report and Accounts.

8 Miscellaneous/Occasional Items

- i Value for money auditing
- ii Post project reviews of major projects
- iii Review/extension of the internal audit contract*
- iv Internal Audit Strategy (every three years; advise on draft in November, approve in March)
- v Review of audit committee effectiveness (next review November 2012)
- vi Review of the Fraud Policy (next review November 2013)
- vii Performance indicators for internal audit

*closed session items