

RSM Tenon

Joint Nature Conservation Committee (JNCC)

Internal Audit Draft Annual Report

Year ended 31 March 2012

Presented at the Audit & Risk Management Committee meeting of: 20 March 2012

Approved by: Mark Jones as Head of Internal Audit

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The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

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1. INTRODUCTION

1.1 The Role of Internal Audit

The role of internal audit is to provide management with an objective assessment of the adequacy and effectiveness of internal control, risk management and governance arrangements. Internal audit is therefore a key part of the Joint Nature Conservation Committee's (JNCC) assurance cycle and if used properly can help to inform and update the organisation's risk profile. Internal Audit is just one of the sources of assurance available to the JNCC and the Audit & Risk Management Committee.

1.2 Annual Governance Statement

From 2011/12, government bodies and agencies are required to publish an annual governance statement, replacing the previous statement on internal control.

The Accounting Officer is personally responsible for the Governance Statement, which outlines how he or she has discharged his or her responsibility to manage and control the organisation's resources during the course of the year. As set out in *Managing Public Money*, the Governance Statement should give the reader a clear understanding of the dynamics of the organisation and its control structure, recording the stewardship of the organisation, providing a sense of how vulnerable the organisation's performance is or might be; and of how successfully the organisation has coped with the challenges it faces. It is therefore more forward looking than the previous statement on internal control.

As your internal audit provider, the assignment opinions that RSM Tenon provides the organisation during the year are part of the framework or assurances that assist the Accounting Officer prepare an informed statement.

2 INTERNAL AUDIT ASSURANCE FOR 2011/2012

2.1 Context

As the provider of the internal audit service to the JNCC we are required to provide the Accounting Officer an opinion on the adequacy and effectiveness of the organisation's governance, risk management and control arrangements. In giving our opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the JNCC is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

2.2 Internal Audit Assurance Statement

This opinion is issued in draft form prior to the year end. We reserve the right to amend the opinion in the final version of the report which will be issued after 31 March 2012.

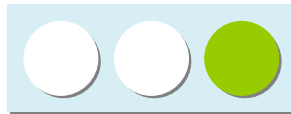
We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion on the adequacy and effectiveness of the Joint Nature Conservation Committee’s (JNCC) arrangements.

For the 12 months ended 31 March 2012, based on the work we have undertaken, our opinion regarding the adequacy and effectiveness of the Joint Nature Conservation Committee’s (JNCC) arrangements for governance, risk management and control is as follows:

Governance

The JNCC had adequate and effective Governance processes in place.

Red Amber Green



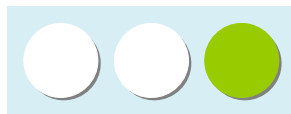
Risk Management

The JNCC had adequate and effective risk management arrangements in place; however, there were some areas where weaknesses and improvements were identified through our Risk Management audit as identified in Appendix A



Control

We have undertaken four other assurance reviews in 2011/12, all of which resulted in positive opinions. The JNCC had adequate and effective control processes in place.



The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. This report is prepared solely for the use of the JNCC.

2.3 Scope of the Internal Audit opinion

In arriving at our opinion, we have taken into account:

- The results of all internal audits undertaken during the year ended 31 March 2012 (see Appendix A for a risk map of our internal audit assurances and Appendix B for a summary of audits);
- The results of follow-up action taken in respect of audits from the current year;
- Whether high or medium recommendations have been accepted by management and, if not, the consequent risks;
- The effects of any material changes in the organisation’s objectives or activities;
- Matters arising from previous reports or other assurance providers to the Audit & Risk Management Committee and/or the JNCC;
- Whether or not any limitations have been placed on the scope of internal audit;
- Whether there have been any resource constraints imposed upon us which may have impinged on our ability to meet the full internal audit needs of the organisation; and
- What proportion of the organisation’s internal audit needs have been covered to date;

2.4 The Basis of the Opinion

Governance & Risk Management

This audit was included within the 2011/12 audit plan to meet the internal audit requirements set out in the Government Internal Audit Standards. Both Governance and Risk Management form key elements of the JNCC's high level control framework and impact on the strategic and operational decision making processes within the organisation.

The Board can take substantial assurance that the controls upon which the organisation relies to manage the area of Governance were suitably designed, consistently applied and effective.

Based upon the work undertaken, our assessment of the JNCC's current position on the risk maturity spectrum was Risk Defined. While this represents a positive opinion there were areas of weakness or best practice improvements noted that led to two medium and ten low priority recommendations to enhance the control framework. Further details can be found in Appendix A.

Internal Control

We have undertaken four reviews on the internal control framework. Of these reviews two were given Green opinions and two were given Amber /Green opinions. In addition, we undertook a follow up review of the recommendations made by the 2010/11 internal audit reviews. This concluded that adequate progress had been made to implement the recommendations.

Acceptance of Recommendations

With the exception of three Low priority recommendations, all other recommendations made during the year were accepted by management. For the three Low priority recommendations, management have chosen to accept the risks involved.

2.5 The Governance Statement

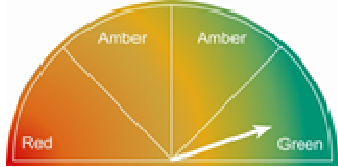
The overall opinion may be used by the Accounting Officer in the preparation of the annual governance statement.

2.6 Conflicts of interest

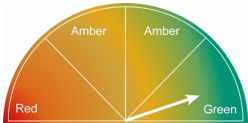
We have not undertaken any work or activity during 2011/12 that would lead us to declare any conflict of interests.

APPENDIX A:

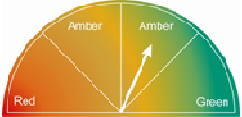
INTERNAL AUDIT ASSURANCE MAP 2011/12

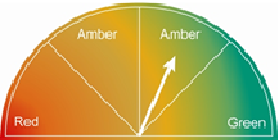
Risk Based Coverage			
Risk(s)	Source	Headline Findings	Assurance
<p>Risk Management and Governance</p> <p>Ineffective governance at Committee, Board and Executive Management Board</p>	Risk register GC1	<p>The Board can take substantial assurance that the controls upon which the organisation relies to manage the area of Governance were suitably designed, consistently applied and effective.</p> <p>Based upon the work undertaken, our assessment of the JNCC's current position on the risk maturity spectrum was Risk Defined. We identified a number of weaknesses and best practice improvements with respect to the JNCC's approach to risk management and made a number of recommendations to improve the design and application of the organisation's control framework. It should be noted that at the time of the review, new processes were being established which required embedding within the organisation. Of particular note, we confirmed the following:</p> <ul style="list-style-type: none"> ▪ The organisation's risk appetite had been defined but at the time of the audit had not yet been communicated to the Senior Management Forum or to management groups across the organisation; ▪ The JNCC's Risk Management Strategy was in need of review as a result of staff changes and significant changes to the organisation's risk management and governance framework as a result of streamlining reforms; ▪ The wording of controls and risks could be enhanced and there was a need to link risks to strategic objectives and assign ownership of risks within the Corporate Risk Register. Management advised however, that the plan was to link risks to specific projects within specific programmes that relate to corporate objectives; ▪ The structure of the Corporate Risk Register did not permit sources of assurance over the effectiveness of 	<p>Risk Management - Risk Defined</p> <p>Governance</p> 

Risk Based Coverage

Risk(s)	Source	Headline Findings	Assurance
		<p>controls to be clearly identified and recorded on the register;</p> <ul style="list-style-type: none"> ▪ We confirmed a need for Programme Leaders / Managers to complete and submit project risk statements to the Business Manager in a timely manner so that the organisation's risk profile could be updated prior to committee papers being issued. There were 18 risk statements that had not been returned at the time of our review; ▪ Risk Management was not covered as part of the organisation's Corporate Induction and responsibilities for risk management had not been assigned to relevant staff in job descriptions. 	
<p>Partnership Arrangements</p> <p>Adverse impact on the JNCC's ability to fulfil its key roles due to failures in partnership arrangements.</p>	<p>Management concerns</p>	<p>The Board can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective. We found that the following controls were designed adequately:</p> <ul style="list-style-type: none"> ▪ There was a Management Statement for the Joint Nature Conservation Committee dated April 2011. Subject to the legislation noted in section 2.1, the Management Statement sets out the broad framework within which the JNCC will operate. The Management Statement sets out six strategic objectives and is reflected within the Business Plan for 2011/12. The Committee endorsed the advanced draft business plan for 2011/12, subject to noted amendments and final revision of resource tables. ▪ All programmes were included within the JNCC website which could be accessed by all staff. ▪ The intranet contained various information which was RAG rated to indicate the importance of the information both to the organisation and to the individual. ▪ All of the contracts were drawn up by the Programme 	

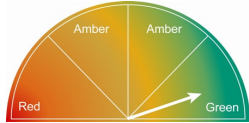
Risk Based Coverage

Risk(s)	Source	Headline Findings	Assurance
		<p>Leaders with support and guidance both from the Procurement Department and from legal advisors. The programme teams were responsible for both negotiating the original contract and for arranging amendments to and re- negotiation of the contracts.</p> <ul style="list-style-type: none"> ▪ Performance against the indicators was monitored at an appropriate level. This was done by the contract work programme which was discussed at each contract monitoring meeting. ▪ Information sharing and public engagement arrangements were all included within the contracts as a clause. ▪ Exit arrangements were written into all of the contracts. 	
<p>HR Appraisal Process</p> <p>Staff are not adequately developed to ensure that they have the core competencies required.</p>	<p>Risk register RA2</p>	<p>The Board can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective. However we identified issues that, if not addressed, increase the likelihood of the risk materialising.</p> <p>We found that the following controls were designed adequately:</p> <ul style="list-style-type: none"> ▪ JNCC had developed and implemented a Training and Development Strategy. ▪ JNCC had developed formal guidance notes covering their appraisal process. ▪ JNCC had produced a standardised template for line managers to use during the appraisal process. ▪ JNCC employees had their job descriptions and core competency reviewed prior the start of the appraisal process. ▪ JNCC employees' objectives were set and their personal plan was developed in a timely manner. ▪ During the completion of the personal development 	

Risk Based Coverage			
Risk(s)	Source	Headline Findings	Assurance
		<p>plans individual's training needs were assessed and reviewed.</p> <ul style="list-style-type: none"> Half yearly reviews were being completed by the line manager and documented. <p>In addition, we identified the following weakness which resulted in one Medium priority recommendation:</p> <ul style="list-style-type: none"> The in-year appraisal process was not formally monitored. In previous years, a performance agreement spreadsheet for each line manager was established, which they were required to keep updated in respect of the initial and half yearly reviews for all their staff. This spreadsheet had not been continued for 2011/12; it is planned that this will be addressed through the use of the HRPro system. 	
<p>Business and Strategic Planning and Financial Planning, Budget Setting and Control</p> <p>Risk 1:</p> <ul style="list-style-type: none"> Effective engagement with stakeholders at all levels. Implementation of external communications strategy. <p>Risk 2:</p> <ul style="list-style-type: none"> Relationship management 	Risk register RA2/RA3/RR3	<p>The Board can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective. However we identified issues that, if not addressed, increase the likelihood of the risk materialising. We found that the following controls were designed adequately:</p> <ul style="list-style-type: none"> Given the current uncertainties only a one year Business Plan was produced for 2011/12. Strategic objectives had been defined within the Plan and these were supported by performance measures. Appropriate consultation with senior staff and stakeholders was undertaken as part of the development of the Business Plan. An annual budget based on the grant in aid allocated was approved as part of the development of the Business Plan. 	

Risk Based Coverage			
Risk(s)	Source	Headline Findings	Assurance
<p>controls.</p> <ul style="list-style-type: none"> ▪ Rigorous planning, monitoring and review processes and resulting plans (including efficiency). ▪ Robust resource allocation, monitoring and management processes. <p>Risk 3:</p> <ul style="list-style-type: none"> ▪ Budget setting process. ▪ Budget management controls. 		<ul style="list-style-type: none"> ▪ Once approved, the budget was loaded into the Kypera financial system. ▪ Staff had been made aware of the Business Plan. ▪ Project Plans were developed which fed into and informed the progress being made in achieving the strategic objectives. ▪ Project Plans were subject to formal quarterly reviews which fed into and informed quarterly progress reports that were submitted to the Executive Management Board (EMB) and the JNCC Support Company (the Board). ▪ Reporting undertaken included progress against the achievement of strategic objectives and on financial management of the budget. ▪ Staff had access to the finance system and could generate their own budget reports at any time, however a formal finance report was produced quarterly and budget holders were required to review this and provide an estimate of their end of year financial position, which was then collated into and included in the finance reporting. <p>The above controls were adequately applied and complied with, with the exception of the following areas where a weakness was identified which resulted in two Medium priority recommendations:</p> <ul style="list-style-type: none"> ▪ The JNCC had delegated responsibility to the JNCC Support Company to monitor the delivery of the Business Plan, which it undertook through receipt of quarterly reports. For 2011/12 JNCC agreed that the Support Company could abandon its quarterly meetings in favour of just one per year, however this resulted in there being no formal evidence to confirm that the quarterly reports have been reviewed. 	

Risk Based Coverage			
Risk(s)	Source	Headline Findings	Assurance
		<ul style="list-style-type: none"> Quarterly reports were submitted to the EMB and these included the financial position of the organisation. It was noted that changes to the budget were made following approval of EMB; however the reports that were submitted to the Board did not include an appropriate audit trail to reconcile the latest reported budget figure back to the originally loaded budget. 	

Other Coverage			
Area	Rationale for coverage	Headline Findings	Assurance
Key Financial Controls – external audit requirement	To meet external audit requirements	<p>The Board can take substantial assurance that the controls upon which the organisation relies to manage this area are suitably designed, consistently applied and effective. We found that the following controls were designed adequately:</p> <p>Payroll:</p> <ul style="list-style-type: none"> The JNCC had procedures in place covering the processing of starters, leavers, amendments, payments and over payments. An up to date authorised signatory list was in place with Defra which adequately restricted access to payroll data and ensured no unauthorised changes were made. Starters, leavers and amendments to payroll were only completed on the receipt of an authorised CPU form. BACS payment were being appropriately authorised prior to payment being made. 	

Other Coverage

Area	Rationale for coverage	Headline Findings	Assurance
		<p>Invoicing & Accounting for Income:</p> <ul style="list-style-type: none"> ▪ JNCC had procedures in place covering raising and process sales invoices and receipting income. ▪ Sale invoices were being raised accurately and processed by finance upon the receipt of an authorised request. ▪ Sale income was being identified, processed and banked in a timely manner. ▪ Aged debt was being monitored and chased in line with the organisation's procedures. ▪ Credit notes were only being issued upon the receipt of authorised request. <p>Ordering & Creditors:</p> <ul style="list-style-type: none"> ▪ Purchase orders were being raised and independently authorised prior to being processed by finance. ▪ All goods were receipted electronically by the requester prior to payment being made. ▪ Invoices were being authorised, matched to purchase orders and paid in a timely manner. ▪ Amendments to suppliers' standing information were only made upon the receipt a written request from a legitimate source. ▪ BACS payments were being appropriately checked and approved prior to payment being made. <p>Fixed Assets:</p> <ul style="list-style-type: none"> ▪ Capitalisation of assets was being completed in line with Accounting policy. ▪ Fixed assets were stored in secure locations. ▪ Asset movements were identified as part of the year asset 	

Other Coverage			
Area	Rationale for coverage	Headline Findings	Assurance
		<p>verification exercise.</p> <ul style="list-style-type: none"> ▪ Annual reconciliation of asset register and the financial ledger was completed. <p>Nominal Ledger:</p> <ul style="list-style-type: none"> ▪ Changes to the chart of accounts were completed upon verbal requests from authorised sources. ▪ Journals were raised using a journal request form by members of the finance team. This was then independently inputted and checked by another member of the team. ▪ Control account reconciliations were completed in a timely manner and subject to independent review. 	
Follow Up	To meet the IIA Standards and to provide management with on-going assurance regarding implementation of recommendations.	<p>In our opinion JNCC demonstrated adequate progress in implementing actions agreed to address internal audit recommendations. As part of our review we looked at the progress of the implementations made from the following reports from 2003/4:</p> <ul style="list-style-type: none"> ▪ Aberdeen Office Administration Operations. <p>The following reports from 2008/9:</p> <ul style="list-style-type: none"> ▪ Media Communications and Publications. <p>The following reports from 2009/10:</p> <ul style="list-style-type: none"> ▪ HR Policies and Publications. ▪ Stakeholder Relationship Management- Marine Protected Areas. ▪ Risk Management and Corporate Governance. ▪ Key Data Sets. <p>The following reports from 2010/11:</p> <ul style="list-style-type: none"> ▪ Core Financials Funding Agreements (EU Funding). 	Adequate progress

Other Coverage			
Area	Rationale for coverage	Headline Findings	Assurance
		<ul style="list-style-type: none">Project Audit Marine.	

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APPENDIX B:

INTERNAL AUDIT OPINIONS AND RECOMMENDATIONS 2011/12

Auditable Area	Assurance Level Given	Number of Recommendations made				Agreed
		High	Medium	Low	In Total	
Risk Management and Governance	<p>Risk Maturity: Risk Defined</p> <p>Governance</p>	0	2	13	15	13
Partnership Arrangements		0	0	4	4	4
Key Financial Controls		0	0	1	1	1
HR Appraisal Process		0	1	4	5	4
Business and Strategic Planning and Financial Planning, Budget Setting and Control		0	2	1	3	3
Follow Up	<p>Adequate progress</p>	1	1	5	7	7
Total		1	6	28	35	32