



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

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AUDIT & RISK MANAGEMENT COMMITTEE REPORT TO COMPANY BOARD

1. Introduction

- 1.1 The twenty-ninth meeting of the Audit & Risk Management Committee took place on 19 June in Peterborough.
- 1.2 This was David Crawley's last meeting, and warm appreciation was expressed for his five years of very highly valued service to the Committee. Succession planning had been discussed at the meeting in March, but actions are still required to investigate options for additional members of JNCC to serve on the ARMC. The Chair will also reach the end of his term of appointment later in 2012, and a proposal for succession of the Chair will be made to the Board shortly.

2. JNCC Annual Report and Accounts, 2011-12

- 2.1 The Committee had a second opportunity to go through the revised draft of the JNCC Annual Report and Accounts (ARA) for 2011-12, having previously discussed them by email and having discussed the draft Governance Statement at the previous meeting in March. Some final minor editorial amendments were agreed and were conveyed to the Board (paper BD 12 P01) to assist the Board's adoption of the ARA on 21 June.
- 2.2 Members agreed that despite always challenging timeframes, the accounts and the financial audit (see below) this year had been extremely well prepared. The National Audit Office were thanked for their work, and the Chief Executive and Support Company finance staff were congratulated on a job very well done.
- 2.3 The financial outturn shows a net deficit at the year-end. This results primarily from a one-off provision for anticipated building dilapidation costs, and otherwise the budget overall was appreciably underspent by comparison with the originally approved Grant in Aid for the year. Underspending is not good news, and the Committee discussed a separate paper provided by management which helpfully analysed the factors involved in this (including some that were externally imposed), some lessons emerging (including reflections on project management in general) and a series of actions to seek to avoid the same situation in future.

3. External audit

- 3.1 The Committee examined the draft audit completion report from the National Audit Office (JNCC's external auditors). This report is addressed to "those charged with governance" and it has previously been agreed that the Audit & Risk Management Committee receives it on the Board's behalf, but Board interest in it is welcomed nonetheless, and the paper is available on request. All of the observations and recommendations from NAO on this occasion were of a minor nature, and the Committee were pleased to recommend signing of the formal "Letter of Representation" which accompanies the accounts.

4. Audit & Risk Management Committee's Annual Report to the Board

- 4.1 The Committee had a second opportunity to go through the revised draft of its own Annual Report to the Company Board for 2011-12, having previously discussed it by email. No further amendments were made, and hence the version provided to the Board's 21 June meeting as agenda paper BD 12 D01 stands as the final report.
- 4.2 Some points made by Defra and the NAO will be borne in mind for future reporting, such as giving more emphasis to the work the ARMC does on governance and control issues, and giving attention to assurance about implementing Cabinet Office recommendations on data management.
- 4.3 In addition to this annual report the Board receives quarterly written reports from the ARMC Chair on the outcome of each ARMC meeting, but because the Board now only meets once per year, this has recently been supplemented by circulation of agenda papers for information too. This latter step however has involved a not very digestible volume of material, so the practice is to be revised again. In future the only ARMC papers to be circulated automatically to all Board members apart from the Chair's reports will be the meeting agendas themselves and the Committee's Forward Plan, with an invitation to use these as an index of further documents that can be obtained on request. This can be treated as a trial approach, and depending on feedback from Board members it can be adjusted again if necessary.
- 4.4 The Board has a role in helping to frame the work of the ARMC, so Board members are encouraged to provide comments in particular on the Forward Plan mentioned above. (The current Forward Plan is appended to the ARMC Annual Report as Annex 5).

5. Annual Assurance Report, 2011-12

- 5.1 The Committee had a second opportunity to go through the revised draft of the Annual Assurance Report for 2011-12 compiled by RSM Tenon (JNCC's Internal Auditors), having discussed it at the previous meeting in March. No further amendments were made, and hence the version provided to the Board's 21 June meeting as Annex 1 of the ARMC Annual Report (agenda paper BD 12 D01, see above) stands as the final report.

- 5.2 Internal audit results nowadays feed into a consolidated approach across the network of Defra organisations, and feedback was received on this from Defra to the effect that the process appears to be fitting together well. This was reassuring in light of some earlier questions about consistency of approach.

6. Scoping of Internal Audits for 2012-13

- 6.1 The Committee at its meeting in March approved the internal audit plan for 2012-13, and one remaining question as to the costs of the programme was resolved shortly thereafter (resulting happily in no change to the charging basis from that used in 2011-12). At the 19 June meeting the Committee provided comments on the draft scopes for each of the planned audits for the year ahead (with the exception of one audit which has already been completed), and it will review each of the individual audit reports in due course.

7. Regularly monitored significant risks

- 7.1 Members reviewed management actions in respect of the list of key risks that are monitored at each meeting. This list has been updated to reflect the identification of key risks in the latest Governance Statement, and some minor adjustments were suggested to the way these are expressed. Levels of risk overall (to delivery and to reputation) in some areas of marine work in particular remain relatively high, and relevant risk factors continue to evolve from month to month.

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

- 8.1 Issues flagged at the March meeting under this heading continue to be relevant, including marine staff recruitment/internal turnover and the work involved with (and potential outcomes of) the Triennial Review.
- 8.2 A particularly acute issue concerns the ending of current funding for offshore renewables casework advice and the difficulties in securing agreement on any replacement funding stream for this, while at the same time the need for the work itself is growing. Unless a solution is forthcoming from relevant parts of government or elsewhere there could be quite grave consequences for the organisation's delivery of a key role, and there has already been a disturbing impact on staff morale and turnover.
- 8.3 One possible new risk may develop if JNCC's involvement with cat eradication work on Saint Helena were to excite undue negative attention from animal rights activists. Management will be vigilant for this.

9. Consistency and auditability of evidence standards

- 9.1 The Joint Committee at its meeting in November 2011 discussed some aspects of standards for evidence, and asked the Audit & Risk Management Committee to take an interest particularly in the consistency and auditability of evidence trails. The Committee has had a preliminary discussion on this, but will return to the subject properly at its next meeting in September and will then report back.

10. Contracts let by single tender

10.1 Normally in June the ARMC would report to the Board on contracts let during the past year on a single tender basis. This process is an important safeguard measure. The compiling of the information has been slightly delayed, so it will now be provided a little later.

11. Cases of fraud, presumptive fraud and significant losses

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