



**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 thirtieth meeting of the Audit & Risk Management Committee took place on 18 September in Peterborough.
- 1.2 Members welcomed Board member Dr Susan Walker from SNH to her first meeting as a newly-confirmed member of the ARMC, and congratulated Mr Guy Duke on his confirmation as Chair-elect, due to take over the Chair from December. CCW and NE do not currently wish to put forward nominees to the Committee, but an invitation for expressions of interest will remain open, since numbers will drop to the minimum of four next year (subject to re-appointment of the one external member).

2. Internal Audit programme

- 2.1 The Committee examined the regular mid-year report on progress with the internal audit programme (mid-year assurance report), and although only one audit has been completed in the financial year so far, the programme is on track for completion as scheduled, and no problems have arisen. The programme has also been reviewed in light of updated risk analyses and external audit findings: based on the latter, members suggested that the planned audit of key financial controls should give some attention to personal data management aspects, but this is likely to require extra time which has not been budgeted, and may need to wait for next year. Otherwise apart from small adjustments to the scope of two audits, no changes to the programme are deemed necessary.
- 2.2 One audit report was available for review since the last meeting, covering consultation on corporate/business plans. This audit had quite narrow scope, looking only at whether appropriate ingredients for effective consultation are in place, and not the quality or completeness of the consultations; but nonetheless, following discussion of details, the Committee expressed its pleasure at the awarding of the highest possible assurance rating to this audit area.

3. Review of external audit 2011-12

- 3.1 In September each year the Committee reviews the performance of JNCC's external auditors (the National Audit Office), aiming principally to distil any lessons learned and actions to follow up in respect of the process for preparing the Annual Report and Accounts. In addition to the Committee's own perceptions and an annual meeting between the ARMC Chair and the auditors, this is informed by the results of either a client satisfaction questionnaire survey conducted by the NAO or (as

on this occasion) an equivalent exercise conducted internally by management. The discussion is held in confidence and details are minuted separately, but overall the conclusions on mechanisms and performance for 2011-12 were very positive. Minor improvements for next year will be discussed with the NAO. The already very challenging timeframes for the external audit are due to shorten still further next year, and there are concerns about the “bottleneck” impact on finance staff work in general and the limited opportunity for Board scrutiny of final draft accounts: further consideration will be given in the coming months to the best ways of finessing this.

4. Corporate Change Plan 2012-13

- 4.1 JNCC’s Business Plan for 2012-13 includes a number of corporate-level commitments for further improving the efficiency and effectiveness of the organisation, and the Executive Management Board recently approved a Corporate Change Plan to detail the action steps required. The Committee reviewed this Plan and the timelines and scheme of priorities it includes, resulting in some clarifications and suggestions for process refinements. Of particular interest is the welcome integration into the Plan of relevant recommendations emerging from the programme of internal audits: these too are annotated as to their relative priority, and recommendations from future audits will be added in as appropriate. Progress on high priority actions will be reported to the Committee from time to time.

5. Regularly monitored significant risks

- 5.1 Members reviewed management actions in respect of the annual list of key risks that are monitored at each meeting, and offered further comments on the risk definitions. Risk factors in some areas of marine work remain particularly acute, and despite concentrated efforts by management there is as yet no solution to the issue reported in June concerning the identification of future funding for offshore renewables casework advice (this is currently being discussed with Treasury). Actions to avoid underspending the year’s grant-in-aid have been put in place and progress on this was reported separately to the Board in the 1st quarter outturn report recently, although risks remain.

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

- 6.1 Continued uncertainty surrounds the forthcoming Triennial Review of JNCC, including its exact timing and its potential outcomes. Division of responsibilities between different organisations involved in marine work may be one area which Ministers will wish to examine, and present levels of funding allocated to JNCC and others for this area of work falls significantly short of what is required for the work that has been defined.
- 6.2 Although Richard Benyon remains the Parliamentary Under-Secretary for Natural Environment, Water and Rural Affairs in Defra, the recent Cabinet reshuffle has put new Ministers in several other posts of

relevance to JNCC's work, where attitudes remain to be discovered and new relationships may need to be forged. Changes have taken place in Scotland too and may also occur in Northern Ireland, where there has already been some turnover of key officials. (Relationships in Wales, where the new institutional structures on environment are now taking shape, are currently reported to be positive).

- 6.3 The JNCC Support Company's typical and highly commendable "can-do" attitude often leads to a response to capacity constraints that seeks continually to "do more with less"; but there is a risk that this masks a spreading of resources so thinly as to impact on efficient delivery. The Committee expressed support for more open acknowledgement of this where it is the case.

7. Approval of the corporate Risk Register

- 7.1 In the context of JNCC's risk management strategy, each year the corporate risk register undergoes a sequence of review and updating processes culminating in ARMC scrutiny and approval. It is thereafter "owned" by the whole organisation, including Board Directors. The Committee duly discussed the newly revised risk register, which as well as containing updated risk information, includes some format and process improvements. Risks associated with funding and staffing shortfalls, increased accounting obligations and reputational impacts of potential delivery failures (in the marine area in particular) have increased, and control measures are being adjusted where possible. After testing a number of areas of detail in discussion, the Committee approved the revised risk register. Members also noted the positive progress being made with risk management training (see also next item).

8. Other risk management issues

- 8.1 The Committee reviewed the results of an internal staff survey on JNCC's risk management processes, which sought in particular to test the degree to which appropriate systems and attitudes have become "embedded" in the organisation. The survey response rate was low, but useful feedback has been generated on some areas in need of improvement, including stronger leadership to establish a "culture" that sees good risk management as inseparable from good management in general, and better linkage to performance frameworks. A list of actions has been agreed, and these have been integrated into the corporate change plan (see item 4 above).
- 8.2 The annual Governance Statement for 2011-12, which the Board reviewed when approving the Annual Report and Accounts at its meeting in June, contains an expression of JNCC's "risk appetite". This makes clear that the aim is not to reduce all risks to zero, but rather that balanced judgements are made as to which risks can be accepted in the interests of effective delivery of objectives; and it notes some particular priorities. The updated wording for this has been communicated to all staff.

9. Cases of fraud, presumptive fraud and significant losses

9.1 No cases of fraud or presumptive fraud have been reported since the previous meeting. One loss has been recorded, relating to a deposit for survey accommodation which was not used when a more cost-effective survey option subsequently presented itself. Part of the deposit was recovered, leaving a net loss of just over £1K. Staff have been urged to research options thoroughly before committing funds.

10. Other items

10.1 Although not discussed in the meeting, members have between the June and September ARMC meetings received intersessional reports covering losses and special payments in 2011-12 (one instance amounting to £1K, already reported to the Board); contracts let during the past year on a single tender basis; and high risk projects.

10.2 The report to the Board of the 29th meeting of the ARMC meeting on 19 June 2012 (BD 12 N04) indicated that the Committee was intending to discuss consistency and auditability of evidence standards at its September meeting. This discussion will now take place at the next meeting, on 14 November.