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**The Audit and Risk Management Committee's Annual Report to the Company Board**  
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**JNCC SUPPORT CO. BOARD**

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

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**JNCC SUPPORT CO.  
BOARD OF DIRECTORS**

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

**Paper by Tracey Quince**

**1. Introduction**

- 1.1 This paper sets out the Audit and Risk Management Committee's annual report for 2008/09 to the Company Board. The paper also includes a forward look at the internal audit and risk management programmes for 2009/10.
- 1.2 The report will be presented to the Audit & Risk Management Committee at their meeting on 16 June. Any amendments made to the report will be tabled at the Board meeting on 22 June.
- 1.3 EMB invites the Board to **discuss** the Report.

**2. Statement of Assurance**

- 2.1 As required by the Government Internal Audit Standards, the Head of Internal Audit submits an Annual Assurance Report to the Audit and Risk Management Committee. This includes a summary of internal audit activity and results, and an Annual Assurance Report with his formal opinion on the adequacy, effectiveness and reliability of the organisation's internal control system. The Report was endorsed by the Audit and Risk Management Committee at its meeting on 16 June and is attached at Annex A.
- 2.2 The primary objective of the internal audit service is to provide the Accounting Officer and management with an opinion on whether an appropriate and effective system of internal control is in operation in the JNCC.
- 2.3 Based on the results of the audit work carried out for the year ending 31 March 2009, Deloitte 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 very good achievement for the JNCC Support Co. Nevertheless, some areas have been identified where control could be further strengthened and these are summarised in the Annual Assurance Report at Annex A.

### **3. Overview of the year**

#### ***Internal audit***

- 3.1 In September 2007, the Audit & Risk Management Committee agreed to extend the contract with Deloitte & Touche Public Sector Ltd for a further three years. In April 2008, Deloitte were contracted for a second 3 year term to run from 1 April 2008 to 31 March 2011 and were duly appointed as the internal audit provider for JNCC Support Co. At the end of this contract, Deloitte will have provided internal audit services for a total of 6 years. After 6 years the contract must be re-tendered as required by JNCC contractual procedures. In 2011, the contract for internal audit services will therefore go out to competitive tender.
- 3.2 In March 2008, the Audit and Risk Management Committee considered and approved Deloitte's audit strategy for a risk-based audit approach for the next three years with internal audit operational plans for 2008/09 to 2010/11 that are closely aligned to the risk register. The operational plan for 2008/09 was reviewed and amended prior to the start of the year to take account of updated risk registers and management comments.
- 3.3 In 2008/09 Deloitte undertook fieldwork for five audits, as set out in the operational plan. The audit programme was completed in good time and five final reports were issued during the year. The audits undertaken in 2008/09 are summarised in the table below. Further details are provided in the Annual Assurance Report at Annex A.

<b>Final audit reports for 2008/09</b>	<b>Number of recommendations made</b>	<b>Assurance level 2007/08</b>	<b>Assurance level 2008/09</b>
Business Planning and Performance Management	0	N/A	Full
Data Security	10	N/A	Substantial
Risk Management and Corporate Governance	4	Substantial	Substantial
Media Communications and Publications	6	N/A	Substantial
Core Finance Systems	8	Substantial	Substantial

- 3.4 Regular progress reports have been made to the Audit and Risk Management Committee which has recorded its satisfaction with the professionalism and quality of audits. However, as in 2008, some concerns were raised with Deloitte regarding the consistency of the basis on which assurance ratings are arrived at and priority-levels for audit recommendations are assigned, across the audit programme. During 2009/10, the Audit and Risk Management Committee will continue to pursue this matter as appropriate.

- 3.5 In the final internal audit reports for 2008/09, 28 recommendations were made by Deloitte (not all these recommendations were due to be implemented in 2008/09).
- 3.6 The monitoring system administered by management, and the follow-up audit completed each year, assesses progress in implementing audit recommendations. In March 2009, the Audit and Risk Management Committee discussed the status of recommendations made in previous years. Details of these can be found on page 9 of the Report contained in Annex A.
- 3.7 In June 2005, the Audit and Risk Management Committee selected six internal audit performance indicators for Deloitte and three for JNCC management on which they wished to receive reports. In 2008/09, six performance indicators were achieved, with 3 partially achieved. In 2007/08, seven performance indicators were achieved and two were partially achieved. Management and Deloitte will continue to work towards achieving all performance indicators in full in 2009/10.

### **Risk management**

- 3.8 Good progress continues to be made with risk management. The major themes in this area of work during 2008/09 are summarised below.
- 3.9 An analysis of risk is now included on project planning forms. Programme leaders and project managers are asked to consider the risks relating to their projects and programmes and to highlight any areas of concern which might need to be escalated to director level. A list of high risk high cost projects is compiled from the information provided and presented to the Executive Management Board for their consideration and information on this will be considered by the Audit & Risk Management Committee.
- 3.10 A review of all three risk registers took place in July 2008 at the annual risk workshop. The workshop was chaired by Marcus Yeo and involved staff from across the organisation. The workshop considered the current controls in place to manage the risks and the future controls required to ensure the risks continue to be managed and are reduced where appropriate. The workshop also identified future actions to be implemented and some new risks facing the organisation. The Audit and Risk Management Committee agreed the new registers at their September meeting and chose ten 'top risks' which it asked the Executive Management Board to monitor through the year. A report on the management of the 'top ten risks' can be found at Annex B.
- 3.11 In order to help embed risk management further into the organisation it was agreed that the Science Group, the Policy Advice Group and the newly formed Marine Group would take a more formal role in the risk management process. The risk manager now provides regular reports to each group and each is required to select members to attend the annual risk management workshop. Additional support was provided to the Marine Group and Marine Director this year to ensure their knowledge and awareness of risk management processes was at the same level of the two other Groups.

- 3.12 In 2009/10 the following key attributes of JNCC's risk management process will be maintained or reinforced:
- i. all risks will relate explicitly to current corporate plan programmes;
  - ii. risk registers will contain assessments of impact and likelihood using Treasury definitions, control measures, actions and contingencies;
  - iii. following EMB's consideration of high cost/high risk projects for 2009/10, the Audit & Risk Management Committee will receive a paper on high-cost/high-risk projects;
  - iv. a clear and embedded system of risk management in JNCC will continue and will be strengthened through input from all internal management groups;
  - v. the process will continue to remain responsive to in-year changes in the risk environment; and
  - vi. a review of risk measures and policies in place, streamlining the process as necessary and placing focus on the measures that are effective.

#### **Audit and Risk Management Committee meetings**

- 3.13 The Audit and Risk Management Committee met four times during the year, in June, September, December and March. This was the fourth year of operation following the establishment of JNCC Support Co. in April 2005. Business has included consideration of internal audit plans and associated progress, the draft Statement on Internal Control, reviews of the risk registers and the appointment of National Audit Office as the new external auditors. Other issues considered by the Committee have included a new system for assessing the Committee's effectiveness, with the design of a new questionnaire and a more effective feedback session. Audit and Risk Management Committee members have continued to enhance their knowledge of the areas for which they are responsible and the expertise of the Committee as a whole has enhanced.
- 3.14 The Audit and Risk Management Committee continued to review the external audit programme, including the annual accounts for 2007/08 and the external audit management letter for 2007/08. The Committee was pleased to note that JNCC received an unqualified audit opinion from its external auditors, Moore Stephens, for 2007/08. Moore Stephens' view was that the financial statements gave a true and fair view of the state of the company's affairs as at 31 March 2008. Moore Stephens was able to confirm that the accounts had been properly prepared in accordance with the Companies Act 1985 and the information given in the directors' report was consistent with the financial statements.

**4. Forward look for 2009/10**

4.1 Deloitte and JNCC management have prepared the internal audit programme for the next three years to 2011 to ensure that it provides the organisation with the internal audit service it needs. The Audit and Risk Management Committee has approved the internal audit strategy for 2008-2011 and the operational plan for 2009/10 at 40 days of internal audit time. Discussions are still to take place to finalise the scope of the audits in the programme for 2009/10 and the Chair of the Audit & Risk Management Committee has been given delegated authority to sign these off once agreed. The internal audit programme for 2009/10 includes:

- Payroll
- Core Finance Systems
- Corporate governance and risk management
- Key Data Sets
- Stakeholder Relationship Management (Marine Protected Areas)
- Sustainable Development Action Plan
- HR Policies & Procedures
- Network operating system security (including access administration)

**Annex 1**

**DRAFT INTERNAL AUDIT ANNUAL REPORT**

## Annex B

### Report on ‘top ten’ risks

A summary of the main activities undertaken during the year to mitigate these risks is provided below.

Risk	Key control activities undertaken in 2008/09
A2: Other Government bodies take on functions of national and international significance without agreement of Joint Committee	<ul style="list-style-type: none"> <li>• Developing and maintaining relationships with key government stakeholders</li> <li>• Monitoring of Marine and Coastal Access Bill and Scottish Marine Bill</li> </ul>
A3: Mismatch between resources needed to implement JNCC’s strategy over an appropriate timescale and funding provided by Government	<ul style="list-style-type: none"> <li>• Ongoing advice to Government on work priorities and planning discussions.</li> <li>• Negotiation of substantial additional government funding for JNCC’s work on marine protected areas and marine surveillance</li> <li>• Ongoing efficiency savings</li> <li>• Continuing success in securing funding from external sources for specific projects (including marine and Overseas Territories)</li> </ul>
A5: Inappropriate decisions, missed opportunities and failure to meet legal obligations through inability to easily retrieve information	<ul style="list-style-type: none"> <li>• Maintenance of electronic and paper filing structures.</li> <li>• Roll out of Office 2007 software across JNCC</li> <li>• Scoping for electronic information management project</li> </ul>
A6: Lack of staff/stakeholder understanding, support and commitment to JNCC’s strategy	<ul style="list-style-type: none"> <li>• Refresh of JNCC’s strategy – new vision and mission endorsed by Committee in March 2009</li> <li>• Consultation with key stakeholders in government and country conservation bodies undertaken as part of strategy refresh</li> <li>• New strategy promoted within JNCC</li> </ul>
A7: A change in the functions, composition or resourcing arrangements of JNCC and /or Company arising from statutory changes in the country agencies or sponsor bodies	<ul style="list-style-type: none"> <li>• Ongoing stakeholder relationship management, especially at chairman and director levels</li> <li>• Monitoring of Marine and Coastal Access Bill and Scottish Marine Bill</li> </ul>
A9: Not being aligned to existing/developing Government priorities	<ul style="list-style-type: none"> <li>• Close liaison with Defra, other Westminster departments and devolved administrations to inform strategy refresh and preparation of business plan for 2009/10</li> </ul>
C2: Ineffective governance at Committee, Company Board and Executive Management Board levels	<ul style="list-style-type: none"> <li>• Review of governance as part of strategy review, resulting in:               <ul style="list-style-type: none"> <li>– clarification of the roles of Joint Committee, company board and sub-groups established by them</li> <li>– new forward programme for Committee focussing on strategic issues</li> <li>– revised schedule of delegations</li> </ul> </li> </ul>
C4: Failure to identify major issues affecting the environment	<ul style="list-style-type: none"> <li>• Review of major environmental issues incorporated within strategy refresh</li> <li>• New forward programme for Committee focussing on</li> </ul>

<b>Risk</b>	<b>Key control activities undertaken in 2008/09</b>
	strategic issues <ul style="list-style-type: none"> <li>• Intelligence gathering through day to day work.</li> </ul>
C12: Significant loss of co-operation between JNCC and one or more partner organisations	<ul style="list-style-type: none"> <li>• Revised strategy and new business plan 'bought into' by country conservation bodies, Defra and devolved administrations</li> <li>• Communicating Science course held for Directors and Programme Leaders, stressing the need to highlight partnerships while raising JNCC's profile</li> <li>• External communications strategy in place but implementation of a more structured approach to stakeholder relationship management constrained by lack of resources</li> <li>• Continued emphasis on partnership working culture through staff selection and performance management.</li> </ul>
C13: Accidental and deliberate breaches of security of confidential information	<ul style="list-style-type: none"> <li>• Thorough review of data security arrangements, leading to the following actions:               <ul style="list-style-type: none"> <li>– routine risk assessment of key information assets and IT controls</li> <li>– tighter procedural controls over confidential information</li> <li>– revised policies (in draft)</li> <li>– awareness raising, training and guidance for staff</li> </ul> </li> </ul>