



**Joint Nature Conservation Committee**

**FINAL INTERNAL AUDIT ANNUAL REPORT  
2008/09**

**June 2009**

**Deloitte & Touche Public Sector Internal Audit Limited  
St. Albans**

This report has been prepared on the basis of the limitations set out on page 12.

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# Executive Summary

## Introduction

We have now completed our Internal Audit Programme as approved by the Audit and Risk Management Committee on 19<sup>th</sup> March 2008, covering the financial period 1 April 2008 – 31 March 2009.

As defined in the Government Internal Audit Standards (GIAS), the role of internal audit is to provide an independent and objective opinion to the Accounting Officer on risk management, control and governance. The opinion given by internal audit is a key element of the framework of assurance which the Accounting Officer needs to inform the completion of the annual Statement of Internal Control (SIC). The opinion can, however, only be reasonable in the sense that no opinion or assurance can ever be absolute and is, by definition, an extrapolation of the evidence examined. The Internal Audit opinion does not supersede the Accounting Officer's personal responsibility for risk, control and governance.

## The Statement of Assurance

We are required to give an opinion on risk management, control and governance. In assessing the level of assurance to be given, we have taken into account the following:

- All internal audits undertaken between 1 April 2008 and 31 March 2009;
- The action taken in response to our audit recommendations;
- Whether high priority recommendations have been accepted by management, and the consequent risks;
- The effects of any material changes in the Joint Nature Conservation Committee's (JNCC) objectives or systems; and
- Whether or not any limitations have been placed on the scope of internal audit.

**Based on the work completed between 1 April 2008 and 31 March 2009, carried out in accordance with the scopes agreed by the Audit and Risk Management Committee, taking into account the proposed action by management to rectify the control weaknesses identified in our detailed reports, in our opinion the JNCC has an adequate and effective system of internal controls which provides reasonable assurance regarding the effective and efficient achievement of the JNCC's objectives.**

## **Sources of Assurance**

To provide the required assurance we undertook an agreed programme of work with the following objectives:

- To appraise the soundness, adequacy and application of the whole internal control system;
- To confirm the extent to which the system of internal control ensures compliance with established policies and procedures;
- To confirm the extent to which the assets and interests entrusted to, or funded by, the JNCC are properly controlled and safeguarded from losses arising from fraud, irregularity or corruption;
- To confirm that accounting and other information is reliable as a basis for producing accounts, and financial, statistical and other returns;
- To confirm the integrity and reliability of financial and other information provided to management, including that used in decision making; and
- To confirm that systems of control are laid down and operate to promote the most economic, efficient and effective use of resources.

We have provided in Section 1 a statement of the level of assurance achieved for each system audited. Full or Substantial assurance was achieved for 100% of the systems audited.

## **Acknowledgement**

We would like to take this opportunity of thanking the JNCC management and their staff for the co-operation we have received.

## Section 1 – Assurance Statement

The Internal Audit operational plan for 2008/09 covered five audits as agreed by the Audit and Risk Management Committee. A statement of the level of assurance achieved for each area of audit, where applicable, is shown below, together with the prior year assurances. Appendix 1 provides definitions for each of the assurance levels.

| <b>Audit Area</b>                            | <b>Assurance Level</b> | <b>Assurance Level</b> |
|--|------------------------|------------------------|
|  | <b>2007/08</b>         | <b>2008/09</b>         |
| Business Planning and Performance Management | N/A                    | Full                   |
| Data Security                                | N/A                    | Substantial            |
| Risk Management and Corporate Governance     | Substantial            | Substantial            |
| Media Communications and Publications        | N/A                    | Substantial            |
| Core Finance Systems                         | Substantial            | Substantial            |

The levels of assurance achieved as a percentage of systems audited are given in the following table:

| <b>Assurance Level</b> | <b>Full</b> | <b>Substantial</b> | <b>Limited</b> | <b>Nil</b> |
|------------------------|-------------|--------------------|----------------|------------|
|                        | <b>%</b>    | <b>%</b>           | <b>%</b>       | <b>%</b>   |
| Overall                | 20          | 80                 | -              | -          |

The table demonstrates that 20% of audits received full assurance and 80% of audits received substantial assurance for the systems audited. In comparison, in 2007/08 100% of audits (both those referred to above and the other systems audited in that year) received substantial assurance.

## Section 2 – Overview of Audit Work

The budgeted and actual days delivered to date are shown in the table below:

| <b>Audit Area</b>                            | <b>Budgeted Days</b> | <b>Actual Days</b> |
|--|----------------------|--------------------|
| Business Planning and Performance Management | 6                    | 6                  |
| Data Security                                | 5                    | 6*                 |
| Risk Management and Corporate Governance     | 4                    | 4                  |
| Media Communications and Publications        | 5                    | 5                  |
| Core Finance Systems                         | 9                    | 9                  |
| Sustainable Development                      | 3                    | 0**                |
| Follow-up                                    | 3                    | 3                  |
| Contingency                                  | 1                    | 0*                 |
| Audit Committee and Contract Management      | 4                    | 4                  |
| <b>Total</b>                                 | <b>40</b>            | <b>37</b>          |

\*1 day taken from contingency as agreed with management, and used to complete additional testing relating to the Data Security audit.

\*\* The Sustainable Development audit was cancelled on the request of management, to accommodate production of the annual report and subsequent invoicing for this work after the 2007/08 year end had closed. This was agreed with the Audit and Risk Management Committee.

The major recommendations arising from our audits are discussed below. Full details of our findings and recommendations are available in our individual reports. The assurance definitions can be found in Appendix 1.

## **2.1 Business Planning and Performance Management. Assurance: Full**

The Joint Nature Conservation Committee (JNCC) has two organisational plans in place. There is a three year Corporate Plan which is reviewed every two years and has been developed for 2008-11 and a Business Plan which is updated on an annual basis and forms part of, and underpins, the Corporate Plan. The Corporate Plan includes the JNCC strategic objectives, and performance targets based upon an agreed financial settlement for year one and estimated settlement for years two and three. Within the Corporate Plan, the organisation's programmes are documented. Each programme is assigned targets, key performance indicators, and the planned resources (financial budget) for achieving the targets.

The audit was carried out to evaluate and test controls over the following areas:

### *Business Planning:*

- Planning: Compilation, consultation and update;
- Documenting;
- Approval and communication; and
- Implementing and monitoring (incl. training).

### *Performance Management:*

- Objective and goal setting;
- Analysis of actual to forecasts; and
- Monitoring of performance.

There were no recommendations raised as identified during the audit process and full assurance was provided.

## **2.2 Data Security. Assurance: Substantial**

A number of high profile data security breaches in other government organisations have been reported within the media and have focused government organisations on the need to have strong processes in place to protect organisational data which may be sensitive.

Robust data security policies and practices help to protect the integrity, availability and confidentiality of the information assets held within the Joint Nature Conservation Committee (JNCC). They also help to ensure that the facilities provided by JNCC are available to support the achievement of the organisation's objectives.

The audit was carried out to evaluate and test controls over the following areas:

- Data classification and sharing;
- IT Security – data management policies and procedures;
- Security policy – training and awareness;
- Logical access control;
- Physical access control;
- Backup strategy; and

- Disposal procedures.

As a result of this audit, six priority 2 recommendations and four priority 3 recommendations were raised. The priority 2 recommendations related to the establishment of data classification and sharing procedures and guidelines; data security training and awareness; data encryption; logical access controls; monitoring of security violations; and offsite backup tape storage.

Two of the above recommendations were disagreed with management. The first related to the introduction of cable locks for lap tops (priority 3), and was disagreed on the basis of limitation on usage of cable locks outside of the JNCC offices. The second recommendation (priority 2), relating to the storage of offsite back-ups at a suitable secure location, was disagreed on the basis of current arrangements being considered reasonable until the relocation of the Aberdeen offices, when budgets have been assigned for this purpose and data tapes are planned to be replicated between offices.

## **2.3 Risk Management and Corporate Governance. Assurance: Substantial**

### Risk Management

The Joint Nature Conservation Committee (JNCC) has developed a Risk Management Strategy that outlines responsibilities and how the organisation plans to manage risk. The organisation maintains three risk registers - the Corporate, the High Inherent and the Medium/Low risk registers.

### Corporate Governance

The Joint Committee is responsible for discharging the functions set out in the Natural Environment and Rural Communities Act 2006. Many of the functions of the Joint Committee are delegated to the JNCC Support Company Board and its sub-groups that have included a Process Working Group, a Vision Working Group and a Remuneration Committee. The Company Board has two sub-committees; the Executive Management Board and the Audit and Risk Management Committee.

The audit was carried out to evaluate and test controls over the following areas:

#### *Risk Management:*

- Review and update of the risk map;
- Risk Management training;
- Embedding risk management; and
- Monitoring and reporting.

#### *Corporate Governance:*

- Board Structure, roles and responsibilities;
- Board training and skills;
- Up to date policies and procedures (incl. whistle blowing and fraud); and
- Declaration of interests.

As a result of this audit, we raised one Priority 2 recommendation and three Priority 3 recommendations where we consider that changes can be made in order to achieve greater control. The recommendations related to the Corporate Governance area of the scope. The recommendations related to training requirements being identified and documented during member and Chairman one to one meetings; periodic review of the Committee Competency Profile, periodic review of the anti-fraud and whistle blowing policies; and annual declaration of interests for Board and Committee members.

During the follow-up audit 2008/09, one Priority 3 recommendation relating to the identification and documenting of Member's training requirements, was agreed to be removed. This was agreed on the basis that the need for additional training for Independent Members (not provided by induction) is always going to be low as members are recruited on three year appointments with specific skills to do the job, and the training needs of members of the Audit Committee are identified via a separate needs assessment. It is considered that training needs would be effectively identified, without the Chairman asking the specific question.

#### **2.4 Media Communications and Publications. Assurance: Substantial**

In 2007/08 the cost of publications to JNCC totalled approximately £130,000 and, as at the time of the audit (November 2008), 2008/09 expenditure had totalled approximately £66,000. The cost of write-offs in 2007/08 totalled approximately £17,700.

The audit was carried out to evaluate and test controls over the following areas:

##### *Publications:*

- Authorisation for hard copy publications (including volume and cost); and
- Stock write-off estimates.

##### *Media Communications:*

- Policy and procedures;
- Responsibilities;
- Media selection;
- Approval of communications; and
- Records and management information.

As a result of our audit, we raised three Priority 2 and three Priority 3 recommendations where we consider that changes could be made in order to achieve greater control. The priority 2 recommendations related to a publication checklist and authorisation sheet being developed that provides evidence of authorisation of costs from the Project Manager or Programme Leader, and confirms review of the publication by the Communications Team; having a nominated project representative in place as a liaison officer to discuss media issues with the Communications Team; and approval of press releases.

## **2.5 Core Finance Systems. Assurance: Substantial**

The Joint Nature Conservation Committee Support Company (JNCC) has an income provision of approximately £7.8 million from DEFRA, Natural England, Scottish Natural Heritage, Countryside Council for Wales and Department of Environment for Northern Ireland.

As part of the audit, five areas within the core financial systems were audited covering the controls in place relating to Income, Budgetary Control, Payroll, Payments, and Procurement.

The audit was carried out to evaluate and test controls over the following areas:

### *Income*

- Income identification and invoicing; and
- Draw-down procedures.

### *Budgetary Control*

- Budget compilation;
- Budget approval and notification;
- Delegated Responsibility;
- Budget monitoring;
- Reporting arrangements; and
- Virements between budgets.

### *Payroll*

- Starters and leavers;
- Payments and deductions (including advances, expenses)
- Processing payroll; and
- Amendments to data.

### *Payments*

- Validity of orders;
- Authorisation T&S claims;
- Payment processing; and
- Monitoring of expenditure.

### *Procurement*

- Tendering process (including appointment of suppliers, selection and rotation of supplier and tender records);
- Letting of contract and contract documentation; and
- Procurement training.

As a result of our audit, we raised five priority 2 recommendations and three priority 3 recommendations. The priority 2 recommendations related to procedures for dealing with income, including Grant in Aid, being finalised and approved; virement forms being adjusted to include a tick box at the end of each row that confirms a check and approval of the virement by the budget holder; all new starters, whether they are casual or permanent members of staff, should supply documented evidence of their identity in accordance with the requirements as stipulated by the Asylum and Immigration Act; officers that are able to self certify their own expenses should have their expense claims counter signed by another senior officer of equivalent or senior grade; and the JNCC should investigate a means by which performance information can be obtained with regards contractor performance to identify and enable corrective action to be taken in relation to any poor performance. A consistent approach to performance monitoring should then be implemented across the organisation.

All recommendations were agreed with management, with the exception of authorisation of virements being documented by management through the sign off of standard forms (a Priority 2 recommendation). However, management responses to another recommendation, relating to the need for financial procedures for budget adjustments, did include commitment to review budget adjustment procedures, and for computerised forms to be amended to provide a tick-box to show that virements have been appropriately authorised.

## **2.9 Follow-up. Assurance: N/A.**

As part of the Internal Audit Plan for 2008/09, we undertook a follow-up exercise covering recommendations raised to date in our internal audit reports and which were due for implementation by 31<sup>st</sup> January 2009, together with audit reports from previous financial years where recommendations were reported as outstanding.

In 2008/09 17 recommendations were raised within reports finalised by 31<sup>st</sup> December 2008. Of these recommendations, five were found to have been implemented and three were found not to have been implemented by the due date. Seven recommendations were not due for implementation as of the 30<sup>th</sup> January 2009, and two recommendations are proposed to be removed. The recommendations to be removed are due to management disagreeing with the recommendation, due to the risk not being considered as high, and compensatory controls being in place.

Eleven recommendations relating to 2007/08 were followed up. Of these recommendations, five were found to have been satisfactorily implemented; one was partially implemented, one had not been implemented, three were not due, and one recommendation was not followed up due to lack of availability of officers and will be audited in the 2009/10 financial year.

Five recommendations relating to 2006/07 were followed up. Of these recommendations, four were found to have been satisfactorily implemented, and one was found to be partially implemented.

The agreed recommendations from 2003/04 and 2005/06 internal audit reports, which have been previously reported as partly or not implemented, were included as part of the follow up exercise. Of the three recommendations relating to 2003/04, two were found to have been

satisfactorily implemented and one had not been actioned. Of the two recommendations relating to 2005/06, both were found to be satisfactorily completed.

This report was presented to the Audit Committee in March 2009, and all outstanding recommendations, and the corrective action to be taken, were discussed and agreed between Audit Committee Members and Executive Officers.

### **Section 3 – 2009/10 Internal Audit Programme**

Deloitte Public Sector Internal Audit Limited was appointed as the Internal Auditors to the JNCC for three years commencing 1 April 2008 (following re-appointment).

We have prepared the internal audit plan for 2009/10, which is based upon the internal audit strategy first presented to the Audit Committee in March 2008. The plan for 2009/10 was presented to the Audit Committee in December 2008 for comment and in March 2009 for approval. The plan was approved, subject to the individual terms of reference being agreed with management.

The draft Internal Audit Operational Plan covers the period 1 April 2009 to 31 March 2010 and is shown at Appendix 2. The plan forms part of the JNCC's Internal Audit Strategy, the purpose of which is to define the approach and methodology to be followed which will enable Internal Audit to:

- Provide the Accounting Officer with an opinion on the organisation's risk management, control and governance to support the preparation of the Statement of Internal Control.
- Audit the JNCC's risk management, control and governance through annual audit plans, which give priority to the organisation's objectives and risks.
- Identify improvements to JNCC's risk management, control and governance by providing management with recommendations arising from the audit work.
- Identify the audit resources required to deliver an audit service which meets the GIAS.
- Provide effective co-operation with the National Audit Office.

## **Statement of Responsibility**

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system. The assurance level awarded in our internal audit report is not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

### **Deloitte & Touche Public Sector Internal Audit Limited**

**St. Albans**

**June 2009**




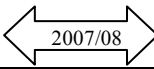


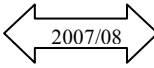
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




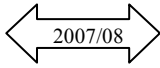
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## Appendix 1 – Assurance Statement Summary Report

| Audit Title                                  | No | Limited | Substantial   | Full  |
|--|----|---------|---|---|
| Business Planning and Performance Management |    |         |   |  |
| Data Security                                |    |         |   |   |
| Risk Management and Corporate Governance     |    |         | <br>    |   |
| Media Communications and Publications        |    |         |   |   |
| Core Finance Systems                         |    |         | <br> |   |

## Definition of Assurance Levels

|   |                    |   |
|---|--------------------|---|
|    | <b>Full</b>        | There is a sound system of control designed to achieve the system objectives.   |
|    | <b>Substantial</b> | While there is a substantially sound system, there are weaknesses which put some of the system objectives at risk.            |
|    | <b>Limited</b>     | Weaknesses in the system of controls are such as to put the system objectives at risk.  |
|    | <b>No</b>          | Control is generally weak leaving the system open to significant error or abuse.  |
|    |                    | <b>No opinion given. Typically where we undertake the follow-up work, non-systems based work, or work of a limited scope.</b> |
|  |                    | <b>Improved since the last audit visit. Position of the arrow indicates previous status.</b>                                  |
|  |                    | <b>Deteriorated since the last audit visit. Position of the arrow indicates previous status.</b>                              |
|  |                    | <b>Unchanged since the last audit report.</b>   |
|  |                    | <b>Dates within the arrows indicate when the system was last audited.</b>   |
| <b>No arrow</b>   |                    | <b>Not visited by IA previously.</b>  |

## Appendix 2 – 2009/10 Internal Audit Operational Plan

This Internal Audit Operational Plan is a draft plan to be formally agreed with the Audit, Risk Management Committee and the Executive Management Board.

| <b>Audit Area / Risk</b>                      | <b>Risk Ref. *</b>                          | <b>Corp. Plan *</b> | <b>Audit Sponsor</b>  | <b>Proposed Date</b> | <b>Days</b> |
|---|---|---------------------|---|----------------------|-------------|
| Risk Management and Corporate Governance      | A5, C2, C5, C10, B2, B9                     | 16                  | Head of Corporate Governance and Stakeholder Relations / Head of Marine protected Areas | June 2009            | 4           |
| Key Data Sets                                 | A4, A5, C7                                  | -                   | Head of Resources   | Jul 2009             | 5           |
| <b>September 2009 Audit Committee Meeting</b> |   |                     |   |                      |             |
| Stakeholder Relationship Management           | A2, A3, A7, A9, B5, B8, B9, C4, C5, C8, C12 | 2, 5, 16            | Head of Corporate Governance and Stakeholder Relations / Head of Marine Protected Areas | Sep 2009             | 5           |
| Core Finance Systems                          | A3, C1, B2, B3, B4, B7                      | 2, 4, 16            | Head of Finance   | Oct 2009             | 9           |
| HR Policies and Procedures                    | A1, A2, A6, A8, C3                          | 16                  | Head of Personnel   | Oct 2009             | 4           |
| <b>December 2009 Audit Committee Meeting</b>  |   |                     |   |                      |             |
| Sustainable Development Action Plan           | C9  | -                   | Env Mgt Project Manager   | Dec 2009             | 3           |
| Follow – up                                   | -   | -                   | Business Manager  | Jan' 2010            | 3           |
| <b>March 2010 Audit Committee Meeting</b>     |   |                     |   |                      |             |
| Audit Management, Planning, Liaison etc.      | -   | -                   | -   | -                    | 4           |
| <b>TOTAL DAYS FOR 2009/10</b>                 |   |                     |   |                      | <b>37</b>   |

\* Each audit has been cross referenced to an individual risk within the JNCC Risk Registers and Corporate Plan, and will contribute to the assurance required that controls are in place to manage risk.