



**Audit & Risk Management Committee  
Report to Company Board**

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## **Audit & Risk Management Committee Report to Company Board**

### **1 Introduction**

- 1.1 In his first meeting as Chair, Guy Duke warmly thanked his predecessor David Pritchard for having bequeathed an effective Audit and Risk Management Committee and for having ensured a smooth handover. He also welcomed the re-appointment of Bryan Riddleston as an external member noting that this would be his last year with ARMC. He welcomed also JNCC member Michel Kaiser (attending as an observer).
- 1.2 The Chair welcomed new attendees to the committee, Louise Davies representing the internal auditors (RSM Tenon) and Sue Bennett (succeeding Brian Lawrence as Head of Finance and Planning, JNCC).
- 1.3 The meeting focussed on internal audit (Internal Audit) matters, including the Internal Audit operational plan for 2013/14, four Internal Audit reports, a draft of Internal Audit Annual Assurance Report for the year ended 31 March 2013 and a report on Internal Audit performance indicators. The meeting also considered the draft Governance Statement for the financial year 2012/13, and significant risks including new, emerging and fast-evolving risks.

### **2 Governance Statement 2012/13**

- 2.1 Committee reviewed an advanced draft of the Governance Statement for the year 2012/13, which will be included in the Annual Report and Accounts. Members considered the draft a good basis for discussion. They suggested a few amendments including that the statement could be adjusted to be more forward-looking and presented with a view to a wide audience. In particular, risks should be phrased in a way that makes clear that they are being effectively managed. Some re-structuring was proposed to reduce length and avoid repetitions. It was generally agreed that the statement should portray JNCC as a robust and fit for purpose organisation with effective governance and risk management. Members and the external auditor will review and comment on a further draft of the statement before the June meeting.

### **3 Internal Audit Operational Plan 2013/14**

- 3.1 Committee considered and approved the updated IA Operational Plan for 2013/14 with minor modifications, having considered it at length in its November meeting. Planned audits for 2013/14 include: IT and data security with a focus on marine data; health and safety; science and evidence standards (delayed from 2012/13 due to staff illness); key financial controls; and follow-up. Scopes for new audits

will be presented to ARMC in June. The plan will be revisited and changed if necessary in September following external audit of the JNCC Annual Report and Accounts.

- 3.2 Defra have approved extension of RSM Tenon's contract to the end of the financial year 2013/14 pending tendering for the new internal audit shared services.

#### **4 Internal Audit Reports**

- 4.1 Committee considered four IA reports, addressing: key financial controls, business continuity and disaster recovery, HR staff induction and training, and the internal audit follow-up report.
- 4.2 The audit of 'Key financial controls' received a green 'full assurance' rating for the second year running. Members congratulated Brian Lawrence and his team for this achievement.
- 4.3 The audits of 'business continuity and disaster recovery' and 'HR staff induction and training' received amber/red ratings. Such ratings are unusual for JNCC and, while still representing a positive opinion (there is a risk of a qualified opinion only where a significant number of reports are 'red'), Committee explored the reasons for these amber/ red ratings.
- 4.4 Issues for the former include a need to update certain aspects of the Business Recovery Plan, the absence of relocation sites for the Peterborough and Aberdeen offices in the event of a disaster, and delays in disaster scenario testing. Members considered that, while the risk of disaster may be low, the impact of any disaster would be very high; they consequently urged management to progress this work, with a focus on IT and data recovery.
- 4.5 Most weaknesses for the HR staff induction and training audit related to training. Members advised that processes for sourcing and booking training should be strengthened and staff incentivised to ensure they have the skills and knowledge required. Mr Yeo informed that JNCC will be implementing the new Civil Service competency framework from 1 April 2013, which places greater emphasis on training (e.g. it requires a minimum of three days training per year for each staff member) so this may encourage staff to prioritise it.
- 4.6 The fourth Internal Audit report considered by Committee was the Internal Audit follow-up report, which found adequate progress. Members encouraged management to implement two recommendations outstanding from 2003/04 and 2009/10. The former relates to putting in place a corporate records management system; the policy has been drafted and is expected to be approved shortly by EMB. The latter relates to the drafting of new contractual terms with external organisations holding key data sets, and is in progress with solicitors and expected to be completed in May.

#### **5 Internal Audit Progress Report, draft Annual Assurance Report**

- 5.1 Committee considered the Internal Audit Progress Report and a draft Annual Assurance Report for the year ending 31 March 2013. Planned audits for the year are on track with a final audit addressing risk management and governance due to be completed by 31 March. Given this pending audit, the Annual Assurance Report was considered in draft (the final version will be available in late April or early May). The draft opinion from the auditors confirms that they have not identified anything that would cause them to issue a qualified Head of Internal Audit opinion for the year. This opinion is not expected to change following the pending audit.

## **6 Report on Internal Audit Performance Indicators**

- 6.1 Committee considered the report on Internal Audit Performance Indicators. The majority of indicators were achieved. Staff feedback indicates that many staff find audit recommendations to be of limited usefulness. Internal audit has a clear responsibility to make recommendations where they perceive a significant risk but there may be a need at times to adapt some to better fit a small organisation like JNCC. Staff are working with RSM Tenon on this.

## **7 Update on Significant Risks and New, Emerging and Fast-evolving Risks**

- 7.1 Significant risks will be revised at the June meeting, building on the 2012/13 Governance Statement to be submitted in the Annual Report and Accounts.
- 7.2 Management is acting to manage the risk relating to the introduction of charging for advice to offshore renewables industries. Treasury requires that JNCC charge on a case by case basis for each piece of advice. JNCC will therefore need to develop capacity to determine costs and prepare quotations. ARMC suggested management might consider setting up a trading subsidiary for this work to ease the administrative burden.
- 7.3 A new risk identified by management relates to withdrawal from 1 August 2013 of the VAT exemption on supplies of research between two VAT-eligible bodies. This means that JNCC will have to pay VAT on research contracts such as that with BTO. Projected costs are in the region of £250k or more per annum. Members suggest that JNCC explore whether Defra is willing to coordinate a UK-wide approach to this change. Members also suggest JNCC might seek advice from a VAT specialist to see whether and how these additional costs may be mitigated.
- 7.4 Committee also discussed a recent uplift in staff turnover, mostly technical staff, which has affected in particular delivery of marine work. The causes of this uplift are not fully clear but reasons for staff departures include personal circumstances, dissatisfaction with the work, and lack of job security and general uncertainty about the future of the organisation. Committee recommended encouraging leavers to attend exit interviews to better inform management of this issue. Senior management is already moving to help staff manage heavy workloads.
- 7.5 Finally, Committee heard from Mr Yeo on key risks relating to the Triennial Review: risk of an anglo-centric bias (to be mitigated by contributions from devolved administrations); risk of radical change to marine responsibilities (staff are elaborating pros and cons to inform consideration of any such change); risk of demands on staff time; risk of reduced staff morale due to uncertainty; risk of Cabinet Office intervention altering the outcome of the review.