



The one hundred and fifteenth meeting of the
Joint Nature Conservation Committee to be held
at 08.45 on 7th June 2018
JNCC, Monkstone House, City Road,
Peterborough, PE1 1JY

This paper was provided to the Joint Committee for decision/discussion
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Annex 1

Annual Report of the JNCC Audit and Risk Assurance Committee 2017-2018



Earth Observation image of Grand Turk Island in the Turks and Caicos Islands - one of the UK's Overseas Territories

Annual Report of the JNCC Audit and Risk Assurance Committee 2017-2018



Professor Colin A Galbraith
Chair of ARAC

Members

Professor Colin A Galbraith (Chair, independent JNCC Member)

Mr Guy Duke (independent JNCC Member to 31 May 2017)

Dr Susan Walker (JNCC Member and SNH Deputy Chair)

Mr Nigel Reader (External Member)

Mr Tony Hams (External Member)

Mr Charles Banner (independent JNCC Member from 7 March 2018)

Dear Joint Committee member,

As Chair of JNCC's Audit and Risk Assurance Committee (ARAC), I am pleased to present the ARAC Annual Report for the year ended 31 March 2018, which has been prepared and approved by ARAC members. While a comprehensive description of ARAC's activities during the year is set out in the following pages, I would like to highlight a few key aspects of our work here.

One of ARAC's fundamental responsibilities is to review the organisation's internal control and risk management systems. ARAC has been established to support the Chief Executive and the Joint Committee in their responsibilities for issues of risk, control and governance, and associated assurance.

In addition to financial risks and controls, ARAC is also responsible for the oversight of risks and controls in all business areas which include a number of key compliance areas such as Environmental Performance, Health and Safety, Science Evidence Quality, Cyber and Data Security, Fraud and Losses, Whistleblowing and Equality and Diversity. Executives with responsibility for these risk areas attend meetings of ARAC as required.

ARAC's role is a challenging one; it delivers strong, independent scrutiny via its members who bring an appropriate range of skills and experience. ARAC is required to act as the conscience of the organisation and to provide insight and strong constructive challenge where required, such as on risks arising from financial and resource constraints, new service delivery models, information flows on risk and control, and on the agility of the organisation to respond to emerging risks and challenges. ARAC benefits from a strong collaborative relationship with JNCC staff, ensuring that it receives the support and information it needs. A particular challenge this year was the organisation's response to a cyber security breach and ARAC's role overseeing the investigation and conclusions in the final report. Lessons learnt from such incidents afford valuable insights into the working of current policies and offer opportunities to enact the changes required to alleviate the effects of future incidents.

During the past 12 months, ARAC has continued to promote a culture of financial discipline and internal control, and has overseen arrangements to ensure value for money, regularity and propriety, and to reduce the risks of financial or other mismanagement within JNCC. ARAC is fully committed to continuous improvement of financial and risk management within JNCC. The creation of a new post at senior civil service level to direct the finance and resources in the organisation, a new governance framework document and renewed terms of reference for ARAC as well as the development of systems to deliver the income generation strategy are all key steps for JNCC.

Key areas of decision and discussion in 2017/18

- ❖ Agreed a new internal audit service from the Government Internal Audit Agency (GIAA)
- ❖ Agreed the internal audit plan for 2018/19 and forward look to 2019/20, taking into account historical coverage of risk.
- ❖ Agreed the significant risks register for 2017/18, and approved a revised risk appetite statement.
- ❖ Recommended the Company Board approve the Annual Report and Accounts (ARA) for 2016/17.
- ❖ Recommended the Governance Statement for 2016/17 to the Company Board.
- ❖ Discussed the NAO Audit Completion Report and the need for management to provide accurate accruals at year-end to assist with the accounts production process.
- ❖ Noted the collective approach to risk by the Defra group using a shared template with common language, linking risks to Defra's strategic objectives to provide a clear line of sight.
- ❖ Made an annual declaration to the National Audit Office (NAO) to confirm that JNCC had complied with all relevant legislation.
- ❖ Continued to stress the need, alongside the Animal and Plant Health Agency (APHA), to replace the UNICORN IT system, particularly to help ensure day one EU exit readiness.
- ❖ Considered the external audit strategy and agreed the timetable for production of the ARA for 2017/18.
- ❖ Considered the risks and opportunities presented by the UK's exit from the EU.

Governance

ARAC was in place throughout 2017/18 and held four meetings. There were two membership changes during the year, with Mr Guy Duke leaving ARAC at the end of May 2017 as his time on the Joint Committee had ended at that point and Mr Charles Banner joining in March 2018. Individual attendance at meetings has been excellent.

All members are non-executives and independent in accordance with the provisions of the Treasury Handbook on Audit Committees.

The PA to the JNCC Chair and Chief Executive is the ARAC Secretary. The role is overseen by the Governance Manager.

Attendees at meetings

In addition to its membership, ARAC invites the following to its meetings:

- ❖ Chief Executive and Accounting Officer
- ❖ Head of Finance and Planning
- ❖ Governance Manager
- ❖ Head of Internal Audit
- ❖ National Audit Office Manager

and from time to time:

- ❖ Representatives from JNCC teams.

ARAC also benefits from the regular attendance of the Joint Committee Chair as an observer.

The ARAC Chair holds annual closed session meetings with the internal auditors and NAO staff without management in attendance. These sessions ensure an open and frank relationship between ARAC and the external and internal auditors. Issues of note are reported back to ARAC.

Summary of ARAC responsibilities

- ❖ Promote a climate of financial discipline and internal control, and oversee arrangements to ensure value for money, regularity and propriety, and reduce the risks of financial or other mismanagement.
- ❖ Approve long-term and annual plans for internal audit and commission audits of specific projects and value for money audits as required.
- ❖ Advise on the comprehensiveness and reliability of assurances on strategic policies and processes for risk assessment and management, control and governance and related assurances including the annual Governance Statement.
- ❖ Advise on internal and external audit plans and strategies, findings and results, and on the adequacy of management responses to issues identified by audit activity.
- ❖ Ensure that a process operates effectively to enable matters involving significant risk to the JNCC's, UK Government's or devolved administrations' reputation, legal standing or financial position (where these lie within the bounds of the Audit and Risk Assurance Committee's remit) to be identified and referred to the Joint Committee.

Internal audit

In 2017/18 JNCC's audit programme comprised four audits in the areas of scientific evidence, key financial controls, contract management and data quality controls. The plan was delivered by the Government Internal Audit Agency (GIAA) through a Defra Memorandum of Understanding. In accordance with new guidelines that Heads of Internal Audit (HIA) be civil servants, JNCC recruited a HIA from the Defra Shared Service and appointed Mr Paul Lambert from January 2017. ARAC have been pleased with the internal audit service provided in 2017/18. The audit team have been professional in approach and responsive to management requests.

The HIA devised an audit programme from discussions with senior JNCC staff and from consideration of the risk









registers. In September 2017, ARAC was alerted to some unexpected and unprecedented problems with wider resourcing of the GIAA contract. Defra had joined the GIAA in April and Defra auditors had recently moved to other positions within GIAA, causing some resource problems. These were quickly resolved, however, and the plan was completed by 31 March 2018.

The table below details the audits undertaken in 2017/18, the assurance rating achieved and the recommendations raised and agreed. All audits in the 2017/18 plan received either a moderate or substantial assurance rating.

Internal audit	Days	Assurance rating and risk to CEO	Recommendations raised				Recommendations accepted by management
			High priority	Medium priority	Low priority	Total	
Scientific evidence (Offshore Industries Advice and follow-up)	3	Moderate	0	6	2	8	8
Key Financial Controls	6	Moderate	0	3	0	3	3
Contract management	6	Substantial	0	0	2	2	2
Data Quality Controls	7	Substantial	0	1	1	2	2
Total	22	Annual HIA assurance opinion	0	10	5	15	15

Definition of assurance levels used across the Defra Group

Overall opinion key

RAG	Definitions for annual and assignment opinions	Definitions for CEO residual risk	RAG
	Substantial The framework of governance, risk management and control is adequate and effective.	Low Risks to the CEO are well managed in the areas examined.	
	Moderate Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.	Medium Risks to the CEO are generally well managed; effective processes are in place to identify and rectify material errors and failures that arise.	
	Limited There are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective.	High The CEO is exposed to high levels of risks of error or failure in some parts of the audit, which, if not addressed, could lead to external reputation damage or additional material disallowance exposure.	
	Unsatisfactory There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.	Very high The CEO is exposed to a very high level of risk of error or failure, which, if not addressed, could lead to significant external reputation damage or disallowance exposure.	

Factors influencing choice of opinion

- Adequacy and effectiveness of the governance, risk management and control framework
- Impact of any weakness on delivery of objectives
- Extent of risk exposure
- Materiality: by value to the entity, by value in the engagement context and by nature (e.g. irregularity and reputational risk)
- We may also take account of management responses to recommendations/ management actions

The audit plan also included management time for the internal audit team to meet management and attend ARAC meetings and two days of follow-up audit work to examine implementation of audit recommendations. The follow-up work was undertaken in house by the Governance Manager and the results showed reasonable progress with implementation. Some work is still required on setting realistic deadlines and programming implementation into work plans.

The annual opinion of the Head of Internal Audit in 2017/18 was to give moderate assurance. This means that there is a sound system of internal control, designed to meet JNCC's objectives, and that controls are being applied consistently. Some improvements, however, are required to enhance the effectiveness of risk management, control and governance.

Defra Audit and Risk Chairs meetings

The JNCC ARAC Chair attends meetings of the Defra Audit and Risk Chairs to discuss activity across the Defra group of organisations. Meetings provide the opportunity to take an overview of current issues across the Defra group. In 2017/18 one meeting took place, which was attended by Mr Nigel Reader on behalf of the ARAC Chair. A summary of key points from the meeting was disseminated to ARAC members and relevant JNCC staff. Alongside attendance at this meeting, ARAC receives the minutes from Defra ARAC meetings for information.

Risks

ARAC had regular sight of JNCC's significant risk register and considered the risks arising from the specific and generic topics which were subject to its scrutiny, together with management's mitigation measures.

ARAC has been greatly reassured by the impetus to the management of risks which the Chief Executive and other staff have provided throughout the year. This has engaged ARAC and the Joint Committee in thinking through the key strategic risks which the organisation faces, possible measures for mitigating them, and the Committee's particular role in the process.

New and emerging risks discussed in the past 12 months

- ❖ Outcome of the General Election.
- ❖ Greater devolution and its impact on JNCC.
- ❖ The need to take increased but balanced risks to diversify income.
- ❖ JNCC's business-critical dependency on the CITES UNICORN system owned by the Animal and Plant Health Agency (APHA).
- ❖ Staff morale and engagement.
- ❖ Staff resource stretch and impact on science quality.
- ❖ Departure of the Head of Finance and Planning in January 2018.
- ❖ Balancing day to day work with EU exit work.
- ❖ Leadership and timely communications.
- ❖ Cyber security.
- ❖ Implementation of the General Data Protection Regulation
- ❖ JNCC's role following EU exit.
- ❖ The need to maintain vigilance in relation to scientific evidence and any challenges to JNCC's advice.
- ❖ Fitting the budget to customer needs.

- ❖ Succession planning for the Joint Committee and the membership changes required to maintain ARAC skills and competencies.

Other matters considered by ARAC

Over the past 12 months ARAC has considered and advised on a number of issues, these have included:

- ❖ Review of the JNCC Transformation Plan.
- ❖ Review of the Fraud Policy.
- ❖ Co-location of staff with partner organisations.
- ❖ Actions arising from the JNCC People Survey.
- ❖ Peterborough Accommodation Project.
- ❖ Leadership training and communications.
- ❖ Additional posts for EU Exit work.
- ❖ The assessment of science and evidence across the Defra Group led by Professor Ian Boyd.
- ❖ The direction and focus of the proposed JNCC science review.
- ❖ The development of processes to administer external income.
- ❖ The JNCC UK Coordination Group, formerly Sponsors Group.
- ❖ The JNCC organisational restructure.
- ❖ Charging and cost recovery.
- ❖ Cyber security incident.

Health and Safety reporting

Over the past 12 months, ARAC received quarterly reports from the Health and Safety Manager on issues arising and new developments. In June 2017, ARAC noted the changes to the travel access system to allow a greater number of staff to trace staff locations in the event of terrorist attacks or other problems. This was an additional backup measure to supplement mandatory travel risk assessments and in response to the attacks in the UK in 2017.

In September, ARAC were advised of the launch of a new stress management policy, which included further guidance for line managers on preventing and managing stress and a new annual team risk assessment.

In November, ARAC asked that staff be reminded of the importance of near-miss reporting on health and safety issues and suggested that reporting of incidents should be restricted to those taking place within the workplace and on work business.

In March 2018, ARAC noted the launch of the new Employee HELP (Workplace Wellness) scheme. From January 2018 Duradiamond took over as JNCC's Occupational Health contractors, contracted through a Defra Group contract.

ARAC programme 2017-2018

Standing items on agenda for every meeting

- ❖ Internal audit reports
- ❖ Cases of fraud or presumptive fraud and significant losses
- ❖ Forward plan
- ❖ Review of significant risks and discussion on new, emerging and fast-evolving risks
- ❖ Any significant non-compliance in the seven compliance areas
- ❖ Meeting feedback

June 2017 meeting (Peterborough)

- ❖ Recommended the post-audit JNCC Annual Report and Accounts to the Company Board and endorsed the final draft of the Governance Statement
- ❖ Reviewed NAO's draft Audit Completion Report on the previous year's Financial Statement audit
- ❖ Final draft of internal audit's annual assurance report
- ❖ ARAC Annual Report to the Joint Committee
- ❖ Internal audit plan and strategy
- ❖ Report on internal audit performance indicators
- ❖ Summary of audit recommendations and report on outstanding recommendations (follow-up audit report)
- ❖ Defra strategic risk approach
- ❖ Report on cyber security in JNCC

September 2017 meeting (Peterborough)

- ❖ Internal audit update
- ❖ Internal audit performance indicators 2017-2020
- ❖ Annual report on performance of external audit
- ❖ Report on legislative compliance

- ❖ Review of the Transformation Plan

November 2017 meeting (Cardiff)

- ❖ Commented on the draft annual strategy for external audit
- ❖ Considered the timetable to produce the JNCC Annual Report and Accounts
- ❖ Preparation for the Joint Committee's annual discussion on risk
- ❖ Preparation for ARAC's annual report to the Joint Committee
- ❖ Reviewed the ARAC terms of reference
- ❖ Reviewed the counter-fraud and anti-corruption policy
- ❖ Review of ARAC effectiveness
- ❖ Future funding and income generation

March 2018 meeting (Edinburgh)

- ❖ Approved the annual internal audit operational plan
- ❖ Summary of audit recommendations and report on outstanding recommendations (follow-up audit report)
- ❖ Annual report on performance of internal audit
- ❖ Commented on the draft Governance Statement
- ❖ Risk management in JNCC (Joint Committee paper)
- ❖ Annual report from the Senior Information Risk Owner on information risks and cyber security incident
- ❖ Accommodation review

Intersessional items

- ❖ A pre-audit draft of the JNCC Annual Report and Accounts, for comment
- ❖ The annual report on single tenders over £7,500
- ❖ The annual report on fruitless payments, losses and special payments for the previous year
- ❖ Draft annual internal audit operational plan

Annual assessment of ARAC effectiveness

The last survey on ARAC effectiveness took place in July 2017 and findings were reported to the November 2017 meeting. ARAC undertake annual reviews of effectiveness, and this review concluded that ARAC was an effective committee and members were confident in the direction of travel.

To enhance effectiveness, ARAC agreed to hold annual appraisal meetings between the ARAC chair and members, have greater engagement and information flow with Defra and devolved administrations on relevant issues and develop a skills spreadsheet for ARAC members, similar to the one devised for Joint Committee members. These improvements have been, or are in the process of being, implemented.

In its quest for continuous improvement ARAC includes an instant feedback slot at the end of each meeting and uses the learning to inform the arrangements for, and conduct of, future meetings.

ARAC reporting to the Joint Committee

ARAC takes seriously its responsibility to ensure effective communication between itself and the Joint Committee. This is demonstrated by the presentations at Joint Committee meetings and routine reports by the ARAC Chair.

The agenda of each Joint Committee meeting includes a report from ARAC, which is used to present the highlights from each ARAC meeting, together with an update on activities conducted by ARAC and/or ARAC Chair since the last Joint Committee meeting.

This ARAC Annual Report for 2017/18 completes the reporting process for the year.

Looking ahead

ARAC will continue to review a range of issues to ensure that it covers its remit. Whilst this is driven by our agreed forward programme, ARAC members may also request reports or details of follow-up actions on specific areas of concern. In addition, the Joint Committee Chair may commission reviews or investigations where ARAC scrutiny is needed to help address particular risks or issues.

Considerations for ARAC's 2018-19 programme of business will include:

- ❖ a standing invitation for Joint Committee members to raise any queries with the Chair of ARAC ahead of any ARAC meeting
- ❖ standing over the implementation of new processes to manage income generation opportunities
- ❖ scrutinising JNCC's cyber security arrangements, in response to the 2017 incident and overseeing implementation of recommendations arising from the Defra investigation
- ❖ advising on the scope of the JNCC science review

Acknowledgements

ARAC would like to extend its sincere thanks to the Chief Executive and his team and to the Joint Committee for the invaluable support which they have given to ARAC, as well as for contributing to the spirit of openness and constructive challenge which ARAC continues to adopt in the conduct of its business.

My personal thanks go to Guy Duke, our retiring member and previous Chair of ARAC, who helped lay the foundations for the excellence in governance to which ARAC and the Joint Committee aspire and to Tony Hams, one of our external members. My particular thanks go to Nigel Reader for his time and dedication in

ensuring that the annual accounts receive sufficient scrutiny and the join-up he provides through his membership of the boards of other organisations. I welcome our newest ARAC member, Charles Banner, whose knowledge and experience will ensure 2018/19 will again be a successful year for ARAC.

ARAC's assurance statement to the Joint Committee

ARAC is a sub-committee of the Joint Committee and has been established to support the Chief Executive and the Joint Committee in their responsibilities for issues of risk, control and governance and associated assurance. ARAC has operated to a high standard during the year and has received appropriate, regular and timely information about the production of JNCC's Annual Report and Accounts and about JNCC's control environment.

Financial management has continued to be applied with rigour, and reliance can be placed on the accuracy of the financial reports which have been routinely presented to the Joint Committee, as well as on the financial statements and disclosures presented in JNCC's Annual Report and Accounts for 2017-18.

We live in a world where the cyber threat is significant and growing. This threat is varied and adaptable. It ranges from high volume, opportunistic attacks, to highly sophisticated and persistent threats involving bespoke malware designed to compromise specific targets. The rise in the number of internet connected devices gives attackers more opportunity. The cyber security incident experienced by JNCC in the latter part of last year demonstrated the need for high vigilance, and afforded an opportunity to test the robustness of the organisation's response to an attack and the application of its policies and procedures. Lessons learnt from this incident have helped to ensure the organisation is now as prepared as it can be for any future incidents. Educating staff to the threats presented is ongoing, alongside regular communication on the need to maintain awareness.

The assessments carried out by GIAA and the National Audit Office and the subsequent Head of Internal Audit's opinion of moderate assurance contained in the annual assurance report have helped inform the overall view from ARAC. Where areas for improvement have been identified the necessary actions in respect of the relevant control procedures have been or are being taken. This review took account of the significant risks facing the organisation, the controls in place to manage those risks (including financial, operational and compliance controls) and the procedures in place to monitor them.

As set out in the overview and summary of key areas of discussion and decision during the year, ARAC received and reviewed reports on internal control and risk management from internal and external audit and from the Head of Internal Audit. ARAC, on behalf of the Joint Committee, has conducted an annual assessment of the operation of the organisation's systems of risk management and internal control and found the controls to be effective.

Professor Colin A Galbraith
On behalf of ARAC

6 June 2018