

**Subject: REPORT OF THE AUDIT AND RISK COMMITTEE 2007-08 BY CHAIRMAN**

This is my report on the activities of the Audit and Risk Committee during the year.

1. This report summarises the Committee's work during the year and gives my opinion on JAC's risk management and internal control arrangements. The report forms part of the Assurance processes, which support the Chairman's and Accounting Officer's Statement on Internal Control (SIC).

**Membership**

2. Membership at the beginning of the year was:

Francis Plowden, Commissioner, Chairman;  
Harriet Spicer, Commissioner;  
David Pearl, Commissioner;  
Robin Auld, Commissioner.

During the year, Robin Auld resigned from the Committee and Edward Nally was appointed.

3. There are regular attendees from the executive, MoJ's Internal Audit and the NAO. The Committee met in normal session four times in the year and, additionally, a sub group of the Committee met to consider the 2006-07 Report and Accounts before recommending them to the Commission.

**Role and function**

4. Our formal role is to advise the Accounting Officer and Commission on:
  - the strategic process for risk, control and governance and the Statement on Internal Control;
  - the accounting policies, the accounts, and the annual report of the JAC, including the process to review the accounts prior to submission for audit, levels of errors identified, and management's letter of representation to the NAO;
  - the planned activity and results of both internal and external audit;
  - the adequacy of management's response to issues identified by audit activity, including NAO's management letter;
  - assurances relating to the corporate governance and risk management requirements for the JAC; and
  - recommendations regarding risk and governance issues.

5. There is an annual cycle of matters to consider, with our regular business focussing on assurance and risk management processes, as well as matters arising from internal and external audit work. At each meeting, we received progress reports on all these areas.

### **Review of Committee effectiveness**

6. During 2007-08 we initiated a process to review the performance of the Committee and linked this to the competency requirements described in HM Treasury's recently issued Audit Committee Handbook. Members discussed the results from this review at the Committee meeting in May 2008. The review will be an annual event with the areas examined varying each year.

### **Risk management**

7. The Committee has paid particular attention to the significant developments that have been made in JAC's risk management processes during the year and the progress made in reaching level 3 (defined as risk management being implemented in all key areas) of HM Treasury's Risk Management Assessment Framework (RMAF). We have reviewed and agreed the changes made. These include simplification of the corporate risk register, setting the risk appetite and the establishment of lower level registers at directorate, team and selection exercise levels. Most staff within JAC have now received training in risk management techniques and attended risk identification workshops prior to completing their team plans. In addition, both the Risk Management Policy and Framework have been revised by the executive and agreed by this Committee.
8. Sufficient evidence has been supplied that, overall, the JAC has reached level 3 of the RMAF. We note that one directorate considers that it is lagging behind, but has plans in hand to catch up in the early part of 2008-09. I am, however, satisfied that a reasonable risk management system is in place. There is much further progress to be made before level 4 (defined as risk management being embedded and improving) is reached. The success of the risk management system relies on staff at all levels ensuring there is effective management of risks. This requires a commitment from Directors and managers to encourage a risk management culture to develop so that it is an integral part of decision-making and selection exercise management. To encourage that commitment, the Committee in the coming year will be inviting selected staff to Committee meetings to explain how they use risk management to manage their areas of the business. We will then be able to take a further view on the progress being made to embed risk management throughout the organisation. Internal Audit will be reporting on risk management in the early part of 2008-09.
9. During the year the Committee also reviewed and agreed the fraud policy and fraud response plan.

### **Internal Audit**

10. Internal Audit is provided through a shared service agreement with the MoJ. The Committee endorsed the Internal Audit strategy and plans for the year, and monitored work progress. All but one assignment planned was delivered in year, the remaining one being deferred to 2008-09.

11. Management has responded positively to audit findings and recommendations and has taken, or is in the process of taking, action to implement agreed recommendations from 2008-09 Internal Audit reports. Of 22 recommendations made during the year, 15 have been fully completed, 3 partially completed and 4 are no longer required.
12. In his annual report, the Head of Internal Audit concluded that the Chief Executive of the JAC can draw a reasonable level of assurance on the adequacy and effectiveness of the governance, risk management and control arrangements operating within the organisation. Although a limited audit opinion was provided for three areas of work undertaken by Internal Audit, he advised that we can take assurance from the management's proactive responses and clear intent to improve governance, risk management and controls in all areas and to implement audit recommendations. Overall the level of audit opinion reflects the substantial effort and resource applied by the JAC to establish a solid governance and risk management framework and practices, although it is recognised by both JAC Management and Internal Audit that further work is needed to review and finalise policies, procedures and practices.
13. Resources are considered sufficient to deliver the 2008-09 programme of work.

### **External Audit**

13. NAO officials attend all Committee meetings and continue to make a valuable contribution to our discussions. They have given an unqualified opinion on the 2007-08 accounts and have agreed the Statement on Internal Control.

### **Assurance processes**

14. The Assurance process fully implemented at the beginning of the year has been used to support the Statement on Internal Control. The process requires each Director to sign a statement outlining their responsibilities for risk management and internal control at the beginning of the year (or on appointment). At the mid-year and end-year stages (or on leaving the JAC), they complete additional statements identifying the actions they and their teams have taken to manage risks. Exceptions resulting in failures of internal control, and the resulting preventative actions, are also included. In addition, the Director of Strategy and Corporate Resources - as the owner of key controls such as financial management, health and safety and HR processes - identified actions taken to address key risks and provide other divisions with central support.
15. Although Internal Audit has not yet completed their assessment of the process, I believe the results of the 2007-08 Assurance process gives sufficient evidence to provide the Chairman and Chief Executive with comfort that the systems are sufficiently robust, and that the exceptions are relatively immaterial, to enable the SIC to be signed. There were no material issues to be brought to the attention of the Accounting Officer.

### **Summary**

16. I am satisfied with the arrangements for risk management and the assurance processes which support the SIC. Significant progress has been made during the past year, and

the Committee will be reviewing progress made in the coming year to see whether Directors and senior managers give the necessary sustained input to start to embed the risk management process. It will, however, be a number of years before we can be sure that it is fully embedded.

**Francis Plowden**  
**Chairman,**  
**Audit and Risk Committee**  
**6 May 2008**