
To: Baroness Prashar
Clare Pelham
Date: 13 May 2009

cc: Members of the Audit and Risk Committee

From: Francis Plowden

Subject: Report of the Audit and Risk Committee 2008/09

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 of the Audit and Risk Committee throughout the year has been:

Francis Plowden, Commissioner (Chairman)
Harriet Spicer, Commissioner
David Pearl, Commissioner
Edward Nally, Commissioner

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 (May 2008, September 2008, November 2008 and February 2009). The Committee also met in June 2008 to consider the 2007/08 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. The Committee reviewed its effectiveness at the end of 2007/08. In my report to you last year I suggested that we undertake a review of performance annually. However, governance research suggests that frequent reviews make the assessment process routine and reduce its effectiveness. We will therefore have biennial reviews of the Committee's performance, the next one planned for the end of 2009/10.
7. Following the last performance review, the Committee has considered the benefits of appointing an independent member to the Committee. The NAO provided benchmarking information and other advice to inform our view and it has been agreed that such an appointment would be advantageous. The Director of Corporate Resources is assessing the experience and skills that would be required from this member, along with how best to go about recruitment.

Risk Management

8. The Committee continued to closely review developments in the JAC's risk management processes throughout the year. The accepted method of measuring risk management effectiveness and performance within the public sector is HM Treasury's Risk Management Assessment Framework (RMAF). This requires a self-assessment of progress made which is then independently reviewed by Internal Audit. The RMAF assesses 7 areas of risk management using a scale of 1 to 5. My report for 2007/08 showed that the JAC had reached level 3 (defined as risk management being implemented in all key areas) although there were some areas within the organisation that did not quite come up to this level. The report for 2008/09 shows that level 3 has been reached consistently throughout the organisation, and that 5 of the 7 areas have reached level 4 (defined as risk management being embedded and improving). This is extremely encouraging and shows the importance placed on effective risk management throughout the organisation.
9. The success of risk management continues to rely on staff at *all levels* ensuring there is effective management of risks. This requires the ongoing commitment and support of Directors and managers encouraging the further development of risk management culture. To assess how this is progressing both the Director of Strategy and Outreach and the Director of Courts Appointments attended a Committee meeting to outline how they manage risks within their own directorate. The Committee was pleased to hear of the good progress that was made in both

areas. The Committee proposes to invite, in turn, all Directors to its meetings to discuss risk management in more detail.

10. In my report last year, I outlined that risk registers had started to be implemented at selection exercise level. All selection exercises now have their own risk register that is reviewed regularly throughout the selection exercise.
11. Almost all staff have attended Risk Identification Workshops held by the Risk Information Manager (RIM) and these continue to be run for new staff. Staff from Access to Justice attended these workshops recently to see how we do it.
12. The Committee identified the provision of some shared services to JAC by MoJ as a risk to delivering selection exercises – in particular HR and IT services. The Committee raised this issue directly with the Access to Justice Director General, Peter Handcock, firstly by way of a letter from me, as Chairman of the Audit and Risk Committee, and in person when he attended the February 2009 Committee meeting. Peter Handcock recognised and accepted there had been serious issues with provision of services and outlined his plans to improve these.

Information and Data Security

13. During the year there were some high profile data losses within both the public and private sectors. This has resulted in a much greater emphasis on the protection of information and data across Whitehall and new guidance and requirements with which we are required to comply. Back in November 2007, the JAC asked MoJ Security Branch to undertake a review to ensure appropriate security controls were in place in the JAC. The Committee considered the report in April 2008 and noted the report's 'amber' assessment, the recommendations and the JAC's response.
14. The security review also noted the bar on sending candidate information out of the building to panel members. The security review recommended that the JAC reconsider this approach, and suggested the use of anonymised forms. The Committee considered this recommendation in some detail but concluded that it was not practical and advised the Chief Executive accordingly. The matter was also discussed at a full Commission meeting and there was no dissent from the Committee's recommendations. The JAC has, therefore, not changed its approach.
15. The lack of any formal policy for the judiciary on information management and security has been one of the reasons why JAC has maintained its policy of not letting judicial panel members remove candidate information from its premises. The lack of policy has been raised with the MoJ, and it is understood that they are addressing the issue in conjunction with the Judicial Office. The Committee and Chief Executive will revisit our policy on candidate information when MoJ and the Judicial Office have implemented a policy for judges.
16. In addition to the security review, the Cabinet Office has published the HMG Security Policy Framework (SPF). The SPF outlines the mandatory security requirements and management arrangements to which all departments and arms length bodies must adhere.
17. A requirement of the SPF is for Management Boards to include a Senior Information Risk Owner (SIRO). Within the JAC, the Director of Corporate Resources has been appointed to this role. The SIRO is obliged to provide an assessment of information risk management to the Accounting Officer annually. This report from the SIRO will underpin what is included within the JAC's SIC and is also a key reporting and audit tool to ensure compliance with the SPF. The Committee has agreed the SIROs report for 2008/09. This report states that, overall, the risk of loss of data by the JAC is at 'amber'. An amber rating was given as the IT systems we use from

MoJ under a shared service agreement have not been accredited to the required standard. This issue is being addressed as a matter of urgency by the MoJ.

18. Another requirement of the SPF is that a Data Security Risk Register be produced and reviewed regularly. The JAC produced such a risk register, which was subsequently agreed by the Committee and the Commission. The register is reviewed quarterly by Leadership and will come back to the Committee and Commission in due course.
19. Internal Audit also undertook an audit, late in 2008, to identify progress made by the JAC in implementing the core set of mandatory measures outlined within the SPF. These measures include the need for the JAC to assess the risks to confidentiality, integrity and availability of information at least quarterly and to implement proportionate responses. A final report from this audit is due in Spring 2009.

Internal Audit

20. 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. While the original plan had proposed an audit on judicial selection exercises, this was put on hold in light of a review led by the MoJ into the end-to-end process for judicial appointments. It was subsequently agreed that the audit would not be carried out and would be replaced with audits of attendance management, the management and monitoring of Memoranda of Understanding, and internal financial controls.
21. 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 37 recommendations made during the year, 28 have been fully completed, 5 partially completed and 4 are no longer required.
22. In his annual report, the Head of Internal Audit concluded that the JAC had demonstrated a clear intent to continue to improve and embed governance and risk management. He stated that there has been significant progress in the development of risk management processes and assurance reporting at Directorate and Operational team level over the year and this has been continuously encouraged and monitored by the Chief Executive and the Committee. However, the JAC has some way to go to mature as an organisation, being only 3 years old, and the effectiveness of designed controls has yet to be fully tested. Nevertheless, the Head of Internal Audit states that the risk, control and assurance frameworks under development will create a sound basis on which to build a robust control environment.
23. Resources are considered sufficient to deliver the 2009/10 programme of work.

External Audit

24. NAO officials attend all Committee meetings and continue to make a valuable contribution to our discussions. They have given an unqualified opinion on the 2008/09 accounts and have agreed the Statement on Internal Control. The audit was carried out by the NAO through its partner Moore Stephens LLP.

Assurance processes

25. The Assurance process is 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 resulting preventative actions, are also included.

26. Another element of the Assurance process is the part played by the Directors of Corporate Resources and Strategy and Outreach who, as key control owners, are responsible for systems which support operational directorates. Consequently, these Directors are required to complete an additional statement to make assurances relating to the central support given for areas such as financial management and HR. A report is completed to show the actions taken during the period, and to be taken in the coming period, to ensure the key controls are operating as intended.
27. MoJ Internal Audit has conducted an audit of the JAC's Internal Assurance Framework and given the JAC a 'high assurance' rating. I believe that this 'high assurance' rating, along with the outputs of the 2008/09 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.

Statement on Internal Control

28. The Statement on Internal Control (SIC) is a key part of the Annual Report and Accounts. It is signed by both the Chairman and Chief Executive and explains how governance responsibilities have been discharged. This report, supported by the detailed Assurance reports you will have an opportunity to review, shows the significant progress that has made during the year to further embed risk management processes within the JAC. I consider that there is sufficient evidence of effective governance processes to support the signing of the SIC. There are no material issues to be brought to the attention of the Accounting Officer.

Summary

29. This has been another year of significant progress in governance within the JAC. I am satisfied with the arrangements for risk management and the Assurance processes.

Francis Plowden
Chairman, Audit and Risk Committee
13 May 2009