
To: Baroness Prashar
Clare Pelham
Date: 28 June 2010

cc: Members of the Audit and Risk Committee

From: Francis Plowden

Subject: Report of the Audit and Risk Committee 2009/10

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 National Audit Office. The Committee met in normal session four times in the year (April 2009, September 2009, November 2009 and February 2010). The Committee also met in June 2009 to consider the 2008/09 Annual 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 SIC;

- 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 ISA 260 and Management Report;
 - 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 last reviewed its effectiveness at the end of 2007/08. A further review is scheduled to take place this year.

Risk Management

7. 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 2008/09 showed that level 3 (defined as risk management being implemented in all key areas) had been reached consistently throughout the organisation, and that 5 of the 7 areas have reached level 4. The report for 2009/10 shows further improvement whereby the JAC had reached level 4 (defined as Risk Management embedded and improving) in 6 of the 7 areas.
8. IT remains a source of concern and the replacement of the existing Equitas system and web based application system has the highest priority. Any new system should also permit the on-line sitting of qualifying tests. A business case was prepared to provide a more reliable and robust system able to cope with future demands, but this IT project was suspended on 14 June due to budget cuts. A letter has been sent to the MoJ ICT Director stressing the need for improved support of existing systems, including rectification of the issues arising from penetration testing, because these systems will be required for significantly longer than had been hoped. It is therefore important that work continues with MoJ to support existing systems and enhanced reliability over the past year is noted.
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 to encourage the further development of risk management culture. To assess how this is progressing both the Director of Operational Services and the Director of Tribunals Appointments and Corporate Accounting and Planning attended a Committee meeting to outline how they manage risks within their own directorates. The Committee was pleased to hear of the good progress that was made in both areas. The Committee

proposes to invite, in turn Selection Exercise Managers to its meetings to discuss how risk is managed during selection exercises.

10. Risk registers continue to be used on all selection exercises and are reviewed regularly throughout the 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. These courses have been revised to give a stronger focus on risk registers which will give staff a more practical understanding of how risk applies to their role.
12. All shared services have Memorandums of Understandings (with the exception of the e-communications MoU which unfortunately remains unsigned by the MoJ) which are reviewed on a regular basis. Any specific issues are brought to the attention of the Committee, examples of issues brought to the attention of the Committee this year include the calculation of soft charges and issues with IT and procurement.

Information and Data Security

13. Following the high profile data losses within the public and private sectors in 2008/09 the JAC continues to follow Cabinet Office guidelines regarding Information Assurance. The Assistant Director of Business Services attended the Committee on two occasions during the last year to discuss her role regarding records management and information security. At the September meeting the Committee were provided with an overview and assurance regarding JAC records management procedures. Following on from this meeting arrangements were made to monitor the return of Commission papers to ensure secure disposal of papers. The JAC Records Management Policy and Guidance were updated during the year and the Committee noted the arrangements for the storing of JAC paper and electronic records which follows MoJ advice. At the November meeting the Committee were given an update on the risks to Equitas and the Web Based Application System and the actions being taken to mitigate these risks.
14. A requirement of the HMG Security Policy Framework (SPF) is for Management Boards to include a Senior Information Risk Owner (SIRO). Since the reorganisation of the JAC directorates this role now falls to the Director of Operational Services who completed the SIRO training in March 2010. The SIRO is obliged to provide an assessment of information risk management to the Accounting Officer annually. This report from the SIRO underpins 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 2009/10. This report states that, overall, the risk of loss of data by the JAC is at 'amber-green'. An amber-green rating was given due to the IT risks and the fact that at the time we were awaiting penetration testing of Equitas and completion of the RFC addressing security of web-hosting of web-based applications. The Penetration Testing, included within a comprehensive IT Healthcheck, conducted by MoJ ICT and Information Assurance Branch, was completed in May. It cleared Equitas, but revealed security shortcomings with the Equinox data base, which applies to other users beyond the JAC and the web based application. The way ahead is being explored with ICT, but in the latter case the permanent RFC solution is likely to be further delayed.

Internal Audit

15. 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. The audit strategy for the year consisted of audits on information technology, conflicts of interest and human resources. All assignments planned were completed and used to inform the Internal Audit Annual Report
16. 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 2009/10 Internal Audit Reports. Of 24 recommendations made during the year, 14 have been fully implemented, nine partially implemented (or are in the process of being implemented) and one is no longer required.
17. The Internal Audit Annual Report for 2009/10 concluded that governance, risk management and control arrangements in the JAC are now largely established, but there remain areas for improvement and strengthening. On this basis Internal Audit gave an overall rating of Green Amber for the year 2009/2010 on the adequacy and effectiveness of the controls in place and on their operation. This opinion was based on internal audit assignments completed, other assurance feeds and material presented through the Audit & Risk Committee. The report acknowledged the significant effort expended during the year in further developing and embedding governance, risk management and control arrangements as the JAC continues to mature.
18. Resources are considered sufficient to deliver the 2010/11 programme of work for the Head of Internal Audit to form an accurate overall opinion.

External Audit

19. NAO officials attend all Committee meetings and continue to make a valuable contribution to our discussions. At the February meeting the Committee were presented with the findings of the External Audit Report which revealed that the JAC had successfully achieved the International Financial Reporting Standards Trigger Point 4.

Assurance processes

20. 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.
21. Another element of the Assurance process is the part played by the Directors with responsibility for Corporate Accounting and Planning, 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.

Statement on Internal Control

22. 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 in governance that have been 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

23. This year has continued to show progress in governance within the JAC. As outlined in this document, I am satisfied with the arrangements for risk management and the Assurance processes.

Francis Plowden
Chairman, Audit and Risk Committee
28 June 2010