

7th April 2016

ARAC ANNUAL REPORT

Purpose

1. To report the activities of the FC England Plus Audit and Risk Assurance Committee over the past year to the English National Committee.

Background

2. The National Committee for England has established an Audit and Risk Assurance Committee (ARAC) as a sub-committee to support you in your responsibilities for issues of risk, control, governance and assurance by:
 - reviewing the comprehensiveness of assurances in meeting the assurance;
 - reviewing the reliability and integrity of these assurances;
 - providing an opinion on how well the National Committee and Accounting Officers (AOs) are supported in decision making and in discharging their accountability obligations, particularly in respect of financial reporting.
3. Clive Tucker has chaired the Committee since January 2014. The other members are Keith Oates, Mary Barkham and Mark Pountain. Ian Gambles, Simon Hodgson, Richard Greenhous, Liz Holmes and Steve Meeks attend the Committee, together with representatives of the National Audit Office and Ernst & Young. Other Forestry Commission officials attend as necessary.

Key Facts

4. The ARAC met four times during 2015/16 – 6 May 2015, 4 June 2015, 25 November 2015 and 25 February 2016. The Chair also attends the CAP-D Co-ordination Group and provides feedback to the ARAC.
5. The full suite of FC England and Central Services risk registers were reviewed at all but the May meeting. In addition, the ARAC has considered three risks in detail during the year – HMRC Tax Compliance Audits, ICT Infrastructure & IS Service Provision and Timber Security. Regular reports were also received from FC England's Senior Information Risk Owner (SIRO).
6. The ARAC Chair raised considerable concern over the decision to appoint Ernst & Young as tax consultants to FEE given the potential conflict of interest as they are also the external auditors working on behalf of NAO. After full discussion the issue was resolved with FEE deciding to engage an alternative firm.
7. The Committee discussed the adequacy of the Committee's skills and training, and expressed concern on the constraining effect of single three-year terms for non-executives which limit the ability to gain vital experience.
8. The Committee also recognised that whilst Forest Research had its own ARAC, it was important for Forestry Commission England to recognise the wider risk, notably to the provision of commissioned research, from the structural changes that were being proposed to FR.

9. At regular intervals the ARAC undertakes an effectiveness review through discussing one of the five principles of Good Practice. Principle 5 – Communication – was discussed at the November and February meetings.
10. The ARAC reviewed and approved the Governance Statement for 2014/15.
11. The ARAC reviewed the Internal Audit annual report for 2014/15 and the strategy, mid year report and emerging findings for 2015/16.
12. Ernst & Young reported to the ARAC on their audit of the 2014/15 Annual Report and Accounts, including their letter to Management highlighting areas for improvement. They also reported on the AP09 interim accounts for 2015/16 and discussed their strategy for the 2015/16 audit.
13. Each meeting starts with any conflict of interest declarations. A discussion between the committee members, Internal Audit and the National Audit Office/Ernst & Young representatives is also held to allow issues of concern to be raised without officers present.
14. The May meeting was held primarily to provide an opportunity to review and discuss the draft Annual Report and Accounts for 2014/15, prior to the June meeting which recommended their approval to the National Committee. The AP09 interim accounts for 2015/16 were reviewed at the February meeting.

Conclusion

15. The control of risk and financial management for the Forestry Commission England/Central Services is adequate.
16. The main challenges for 2016/17 and beyond are:
 - managing the one-off and continuing financial burdens arising from HMRC tax audits and ensuring future compliance;
 - handling the continued biosecurity threat and the potential substantive cost of counter-measures;
 - delivering government policy within a constrained financial environment, including continued progress in woodland improvement and creation;
 - handling the impact and consequences to Forestry Commission England of the introduction of new RDPE grant schemes and CAP delivery systems;
 - managing FC structural reform as part of building the new Defra, subject to decisions by Ministers and possible legislation;
 - developing plans for devolving central shared services and establishing new corporate service provision, whilst maintaining business continuity;
 - managing the continuing ICT disaster recovery risk to the business; and,
 - engaging with the further devolution of cross-border activities, including potential trisection of costs and the handling of associated residual costs.

Recommendations

17. The Committee accepts the Report.

Clive Tucker
Chair, Forestry Commission England Plus Audit and Risk Assurance Committee
March 2016