

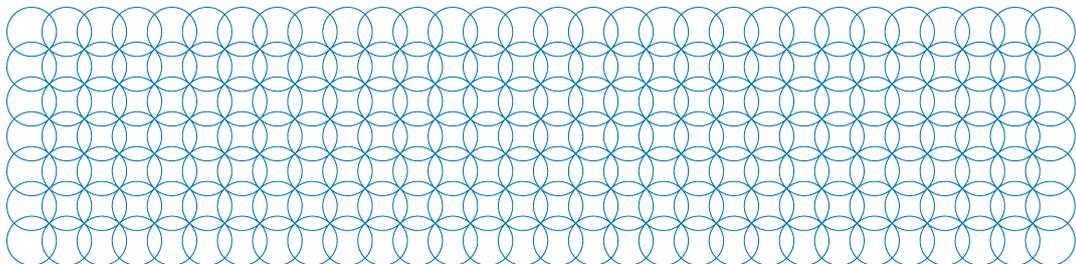


Ministry of  
**JUSTICE**

## **Corporate Audit Committee**

Chair's Report to the Principal Accounting Officer  
for 2009/10

October 2010



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## **Introduction**

As Chair of the Ministry of Justice's Corporate Audit Committee, I am pleased to present my annual report, which has been produced in line with current Treasury guidance. The Corporate Audit Committee (the Committee) is a committee appointed by the Ministry of Justice's Corporate Management Board.

The Committee's primary purpose is to provide support and advice to the Ministry of Justice's Principal Accounting Officer in the effective discharge of his responsibilities for governance, risk management and internal control. The Committee acts in an advisory capacity and has no executive responsibilities.

This report covers the Committee's activity over the twelve-month period to July 2010.

## **Terms of Reference**

The Committee's Terms of Reference are shown at Annex A. The Terms of Reference follow the guidance provided in the Treasury's Audit Committee Handbook, which defines the policy principles for Audit Committees in central government bodies. The key messages from each Committee meeting are made available on the Ministry of Justice intranet.

## **Corporate Audit Committee Membership**

The Committee's membership is currently composed as follows:

Anne Bulford	Non-Executive member of Corporate Management Board and Corporate Audit Committee Chair
Jane Tozer OBE	Independent External Member
Francis Dobbyn	Ex-officio Member - Chair of Access to Justice Group Audit Committee
Mike Hawker	Ex-officio Member - Chair of NOMS Agency Audit Committee

From October 2009, Francis Dobbyn and Mike Hawker as respective Chairs of the Access to Justice Group and NOMS Agency audit committees became ex-officio members of the Committee. This enhances the Committee's overall spread of business knowledge and its capacity to provide robust advice and assurances to the Principal Accounting Officer and the Corporate Management Board.

Regular attendees at the Committee meetings were:

Marco Pierleoni	Director General, Finance & Commercial until 31 January 2010
Ann Beasley, CBE	Director General, Finance from 1 February 2010
Alison Currie	Acting Director of Financial Performance
Tracy Barker	Head of Financial Accounting
James Bohannan	Head of Internal Audit
Derek Darnell	Deputy Head of Internal Audit
Eddie Fitzgerald	Corporate Risk and Assurance
Paul Keane	National Audit Office (NAO)
Aileen Murphie	National Audit Office (NAO)
Nick Bateson	National Audit Office (NAO)

## **Relationships with other Ministry of Justice Audit Committees**

Arrangements have operated to share information and matters of common interest and applicability between the Chair of the Corporate Audit Committee and the Chairs of other Audit Committees within the Ministry of Justice. This included a meeting of the Chairs of the Ministry of Justice's Audit Committees in March 2010. The meeting provided a forum to focus on matters as follows:

- Corporate Finance update on the Resource Accounts, Clear Line of Sight project and progress towards implementing the International Financial Reporting Standards (IFRS);
- Detail of the Transforming Justice Programme and update on Value for Money initiatives;
- Assurance Map identifying the sources of independent assurance and their providers within Ministry of Justice's structure and how these link to the top level control framework;
- Arrangements within Ministry of Justice for project delivery, risks and assurance; and

- External Audit update on their Financial Management Review of Ministry of Justice and implementation of IFRS and audit committee role in monitoring PAC/NAO recommendations.

A further meeting of the Chairs is planned for November 2010.

## **Corporate Audit Committee activity and the main matters arising**

The Committee met in October 2009 and January, March and twice in July 2010. At these meetings, the Committee continued to exercise a robust challenge function and to demand the highest levels of performance and accountability from those reporting to it.

Standing items reviewed at each meeting included Corporate Risk and Assurance, Corporate Finance, Internal Audit and National Audit Office (external audit and value for money studies) and presentation of a selected corporate risk. In addition, senior managers were invited to attend meetings to assist on matters escalated to the Committee by the auditors and/or of specific interest or relevance to the discharge of the Committee's responsibilities. In the period covered by this report, attendance included the Director General Transforming Justice; Chief Information Officer; Director, Constitution; Director, Strategic Estates; Information Director; and other representatives from Corporate Finance, Human Resources and Judicial Human Resources.

### **Ministry of Justice Accounts**

The Committee has scrutinised and questioned management on the 2009/10 Consolidated Resource Accounts, Judicial Pensions Scheme Accounts, Funds In Court White Paper Accounts (Parts A and C) and 2008/09 Returning Officers' Expense Accounts. As part of this process, the Committee specifically reviewed any disclosures made in Statements on Internal Control and any issues raised in the internal audit annual report and external auditors' report to those charged with governance.

Consolidated Resource Accounts - at its meeting to consider the accounts on 8 July, attended by Sir Suma Chakrabarti, Principal Accounting Officer, the Committee recommended that they be signed, subject to satisfactory conclusion of the matters raised by the National Audit Office in their Audit Progress Report, with particular regard to NOMS, whose accounts had not been finalised at the time of the meeting, the regularity issue connected with the pleural plaques compensation scheme and potential issues in the Legal Service Commission's 2009/10 accounts.

The Committee was subsequently made aware that both NOMS and the Ministry were unable to lay their respective accounts before Parliament prior to the summer recess, because major changes within NOMS had impacted on NOMS' ability to produce their annual accounts in line with the timetables agreed with the National Audit Office and with the Ministry's central accounts production team, leading to a delay in finalising the Consolidated Resource Accounts.

An additional meeting of the Audit Committee was held at the end of July to discuss and agree the activities required to ensure that the Consolidated Resource

Accounts would be laid before Parliament early on its return from Summer recess in September. As part of that activity, a further meeting of the Committee has been scheduled for early September at which the accounts will be considered and final recommendations for their signing will be made to the Principal Accounting Officer.

The Committee acknowledges that the Ministry is committed to reviewing the finance structures and responsibilities across the Ministry to ensure they have the capacity to deal with future changes and pressures to ensure ability to deliver accurate and complete accounts to meet agreed timetables.

On the other accounts, the Committee recommended that:

- the Judicial Pension Scheme Accounts should be signed and the Committee endorsed the National Audit Office's recommendation regarding monitoring the performance of external AVC providers.
- the Funds in Court Part A and C White Paper Accounts should be signed by the Accountant General of Senior Courts subject to the completion of the External Audit review and assurance that the Statement on Internal Control reflects accurately issues identified in the Internal Audit annual report and External Audit Completion Report.

### **2008/09 Returning Officers' Expense Accounts**

During this reporting year, the Committee received regular updates on progress made towards the achievement of an unqualified status, the potential sanctions that could be imposed on Returning Officers and possible write-off action.

At its meeting on 13 January, the Committee reviewed the 2008/09 accounts and noted that they were again qualified, having been qualified by the National Audit Office on an annual basis since 2002. The Committee acknowledged that the basis for qualification was largely determined by the proportionate materiality of outstanding accounts rather than their absolute value and recognised that the situation regarding outstanding accounts is improving and noted the measures in place to ensure prompt submission of future accounts. The Committee recommended that the accounts should be signed, but is continuing to require firm assurances that appropriate and robust action is being taken to clear outstanding Returning Officer accounts and to avoid future accounts' qualification.

The Committee noted that Machinery of Government changes following the formation of the coalition government has resulted in the 2009/10 and subsequent Returning Officers' Expense Accounts becoming the responsibility of the Cabinet Office.

## **International Financial Reporting Standards**

The Committee continued to receive regular briefings on progress to achieve the Trigger Points towards adoption of these Standards set by the Treasury. On 13 January, the National Audit Office brought to the Committee's attention its concern that, despite the efforts of Corporate Finance, it was unable to provide an audit opinion at Trigger Point 4, due to the lack of sufficient evidence from NOMS to support Ministry of Justice's restated IFRS 2008/09 financial statements. This also meant that the National Audit Office was unable to conclude their audit of the Trigger Point 3 consolidated shadow accounts, as this could jeopardise delivery of their audit of the consolidated 2009/10 Resource Accounts. The Committee expressed disappointment about the progress made, but supported National Audit Office's approach for the 2009/10 accounts and requested the NOMS audit committee should take forward this issue.

## **Information Assurance and Data Protection**

The Committee received a presentation in January 2010 on progress to enhance awareness of Information Assurance across Ministry of Justice, including the training, reporting and governance arrangements being taken forward. One of the major risks for Ministry of Justice is loss of personal data in paper form, not necessarily the volume of data held but its sensitive nature; the Committee received information on the top 10 data risks, and the nature and any trends of incidents of data loss.

At its meeting on 8 July, the Committee also examined and endorsed the Annual Assurance Returns for Security and Information Risk, in support of the Principal Accounting Officer's Statement on Internal Control for the 2009/10 Consolidated Resource Accounts.

## **Public Accounts Committee and National Audit Office Recommendations**

Following the National Audit Office review conducted during 2008/09 on the action taken on recommendations from National Audit Office and Public Accounts Committee reports to the Ministry over the past four years, the Committee instigated reporting arrangements to gain continuing assurance that appropriate action is being taken to implement and clear recommendations. The Committee has received regular updates on progress being made implementing these recommendations, including those from National Audit Office and Public Accounts Committee reports issued since the review.

The National Audit Office completed a follow-up study on the implementation of these recommendations in January 2010, which concluded that considerable progress had been made during 2009/10 in ensuring that recommendations are implemented and the monitoring of progress is maintained.

The Committee commended the Investment and Financial Governance team for the work undertaken to engage with the relevant business leads, to develop the recommendation tracker, and ensure its on-going maintenance and presentation of progress at Committee meetings.

## **Control and Risk Issues**

The Committee received a scoping paper for the up-coming review of the Ministry's Arms Length Bodies, including their accountabilities, relationships and areas of delivery. The Committee gave their support for this review and await sight of the report when published.

The Committee in January received a presentation of an assurance map, which had been developed to demonstrate the structure of the Ministry, the sources of internal and independent assurance, their providers and the governance arrangements. Underpinning the assurance map are the various policies, framework documents, reports, publications and sub-committees of the Corporate Management Board and the Ministry's audit committees. All of the information and sources identified within this document serve to support the assurance statements and ultimately the Statement on Internal Control.

The Committee acknowledged that the assurance map provided a greater understanding of all the complexities involved and would be used for the basis for Committee scrutiny. The assurance map has also been shared with the Chairs of other Audit Committees within the Ministry.

The Ministry's arrangements for managing risk have been regularly reported to the Committee, which has included reviewing the results of annual self-assessment and changes to the Corporate Risk Register, leading to the in-depth examination of selected corporate risks. During the year, the Committee has received presentations on the corporate risks of Constitutional Reform, Transforming Justice, Health & Safety Assurance and managing the risk of failure for current and future projects and programmes. The Committee agrees with the Head of the Ministry's Corporate Risk & Assurance Team's opinion that good progress continues to be made but expects progress for improved and more consistent embedding of risk management as part of the day to day management of business operations.

Arrangements for managing risk within NOMS have been regularly reported to the NOMS Audit Committee; this has included the in-depth examination of selected risks. The NOMS Audit Committee has confirmed that management of risk is taken seriously within NOMS and that there is a sound process in place; the Chair of the NOMS committee has expressed some concern about the way the NOMS Board report on the effectiveness with which risks are managed and this is to be reviewed during the coming year.

The Committee has continued to gain assurance that appropriate action has been taken to clear the significant control issues reported in prior year's Statements on Internal Control. The Committee has received regular updates on progress made on implementation of agreed action.

In March, the Committee received a briefing about the issues surrounding the qualification of the Legal Services Commission 2008/09 accounts by the National Audit Office. The Director General, Finance outlined activities being taken to address these issues. The Committee considered that a wider review of finance

systems, using lessons learnt from the Legal Services Commission, should be carried out across the Ministry in due course.

The National Audit Office has provided regular briefings on the progress and outcome of their other Value for Money Studies undertaken over the past twelve months that include those listed at Annex B. The National Audit Office also brought to the Committee's attention their Analytical framework for assessing Value for Money. The Committee's future work schedule will allow for more detailed review of selected studies, particularly where these have wider implications for the conduct of the Ministry's business.

The Committee received a briefing on the external audit of the Judicial Pensions Scheme 2008/09 accounts, the financial management review conducted by CIPFA and the surrender of Unclaimed Balances at the Court Funds Office to the Treasury.

Following the Committee's concern about staff salary overpayments referred to in my report last year, the Head of HR Operations gave a presentation at the October 2009 meeting on progress to reduce the number and value of overpayments, including the improvements made to staff and line management behaviours, communication channels and the process flow of work, which incorporates speedier communication when an overpayment occurs, active debt recovery and use of court action where appropriate. Internal audit has conducted a follow-up review on the implementation of recommendations made in its 2008/09 audit and reported that significant progress has been made by HR to address issues previously highlighted.

### **Channels for reporting outside the management chain**

The Committee were briefed on new "Whistleblowing" arrangements, including the extended list of Nominated Officers appointed by the Principal Accounting Officer. Options for a whistleblowing hotline are being explored, and monitored closely by the Committee. This item was also considered by the Chairs of other Audit Committees within the Ministry at their meeting in March 2010.

### **Internal Audit**

The Committee reviewed and endorsed internal audit strategies and plans for the core Ministry of Justice and has received regular reports on the outcome of audit work and recommendations made, including a review of outstanding recommendations, identifying those where a more robust escalation route was required. At its meeting on 8 July the Committee reviewed and endorsed the Head of Internal Audit's 2009/10 annual opinion and report, subject to any issues arising from completion of the resource accounts.

In the October 2009 meeting, the Committee received and discussed a paper on the control weaknesses and other causes underlying the reported cases of fraud across the Ministry of Justice. The Committee also received regular updates of ongoing fraud investigations, including any related criminal or civil proceedings and at the July meeting an update on common control issues.

The Committee are anticipating the results of an external quality review planned for the second half of the year which will provide assurance on Internal Audit's compliance with the new Government Internal Audit Standards that came into effect on 1 April 2009. The Treasury's Strategic Improvement Plan (formerly the Internal Audit Transformation Project) covering the future provision of Internal Audit Service within central Government was circulated widely across Ministry of Justice, including the Committee, with comments provided to Treasury as required. The Committee will ensure it is informed on the outcome of this review and any implications it may have for the Ministry's overall arrangements for internal audit coverage.

### **External Audit**

Representatives from the National Audit Office have attended all of the Committee's meetings. During this year, the Committee reviewed audit strategies for the audit of the Ministry of Justice's accounts, including the key risks highlighted, and has gained assurance that appropriate action has been taken on external audit management letters for the previous years' accounts. As indicated above, the Committee has also received regular updates on National Audit Office value for money studies and progress with implementing PAC/NAO recommendations.

### **Corporate Audit Committee Assurance Statement**

The Corporate Audit Committee provides the assurance that, during the period of this report, it fully discharged its responsibilities in accordance with its terms of reference. The Committee is also satisfied that it is able to provide the Principal Accounting Officer with assurance:

- on all the Accounts it has reviewed, subject to the satisfactory conclusions of the matters raised by the National Audit Office with particular regard to the 2009/10 Consolidated Resource Accounts;
- that issues pertinent to the 2009/10 Statement on Internal Control in the Consolidated Resource Accounts, including the delay to the Accounts themselves, and any longer term significant control issues that the Committee considers the Principal Accounting Officer should give attention to, are managed appropriately;
- on the quality of both Internal and External Audit, with their approach to the discharge of their respective responsibilities, and the reliance that can be placed on their work.

Priorities for the Committee's attention over the next reporting period include gaining assurance on:

- the effectiveness of managing corporate risks and embedding risk management;

- continual monitoring, progress and sign off of Public Accounts Committee and National Audit Office recommendations, including the recent National Audit Office Financial Management review of the Ministry
- the Ministry's review of its finance functions and responsibilities to ensure the delivery of future resource accounts are accurate, complete and to meet agreed timetables;
- action taken to resolve significant control issues disclosed in the Ministry's 2009/10 Statement on Internal Control;
- the impact and challenges faced by the Ministry from the coalition government's agenda resulting in cumulative change and cuts;
- development of the Transforming Justice Programme;
- clear articulation of the Ministry of Justice's accountabilities and authorities for its Arms Length Bodies; and
- internal audit's compliance with the new Government Internal Audit Standards and action on the outcome of the Treasury's Strategic Improvement Plan.

## **Acknowledgements**

The Committee is pleased to commend the open and candid relationship that exists between its members and the Head of Internal Audit, the National Audit Office as external auditors, the Director General Finance, Corporate Finance representatives and members of Corporate Risk and Assurance Branch.

**Anne Bulford**

Chair, Corporate Audit Committee

## **Annex A: Corporate Audit Committee – Terms of Reference**

### **Purpose**

The Corporate Audit Committee is an advisory body. It supports the Permanent Secretary, as Principal Accounting Officer, and the Corporate Management Board (CMB) in their responsibilities for issues of risk, control and governance by reviewing the comprehensiveness of assurances on meeting Ministry of Justice assurance needs and reviewing the reliability and integrity of these assurances. The terms of reference for the Corporate Audit Committee are informed by the guidance set out in the Treasury Audit Committee Handbook for Audit Committees in Central Government bodies.

### **Role and Objectives**

The Corporate Audit Committee will advise the Principal Accounting Officer and CMB on the:

- processes for risk management, control and governance and the Statement on Internal Control
- accounting policies and accounts for the Ministry of Justice
- planned activity and results of both internal and external audit
- adequacy of management responses to issues identified by audit activity including external audit's management letter
- assurances relating to the Ministry of Justice corporate governance requirements
- anti-fraud policies, whistle blowing processes, and arrangements for special investigation

### **Membership**

- Independent non executive chairman (Non-Executive Member of CMB)
- Three independent, non-executive members
- Two members will constitute a quorum

### **Attendees**

- Director General, Finance
- Representative from Corporate Finance
- Representatives of the National Audit Office
- Head of Ministry of Justice Internal Audit
- Head of Corporate Risk and Assurance
- Other senior managers on invitation by the Committee for specific issues

## **Annex B: National Audit Office Value for Money Reports**

During the period covered by this report the Committee received updates from the National Audit Office on the following studies:

### **VfM Reports 2008-09**

Maintenance of the prison estate in England and Wales

### **VfM Reports 2009-10**

Performance of Ministry of Justice 2008/09

Accounts: Community Legal Service Funds and Criminal Defence Service accounts 2008/09

The Procurement of Criminal Legal Aid in England and Wales by the Legal Services Commission

Managing Offenders on short custodial sentences

Criminal Injuries Compensation Authority follow up report (unpublished)

### **VfM Reports planned for delivery in 2010-11**

Reviews to focus on delivering products under the National Audit Office's strategic themes of:

- informed government;
- financial management and reporting; and
- cost effective service delivery

The Youth Justice System in England & Wales: Reducing offending by young people

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