

Annex 2

Natural England Audit and Risk Committee

Paper No: AC/6/M1

Title: Unconfirmed Minutes of the Sixth Natural England Audit and Risk Committee Meeting

10 March 2008, 13.30-16.15

Present: Christopher Pennell Chair
Poul Christensen
David Hill
Ian Scott
Pam Warhurst

In attendance: Helen Phillips Chief Executive
Dave Webster Executive Director Corporate Services
Maggie McGhee Director, National Audit Office
Joanne Raby Manager, National Audit Office
Mike Doughty Head of Internal Audit
Paul Lambert Director of Finance
Nigel Darby Financial Accounting Manager
Barney Smith Head of Knowledge Management and Information Services for items 8-11
Emily Finnie Internal Audit Team Leader (Secretariat)

Apologies: None

Welcome

The Chair welcomed everyone to the sixth meeting of the Natural England Audit and Risk Committee, and in particular the new National Audit Office Team: Maggie McGhee and Jo Raby, and Nigel Darby Head of Financial Accounting.

The following interests were declared: Poul Christensen is on the Defra Management Board and JNCC, and David Hill is a member of the JNCC and its Audit and Risk Committee.

1 Minutes of the Fifth Meeting of the Audit Committee held on 26 November 2007 (AC/5/M1)

1.1 The Committee **confirmed** the minutes of the fifth meeting of the Audit Committee without amendment.

2 Matters Arising (AC/5/A1)

2.1 The Committee noted that, apart from updates given below, the matters arising from the last meeting had been discharged or were covered by agenda items.

- 2.2 The Chair reported that he awaited a reply from the Chair of the Defra Audit Committee to his letter of 31 January 2008.
- 2.3 Paul Lambert reported that he had heard from NAO on 10 December 2007 confirming their fee for auditing Natural England's 2007/08 Annual Accounts would be £198k, £60k less than 2006/07 and a further reduction of £12k was expected for 2008/09.
- 2.4 Dates for Team Risk and Control Workshops were tabled and Members were asked to let Paul Lambert or Nigel Darby know if they wished to attend. **(Action: Committee Members)** Pam Warhurst asked to be notified once the date of the North West Region workshop had been confirmed. **(Action: Paul Lambert/Nigel Darby)**
- 2.5 The Committee noted that its revised Terms of Reference had been agreed by the Board on 12 December 2007.
- 2.6 David Webster gave an update on NAO's Value for Money study of SSSIs. The Committee noted that it would receive an update from Dave Webster at the next meeting and that NAO would circulate information on the review's methodology. **(Action: Dave Webster and Maggie McGhee)**
- 3 Defra Shared Services Directorate-Provision of back office services (AC/6/P1)**
- 3.1 Dave Webster introduced the paper and the consultant's report that had been commissioned as requested at the last meeting.
- 3.2 In discussing the initial findings of the draft report the Committee :
- 3.2.1 considered it a good report and welcomed the opportunity to provide advice on the direction of travel;
- 3.2.2 noted the main message from the report was that the service provided by Shared Services Directorate (SSD) did not provide good value for money to Natural England with the potential for savings of 20%, yielding £1m a year;
- 3.2.3 noted the challenges presented by the cost of VAT in pursuing alternative providers of shared services and needed Defra assurances that their cover for VAT costs would be maintained if Natural England joined them in the pursuit through SSD of external service provision;
- 3.2.4 suggested a third option in addition to those presented in the report could be a partnership of NDPBs;
- 3.2.4 wished to reduce the considerable time invested by both SSD and Natural England staff in delivering shared services and recognised that this could be achieved if the correct infrastructure was in place;
- 3.2.5 advised that Natural England should pick up on delivering some quick wins in implementing some of the report's recommendations, and also advised that the proposal to reduce the number of key performance indicators to 10 set too low a number of indicators;
- 3.2.6 while pleased that Natural England came out well in the report, noted that there were improvements to be made by Natural England too in defining our requirements and our processes;

- 3.3 The Committee considered that the Defra Management Board decision that it did not see shared services as a core competency and was seeking procurement of an external provider to be helpful to Natural England, and in discussion:
- 3.3.1 noted the timetable for procurement of an external provider;
 - 3.3.2 agreed that as a major customer Natural England should work to influence the Defra procurement process to ensure that both the costs and quality of the service provided were addressed, and advised the key issue was to ensure that Natural England put forward a good set of requirements;
 - 3.3.3 advised that if necessary the Chief Executive should take the opportunity to raise with Helen Ghosh Natural England's request to be involved from the earliest planning stages;
 - 3.3.4 in response to concerns about Natural England's capacity to define its needs clearly and to get involved with Defra's procurement process noted that a special project would be established and that our Procurement Team had the necessary skills set;
 - 3.3.5 expressed concern about the risk of failure of SSD and the continuing assurance gap; advised that business continuity was a real risk requiring contingency plans and that assurance from Defra should be pursued if not forthcoming in response to the Chair's letter to Bill Griffiths.
- 3.4 In conclusion the Committee agreed that the report should be shared with SSD and Defra to reach agreement on the way forward, and requested a report to its next meeting on the action plan. **(Action Dave Webster)**

4 External Audit

NAO Audit of Natural England: Letter of Understanding (AC/6/P2)

- 4.1 The Committee noted that it had been asked to advise the Accounting Officer before she signed the Letter of Understanding with NAO that was required by International Standards on Auditing.
- 4.2 While noting that the letter set out the basis on which the accounts of Natural England were audited and the respective responsibilities of the Chief Executive as Accounting Officer and NAO acting on behalf of the Controller and Auditor General, the Committee:
- 4.2.1 considered this standard letter appeared to be one-sided with expectations from Natural England not matched by levels of service to be provided by NAO, although it accepted that NAO's audit strategy was the key communication document between the two organisations;
 - 4.2.2 advised that a documented understanding on the transfer of information between NAO and Natural England should be provided to cover data security aspects of communications in section 9 and NAO agreed to do this. **(Action: Maggie McGhee)**
 - 4.2.3 noted that any extra work as set out in 7.2 would not be charged for unless agreed with the client.
- 4.3 The Committee advised the Chief Executive to sign and return the letter of understanding to the NAO. **(Action: Helen Phillips)**

Update on NAO Programme for 2007/08 (AC/6/P3)

Results of NAO Planning Visits (Annex 1 to AC/6/P3)

- 4.4 Maggie McGhee gave an update on NAO's planning visits that were part of the financial audit for 2007/08.
- 4.5 The Committee noted with pleasure that the interim audit was progressing according to plan and timetable, with the 9 month interim accounts produced by Natural England, and thanked all involved for the improvements compared with last year.
- 4.6 The Committee noted NAO's preliminary findings, none of which were material to the accounts, should be considered in the context of Natural England in its first full year with the control environment still being embedded in the organisation, and in discussion:
 - 4.6.1 noted NAO's observations in relation to the review of high level financial management reporting processes and Dave Webster and Paul Lambert's response;
 - 4.6.2 noted NAO's observations in relation to the review of Natural England's validation of monthly account code reconciliations provided by SSD and Paul Lambert's response.
- 4.7 In discussion the Committee:
 - 4.7.1 were comforted by the small number of issues raised by NAO.
 - 4.7.2 asked whether the key issue from the preliminary finding from the NAO where they were unable to reconcile the figure for the budgeted annual gross expenditure to an expected annual budget based on Defra's GIA funding letters was due to management accounting procedures. [Following the meeting the Committee received further information with a clear reconciliation of the figures]
 - 4.7.3 in response to its concerns about lack of a cash flow forecasting report noted that the main method of control was via accruals accounting and that this was the basis of reporting to the Executive Board who it was accepted, in line with best practice, would also receive balance sheets quarterly in future.
 - 4.7.4 advised that the interface between Natural England and SSD would benefit from a review because it was at risk of falling between separate assurance areas.

Planning for the introduction of International Reporting Standards (Annex 2 to AC/6/P3)

- 4.8 The Committee noted the NAO's report on planning for the introduction of International Financial Reporting Standards (IFRS) and thanked NAO for its useful advice.
- 4.9 The Committee noted that IFRS did not affect the 2007/08 accounts and in discussion:
 - 4.9.1 was reassured that Natural England had adequate resources to introduce IRS to the required timetable, but advised that the scale of the task should not be underestimated and adopting a project team approach could be useful.

Interim Audit and Accounts for 2007/08 (AC/6/P4)

- 4.10 Nigel Darby introduced his update on progress towards ensuring the 2007/08 Annual Report and Accounts were presented to Parliament prior to the recess in July 2008.

- 4.11 In discussion the Committee:
- 4.11.1 welcomed the 9 month interim accounts that had been produced in accordance with best practice and SSD providing the information required;
 - 4.11.2 noted that to date there were no material issues to report.
 - 4.11.3 noted that the Statement on Internal Control (SIC) was a first draft based on the half year control questionnaire results, and that there would be an opportunity to discuss the SIC at the June meeting;
 - 4.11.4 advised that consideration should be given to reducing the amount of detail provided and making the text more attractive reading;
 - 4.11.5 advised that the presentation of staff costs in relation to the operating costs should be considered further;
 - 4.11.6 advised that it should be made clear that the remuneration for 2006/07 was for 6 months compared with a full year for 2007/08;
 - 4.11.7 advised that consideration should be given to conducting an 'Operating and Financial Review' in future years.
- 4.12 In conclusion the Committee endorsed the action taken including the interim accounts. Members were asked to send any further comments to Paul Lambert.
(Action: Committee Members)
- 4.13 The Committee noted that it was due to receive an update on progress on NAO's management letter for 2006/07 and asked Paul Lambert to provide this information.
(Action: Paul Lambert)

5 Internal Audit Report (AC/6/P5)

- 5.1 Mike Doughty introduced his internal audit report that provided the Committee with an update on the specific outputs from recent reviews, progress and outputs from internal audit activity for 2007/08, the proposed internal audit plan for 2008/09 and subsequent years, and the opportunity to review the developing assurance map for Natural England.
- 5.2 The Committee noted the final reports on Project Management and Corporate Performance that had been circulated since the last meeting. The Committee noted that their findings had been well received at PWC's recent presentation to the Executive Leadership Group. Members found much in the reports worthy of further discussion/briefing and asked for consideration to be given to how this might best be done in the discussion on identifying training needs. **(Action: see agenda item 10)**. Mike Doughty was asked to include final reports with future reporting to the Committee. **(Action: Mike Doughty)**
- 5.3 The Committee reviewed progress and noted that all remaining reviews in the 2007/08 internal audit programme, except emergency response, would be available in draft by the end of March. The Committee:
- 5.3.1 noted the majority of reviews completed to date had received a limited assurance rating that would rise to moderate with implementation of the management action plans;

- 5.3.2 were reassured by progress in implementing management action plans reported in 3.3 and at annex 2 and found the level of detail useful in giving confidence that findings were being addressed.
- 5.3.3 noted that regional issues would be picked up in the Team Delivery Reviews;
- 5.3.4 noted all days were committed for the external contract for 2007/08;
- 5.3.5 welcomed the award of the contract for 2008/09 and beyond to PWC after a comprehensive procurement process summarised in 3.8 of the paper;
- 5.3.6 hoped that the reappointment of PWC and the April clearance by the Executive Board of several sets of terms of reference for future internal audit reviews would lead to a smoother balanced programme of internal audit work in 2008/09.
- 5.4 The Committee endorsed the Internal Audit Plan for 2008/09 and subsequent years noting that it included a degree of flexibility to allow for contingencies. The Committee noted that:
 - 5.4.1 Genesis was not included in the plan because like the transition programme it was subject to regular and detailed management attention, however advice had been provided on acceptance criteria for Genesis and general control advice would continue to be given as required. It was agreed that a verbal update would be provided as part of the Chief Executive's report to the April Board ;
 - 5.4.2 the plan had been discussed with NAO and agreed by the Accounting Officer.
- 5.5 The Committee considered the assurance map tabled by Mike Doughty that sought to chart the framework giving assurance both within and outside Natural England. The map highlighted the assurance gap to Natural England from Defra Shared Services Directorate and IBM and Helen Phillips offered to write to Helen Ghosh about this in advance of their next meeting. **(Action: Helen Phillips)**

6 Risk Management (AC/6/P6)

- 6.1 Dave Webster gave an update on risk management. In discussion the Committee:
 - 6.1.1 noted the position on risk management guidance and training;
 - 6.1.2 noted the position on risk management reporting;
 - 6.1.3 noted and reviewed the Natural England top level strategic risk register and the associated countermeasures and advised that it could be helpful to include direction of travel on the overall strategic risk register as well as on the sheet for each risk (including showing both the probability and impact of the risk at the reporting date and residually after the counter-measures planned for the future had taken effect).
- 6.2 The Committee agreed the next steps for refreshing the risks and engagement with stakeholders and the Board, and in discussion:
 - 6.2.1 found the report from the ELG's workshop on 29 February most interesting in identifying new risks: speed of response was seen to be particularly important if Natural England was to be proactive rather than reactive;
 - 6.2.2 welcomed the proposed involvement of stakeholders and recommended that the group should include those who would challenge Natural England's perceptions particularly in relation to delivery and the allocation of resources, and also a

representative from land use planning interests. Members were asked to notify Dave Webster of suggested names to be invited (**Action: Committee Members**);

- 6.2.3 advised against making the strategic risk register too long but noted that identification of new risks could be accommodated by identifying who was responsible for managing each risk at different levels in the organisation even if it was not included on the strategic risk register.
- 6.2.4 advised that the forum for discussion of the refreshed strategic risks needed careful planning and noted that management would give careful consideration to the agenda, facilitator and chair for each discussion / workshop;
- 6.2.5 advised that provision should be made for unexpected risks and for not taking advantage of opportunities.
- 6.3 The Committee looked forward to its risk workshop with stakeholders on 18 June and emphasised the importance of a full Board discussion in September.

7 Corporate Governance Update on Governance Framework (AC/6/P7)

- 7.1 Paul Lambert introduced the update on the Governance Framework.
- 7.2 The Committee:
 - 7.2.1 noted work on the schedule of delegations and governance communication and training;
 - 7.2.2 welcomed the revision of the governance framework and establishment of a regular review process and noted that there would be a report to the September meeting;
(Action: Paul Lambert and Nigel Darby)
 - 7.2.3 welcomed the addition of a document on powers and duties;
 - 7.2.4 recommended that Board Members' interests should be published on the intranet/internet because the annual accounts made reference to this information being available. **(Action: Paul Lambert and Nigel Darby in liaison with Board and Executive Services)**

Half Year Control Questionnaire (AC/6/P8)

- 7.3 Paul Lambert introduced the results of the half year internal control questionnaire.
- 7.4 The Committee:
 - 7.4.1 reviewed the assurance report and considered it provided a useful assessment of the standards of internal control currently operating and the basis for the first draft Statement on Internal Control;
 - 7.4.2 noted the links between the internal control issues identified and the internal audit programme;
 - 7.4.3 as Board Members, found the report and analysis valuable in assisting their monitoring of the process;
 - 7.4.4 did not have any further significant internal control issues to bring to the attention of the Accounting Officer.

8 Data Security Information Security Update (AC/6/P9)

- 8.1 Dave Webster and Barney Smith introduced the update on information security.
- 8.2 The Committee:
 - 8.2.1 noted KMIS's work to raise the profile of data security and an update on the outcome of the review;
 - 8.2.2 supported the objective of achieving ISO27001;
 - 8.2.3 advised caution on courier use and were reassured that a review was underway;
 - 8.2.4 noted that the Chief Executive and Chair had been notified about the temporary loss of pension statements;
 - 8.2.5 advised that constant vigilance should be kept on data security, an area of potential risk to Natural England;
 - 8.2.6 noted that advice to staff on data security was to be found on one page of the intranet.

9 Cases of Fraud or Presumptive Fraud

- 9.1 Mike Doughty gave an update on the anti-fraud workshop with partners who had endorsed Natural England's policy and procedures. The Internal Audit Team had also contributed to an anti-fraud workshop for Access to Nature.
- 9.2 Mike Doughty reported on recent incidents with GPC usage that had been dealt with but had highlighted the need to follow up with better reporting procedures.
- 9.3 Dave Webster had no further cases of fraud or presumptive fraud to report.

10 Audit Committee Review of Meeting and Forward Look (AC/6/P10)

- 10.1 The Committee reviewed the meeting and concluded that the good standard of papers and presentations had helped with getting through a lot of business. NAO confirmed that contributions had been pitched at the right level.
- 10.2 A proposed programme and timetable for the June meeting, combining a longer than usual business meeting, because of the annual report and accounts, with a risk workshop was tabled. The Committee noted that the programme ran from 11.00-16.30 on 18 June 2008 and that the Chair and Ian Scott would have a pre-meeting with Finance Team and NAO on the accounts on 2 June 2008.
- 10.3 The draft agenda for the June business meeting was noted, and it was agreed that the Committee's Annual report to the Board's September meeting could be cleared by correspondence to create more time for other items.**(Action: Christopher Pennell and Emily Finnie)**
- 10.4 The Committee considered its training needs and it was agreed further consideration should be given and information circulated on allocating the 2 days to the National

School of Government Audit Committee conference on 27 November 2008 and a tailor made day with a revisit from the NSG combined with a regional workshop or input from PWC. A deeper exploration of the interesting issues raised by the two internal audit reports referred to at para 5.2 above could form part of such a workshop with staff and/or PWC. It was agreed that an invitation should be extended to Dave Pritchard, Chair of the JNCC Audit and Risk Committee. **(Action : Mike Doughty and Emily Finnie)**

11 Any other Business

- 11.1 The Chair drew attention to the NAO Value for Money Report on Defra Expenditure.

Action Points**Sixth Meeting of the Natural England Audit Committee – 10 March 2008**

No	Min ref	Action	Responsibility	Action taken
1	2.4	Notify Paul Lambert/ Nigel Darby if you wish to attend a Risk and Control Workshop.	Committee Members	
2	2.4	Let Pam Warhurst know about the date of the NW Region workshop.	Paul Lambert and Nigel Darby	
3	2.6	Report to June meeting on NAO VFM Review of SSSIs.	Dave Webster	
4	2.6	Provide information on the methodology for the SSSI VFM review for circulation to the Committee.	Maggie McGhee, NAO	
5	3.4	Report to June meeting on SSD action plan.	Dave Webster	
6	4.2.2	Issue protocol on security of transfer of information between NAO and Natural England.	Maggie McGhee, NAO	
7	4.3	Sign and return the letter of understanding to NAO.	Helen Phillips	
8	4.12	Send any further comments on the interim accounts to Paul Lambert.	Committee members	
9	4.13	Provide an update on progress on NAO's management letter for 2006/07.	Paul Lambert	Discharged 11/3/08
10	5.2	Include final reports in internal reports to the Committee.	Mike Doughty	
11	5.5	Write to Helen Ghosh about assurance gaps over Defra SSD and CIOD/IBM operation.	Helen Phillips	
12	6.2.2	Notify Dave Webster of suggested names to be invited to the risk workshop.	Committee Members	
13	7.2.2	Report to the September meeting on results of the governance framework review.	Paul Lambert and Nigel Darby	
14	7.2.4	Arrange publication of Board Members' interests on the internet / intranet.	Paul Lambert and Nigel Darby in liaison with Board & Executive Services	
15	10.3	Draft ARC Annual Report to the September Board with clearance from the Committee by correspondence.	Christopher Pennell and Emily Finnie	
16	10.4	Develop proposals for ARC training.	Mike Doughty and Emily Finnie	