

Natural England Board



Meeting: 15
Date: 11 February 2009

Paper No: **NEB PU15 09**

Title: **Audit and Risk Committee: Report on Meeting held on 3 December 2008**

Sponsor: **Dave Webster, Executive Director Corporate Services**

1. Purpose

1.1. The purpose of this paper is to provide a further report on the Audit and Risk Committee's December 2008 meeting.

2. Recommendations

2.1. It is recommended that the Board:

2.1.1. note the unconfirmed minutes of the Audit and Risk Committee on 3 December 2008 set out at Annex 1.

3. Issues Arising from the Committee's December meeting

3.1. The Chair of the Committee gave an oral report to the December Board meeting but the unconfirmed minutes were not available for circulation.

3.2. The unconfirmed minutes of the Committee's 3 December 2008 meeting can be viewed at Annex 1.

Annex 1

Natural England Audit and Risk Committee

Paper No: AC/9/M1

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

3 December 2008, 13.30-16.00

Present: Christopher Pennell Chair
Poul Christensen
Pam Warhurst
Ian Scott

In attendance: Helen Phillips Chief Executive
Dave Webster Executive Director Corporate Services
Margaret McGhee Director, National Audit Office
Joanne Raby National Audit Office
Mike Doughty Head of Internal Audit
Paul Lambert Director of Finance
John Williams Head of Procurement (Item 3)
Paul Egginton Director, Business Systems
Improvement (Item 4)
Emily Finnie Internal Audit Team Leader (Secretariat)

Apologies: David Hill

Welcome

The Chair welcomed everyone to the ninth meeting of the Natural England Audit and Risk Committee. In particular, John Williams and Paul Egginton who were attending for their agenda items.

The following interest was declared: Poul Christensen is on the Defra Management Board and JNCC and is Director of Agricultural Central Trading.

1 Minutes of the Eighth Meeting of the Audit and Risk Committee held on 10 September 2008 (AC/8/M1)

1.1 The Committee **confirmed** the minutes of the eighth meeting of the Audit and Risk Committee held on 10 September 2008.

2 Matters Arising (AC/9/A1)

Action Points from the Last Meeting

2.1 The Committee noted that the matters arising from the last meeting had been completed or were covered by agenda items.

2.2 The Committee:

2.2.1 noted discussions about Natural England's VAT status were ongoing with Defra's VAT experts and advised that the issues about becoming a Crown

NDPB were political as well as technical and requested an update at the next meeting. **(Action: Paul Lambert)**

- 2.2.2 noted that there would be a Board teleconference in June 2009 to approve the annual report and accounts.
- 2.2.3 noted the NAO VFM report on SSSIs had been published.
- 2.2.4 noted that Paul Lambert had established that there was no Natural England duplication of data with JNCC over respective contracts with the British Trust for Ornithology.

3 Defra Shared Services Directorate (AC/9/P1)

- 3.1 Dave Webster introduced the paper that provided an update on Defra Shared Services Directorate (SSD) performance and systems improvement, progress on Project Synergy and progress in exploring alternative suppliers for back office services. The Committee noted that the paper had been shared with Ian Watt (Director General – Finance, Defra).
- 3.2 In noting the position on SSD current performance, service improvement and priority given to the Corporate Services Review, the Committee:
 - 3.2.1 congratulated Dave Webster and the Finance Team in negotiating a £850k reduction including VAT in the charge levied on Natural England by SSD for 2009/10 bringing costs in line with the benchmarking figures in the consultant's report.
 - 3.2.2 noted that although the current standard level of service was acceptable because SSD were delivering to their KPI's the delivery of service improvements needed in terms of basic reporting products and for implementation of the Corporate Services Review was not acceptable in terms of cost or quality.
- 3.3 The Committee noted the latest position on Project Synergy and in discussion:
 - 3.3.1 noted that Defra's Management Board had reconfirmed its January 2008 decision to ask that SSD continue to look for an external partner and that SSD was not a core competency which should remain in Defra.
 - 3.3.2 noted the challenges with delivering the strategy for service improvements, service expansion and service externalisation and questioned whether SSD had the capacity to deliver on all fronts with existing resources.
 - 3.3.3 noted that SSD was not able to externalise the service before 2011/12 which the Committee agreed was not acceptable to Natural England.
- 3.4 The Committee supported the work done to date in exploring the opportunities for Natural England to source back office services from an alternative supplier or suppliers to SSD in future and:

- 3.4.1 advised that while not resolving the VAT issue, the possibility of joint venturing with a similar sized organisation with similar requirements should be explored.
- 3.4.2 noted that Natural England was talking to the Environment Agency in this respect and that there would be VAT issues that could be explored as the Agency was VAT exempt.
- 3.4.3 was surprised that research had shown that the second tier market was not more robust.
- 3.4.4 advised that there could be opportunities for breaking down the different services provided and pursuing externalisation of one, such as payroll, in advance of others.
- 3.4.5 noted the scope to drive down costs still further by internalising some services..
- 3.4.6 while noting that Natural England was seeking legal advice on TUPE, advised that there were significant employee considerations and these potential costs, and costs of change, should be identified in the business case which will be discussed by the Executive Board on 21 January 2009.
- 3.4.7 advised caution in assessing the different options to ensure that potential providers could deliver promises.
- 3.5 In conclusion the Committee:
 - 3.5.1 expressed concern about the time taken within Defra to resolve this issue for Natural England and advised that officers should ensure they had a complete audit trail capturing the story. **(Action: Dave Webster and Paul Lambert)**
 - 3.5.2 reconfirmed that while no information had been provided to change its previous advice that there were no benefits to Natural England staying with the current service, the risks and costs of making any change would need to be understood fully.
 - 3.5.3 noted that now the Defra Management Board decision had been confirmed, Natural England was pressing ahead with developing a business case with a view to being able to outsource back office services by April 2010 if this was the decision made.
 - 3.5.4 noted the decision by the Executive Board would be based on the business case that would be available in January 2009 and that there would be a report to the February 2009 Board meeting. **(Action: Dave Webster)**

4 Transfer of Genesis to Natural England (AC/9/P2)

- 4.1 Dave Webster and Paul Egginton introduced the paper that provided an update on progress with meeting the transfer criteria and addressed the risks associated with the proposed arrangements for the transfer of operational ownership of Genesis from Defra to Natural England.
- 4.2 In view of the deferral of the formal decision to accept operational ownership from the November 2008 to December 2008 Board meeting, the Committee

welcomed the further opportunity to advise the Board based on the latest position.

- 4.3 In reviewing the acceptance criteria the Committee:
 - 4.3.1 noted that the detailed acceptance criteria had either been met or would be resolved by the licence agreement, with no red or amber-red ratings remaining on any of the 48 criteria.
 - 4.3.2 noted that approval of the licensing arrangements was expected on 5 December, and that the final wording of the licence was still being negotiated with Defra's commercial and legal teams, (after which the contract could be novated) and the Board would be notified about this in advance of its December meeting. **(Action: Dave Webster)**
 - 4.3.3 noted that NAO confirmed that the introduction of International Financial Reporting Standards did not change its view that the asset would remain on Defra's books, and therefore valuation remained at Defra's risk.
 - 4.3.4 noted that DWP held the framework contract with ATOS, with whom Natural England would need to enter a concordat, and that the £5m threshold for future Defra involvement was set within Natural England's existing financial scheme of delegation.
 - 4.3.5 noted there were no issues with the current contract with ATOS with all Key Performance Indicators and the Service Level Agreement met, and a timetable agreed for ongoing development.
 - 4.3.6 welcomed the negotiation to 5-year future funding from Defra.
 - 4.3.7 recognised that the very tight timescale to conclude the agreement by the end of December to meet ATOS's accounting requirements was being used to drive the deal and noted officers' opinion that this timetable was achievable.
- 4.4 The Committee noted that while all the risks identified on the register had either been addressed or were considered sufficiently low impact not to affect the transfer of control to Natural England, three red risks remained. The Committee noted that:
 - 4.4.1 Risk 8 would be resolved as soon as confirmation of Defra's level of involvement in relation to the £5m level was confirmed in the licensing arrangements.
 - 4.4.2 Risk 18 had been mitigated by alternative actions and the risk in relation to a requirement for a technical roadmap was now out of date.
 - 4.4.3 Risk 23 in relation to DWP not being in a position to sign off the new Genesis concordat was addressed by having a standby identified in DWP to do this if necessary.
- 4.5.1 In addition, risk 10 in relation to the Intellectual Property Rights (IPR) from any investment made by Natural England being passed to Defra and the Crown (rated green) was an issue of concern to the Committee. Paul Egginton undertook to investigate further in time for Dave Webster to provide

an update to the December Board meeting. **(Action: Paul Egginton and Dave Webster)**

5 External Audit

5.1 NAO Audit Strategy for 2008/09 (AC/9/P3A)

5.1.1 Maggie McGhee introduced the Audit Strategy that set out how NAO intended to carry out the audit of the financial statements for the year ending 31 March 2009.

5.1.2 The Committee noted the Audit scope and objectives and the approach to be adopted by NAO with reliance placed on other auditors as appropriate to avoid duplication of effort. In discussion the Committee:

5.1.2.1 welcomed the repeat of the 9 month interim audit that had worked well in 2007/08, but advised that the timetable was still tight in June, particularly in relation to receiving information for the Statement on Internal Control from JNCC and Defra.

5.1.2.2 noted the audit emphasis on 10 key risks but advised that the Marine Bill would not impact on the accounts this year.

5.1.2.3 noted the £500k adjustment in the last accounts for system generated accruals was a legacy of the founding bodies and was included as it had been a feature in last year's audit.

5.1.2.4 noted that only five properties remained Natural England's responsibility as part of the estates rationalisation programme but nonetheless advised that the risk of environmental contamination should be checked. **(Action: Dave Webster and Paul Lambert)**

5.1.2.5 noted an audit fee of £180k had been agreed, a reduction of £18,500 on 2007/08.

5.1.3 The Committee noted that NAO would report progress on the interim audit to its March meeting. **(Action: Maggie McGhee, NAO)**

5.2 Update on Transition to International Financial Reporting Standards (IFRS)

5.2.1 Jo Raby introduced NAO's report giving an update on Natural England's progress in the transition to IFRS. The Committee:

5.2.1.1 noted Natural England had complied with the requirements for trigger point one by submitting a restatement of 31 March 2008 balances by the due date.

5.2.1.2 noted that Natural England had made adjustments in relation to JNCC and provision for holiday pay.

5.2.1.3 noted that NAO was seeking advice from its in-house technical team on the two possible options identified for the treatment of JNCC and would provide a formal response to Natural England. **(Action : Jo Raby, NAO)**

5.2.1.4 noted that the requirements of IFRS were systemised and would not entail extra work for Natural England.

5.2.1.5 queried whether the risk of exposure over soft loans could be minimised further. Paul Lambert offered to investigate further and report back. **(Action: Paul Lambert)**

5.3 Progress on 2007/08 NAO Management Letter (AC/9/P3B)

5.3.1 The Committee noted continued progress by management in implementing key findings in NAO 2007/08 management letters as set out in annex 1.

5.3.2 The Committee noted that the issue of a discrepancy in relation to inward secondee costs identified by Natural England was being addressed as part of an end to end process review with SSD. Members were reassured that enough progress was being made.

6 Internal Audit Report (AC/9/P4)

6.1 Mike Doughty introduced his Internal Audit report. The Committee reviewed and noted the assurance levels and noted management action plans for recently completed internal audit reviews as follows:

6.2 Regularity and Propriety

The Committee noted the moderate assurance level and noted that it would receive an update on the review of Corporate Governance at its next meeting. **(Action: Paul Lambert)**

6.3 VAT

The Committee noted:

6.3.1 the limited assurance level and that PWC had been engaged by management to assist with the VAT issues.

6.3.2 that Natural England had inherited limited charitable status from a founding body and that Paul Lambert would be seeking clarification with HMRC. **(Action: Paul Lambert)**

6.4 Emergency Response

The Committee:

6.4.1 noted the limited assurance level and expressed concern that there were two critical management actions.

6.4.2 advised that Natural England was at risk with not having processes documented in the short term until the 9 month project was completed, but noted that some processes were to be tested before Christmas.

6.4.3 advised that Natural England should be clear of its responsibilities to Defra should the unexpected happen.

6.4.4 noted that Head of Internal Audit was satisfied with the timing of the implementation of the management actions but requested an item on

Emergency Response at its next meeting. **(Action: Emily Finnie to request paper from Robin Tucker and Tim Hill)**

6.5 Volunteer Management

The Committee noted the limited level of assurance.

6.6 Access to Nature

The Committee noted the moderate level of assurance which was reassuring as Natural England was distributing Big Lottery Fund money.

6.7 Information Security and Data Compromise

The Committee:

6.7.1 noted the limited level of assurance.

6.7.2 noted Natural England was rolling out encryption and signing off security policies but advised that information security was also a cultural issue for the organisation.

6.7.3 advised there had been a strong steer at the Audit Committee Conference about information assurance and its inclusion on Audit Committee agendas and in the Statement on Internal Control.

6.7.4 requested an update on information assurance in advance of the next meeting. **(Action: Dave Webster)**

6.8 The Committee reviewed and noted the progress against current and planned internal audit activity for 2008/09 to date. The Committee received an update on a review of NNRs undertaken by the Head of Internal Audit.

6.9 The Committee noted the current status on recommendations monitored in management action plans and noted that internal audit were beginning to check on reports and that a new data base was under development with better reporting facilities. The Committee noted that although some management actions were overdue the Head of Internal Audit did not wish to bring any issues of concern to the Committee. However, members requested that if he had any concerns about delays with reports or management actions he should escalate these to the Committee. Mike Doughty reassured the Committee that he would do this.

6.10 The Committee noted the assurance levels provided on specific systems by other review bodies. The Committee welcomed progress being made by the Head of Internal Audit in obtaining assurance over the operations that SSD and IBM/CIOD provide for Natural England.

6.11 The Committee noted the suggested approach for developing the internal audit plan for 2009/10 and that it would have the opportunity to endorse this at its March meeting. The Committee advised that consideration should be given to including a review of information security. **(Action: Mike Doughty)**

6.12 The Committee endorsed the recommendation for the continuation of the contract with PWC for the provision of internal audit services in 2009/10 being year two of the fixed term contract.

7. Risk Management (AC/9/P5)

- 7.1 Paul Lambert introduced the review of the Strategic Risk register and the Risk Management Assessment Framework.
- 7.2 The Committee considered the review of the Strategic Risk Register to have been a job well done and had just a few suggestions being:
 - 7.2.1 The global drivers risk should include getting people engaged and understanding the importance of the natural environment as well as politicians.
 - 7.2.2 A regional flavour should be added in the content and counter-measures under existing headings (particularly Risks 1 and 6). For example, RDA changes.
 - 7.2.3 The risk of cuts in funding should show the other side of Natural England's reliance on funding from Defra with actions taken to address costs included in the counter-measures.
- 7.3 Paul Lambert would include in the next revision. **(Action: Paul Lambert)**
- 7.4 The Committee was pleased to note progress with embedding risk management as demonstrated in the Risk Management Assessment Framework. The Committee, with a view to assisting further improvements, asked for an opportunity to see some regional and national risk registers. The Committee noted that as part of its next training session before the March meeting it would have an opportunity to do this when investigating the Corporate Planning and Reporting System. **(Action: Paul Lambert)**

8. Corporate Governance: Statement on Internal Control Interim Results (AC/9/P6)

- 8.1 Paul Lambert introduced the paper that advised the Committee on the 2008/09 interim Internal Control Questionnaire.
- 8.2 The Committee in considering whether there were any internal control issues that should be highlighted advised that business continuity, linked to emergency response, warranted further attention and consideration for inclusion in the Strategic Risk Register.
- 8.3 The Committee concluded that standards of reporting were more consistent with the introduction of links to further guidance on the intranet which meant more reliance could be placed on the assessment of the standards of internal control operation and reporting.
- 8.4 The Committee agreed the next steps using the conclusions drawn from the questionnaire as the basis for the preparation of an interim Statement on Internal Control that it would have the opportunity to discuss at its March meeting. **(Action: Paul Lambert)**

9. Cases of Reported Fraud

- 9.1 Paul Lambert had no cases of fraud to report.

- 9.2 Dave Webster reported a break in at the Crewe office earlier in the week with the theft of new laptops. The Committee advised that the migration programme carried a heightened risk and noted that a lessons learned exercise would be carried out.

10 Audit and Risk Committee (AC/9/P7)

- 10.1 Chair reported on the outcome of the Committee's workshop to review its effectiveness that had been facilitated by PWC that morning. The overall conclusion was that the Committee was generally performing and behaving in line with good practice, in part down to effective support received from staff. In addition, the Committee had attended the Audit Committee annual conference the previous week. The following areas for improvement had been identified for further consideration in the spirit of providing assurance to the Board and Accounting Officer:
- 10.1.1 Next time to widen circulation of effectiveness questionnaire to include those who work closely with the Committee to seek a broader view on an assessment of the Committee's effectiveness and how it could be enhanced.
- 10.1.2 Reconfirmation of the view that the Committee should have at least one member with professional financial qualifications, who if an external member should have access to open Board papers. **(Action: Emily Finnie)**
- 10.1.3 Internal Audit Reports should be circulated to members as soon as they are cleared by the Executive and any comments and issues then raised in correspondence between meetings. If any issues remain they could be discussed at the meeting when the Committee would be invited to formally note the report: this would free up time on the agenda.
- 10.1.4 The Head of Internal Audit was asked to advise the Committee on the minimum time it should expect for internal audit reports to be considered and cleared by management from the date of issue by the internal auditors for Executive clearance. **(Action: Mike Doughty)**
- 10.1.5 Pressure on doing justice to the agenda in the 2 ½ hours currently allocated would be addressed by adding an extra half hour to each meeting rather than increasing the number of meetings held.
- 10.1.6 The extra time would be used for additional agenda items, with up to 15 minutes before the formal meeting when the Committee would meet alone, but to which the Accounting Officer was invited if she wished to attend, to discuss any key issues Members wished to raise on agenda items and to identify items for future agendas or discussions.
- 10.1.7 In line with best practice amongst Audit Committees, rather than because it had any particular concerns, the Committee decided it wished to introduce private time, (but including the Accounting Officer in view of the special position of this role in an NDPB), with internal and external audit at an appropriate time each year.
- 10.1.8 Agreement that the Committee might ask to see evidence presented direct by officers who did not normally present to the Committee to satisfy itself about

the adequacy of the assurances to be relied upon by the Accounting Officer.(It was subsequently agreed by the Chair that Helen Phillips would agree who attended to present the relevant items without in any way compromising the Committee's fallback right to call on any officer who might assist its work))

10.1.9 At the March meeting consideration of proposals, to possibly include training on information assurance issues, for the use of 2009/10 training days.

(Action: Emily Finnie)

10.2 Chair and Members would wish to consider their suggestions further and Chair would discuss with Dave Webster and Helen Phillips. **(Action: Christopher Pennell)**

10.3 Chair reported that he might have a few minor suggested changes to make to the Committee's Terms of Reference that he would circulate for comment.if they seemed worthwhile to make. Before submitting the TOR to the Board for endorsement the Committee advised that its TOR should be checked with the Board's to ensure that delegations to the Audit and Risk Committee were clear. **(Action: Christopher Pennell and Emily Finnie)**

11 Any other Business

11.1 There was none.

Action Points

Ninth Meeting of the Natural England Audit and Risk Committee – 3 December 2008

No	Min ref	Action	Responsibility	Action taken
1	2.2.1	Continue to investigate VAT status of a Crown NDPB	Paul Lambert	
2	3.5.1	Ensure there is a complete audit trail capturing the SSD story.	Dave Webster and Paul Lambert	
3	3.5.4	Report to February 2009 Board meeting on Defra Shared Services.	Dave Webster	
4	4.3.2	Advise Board about Genesis licensing arrangements in advance of December meeting.	Dave Webster	
5	4.4	Provide update on position re IPR in relation to future investment in Genesis for Dave Webster to give an update to December Board meeting.	Paul Egginton and Dave Webster	
6	5.1.2.4	Check the risk of environmental contamination in Natural England properties.	Dave Webster and Paul Lambert.	
7	5.1.3	Provide an update on the interim audit to the March 2009 meeting.	Maggie McGhee, NAO	
8	5.2.1.3	Provide a formal response to Natural England on the treatment of JNCC under IFRS.	Jo Raby, NAO	
9	5.2.1.5	Investigate whether the risk of exposure over soft loans could be minimised further and report back.	Paul Lambert	

10	6.2	Provide an update on the review of Corporate Governance to the next meeting.	Paul Lambert	
11	6.3.2	Seek clarification on charitable status and VAT treatment with HMRC.	Paul Lambert	
12	6.4.4	Request paper on Emergency Response from Tim Hill and Robin Tucker for next meeting.	Emily Finnie	
13	6.7.4	Provide an update on information assurance in advance of the next meeting.	Dave Webster	
14	6.11	Submit 2009/10 internal audit plan to March meeting for endorsement.	Mike Doughty	
15	7.3	Update Strategic Risk Register in the light of the Committee's comments.	Paul Lambert	
16	7.4	Provide the opportunity to investigate some regional and national risk registers as part of the CPRS training session before the March meeting.	Paul Lambert	
17	8.4	Present interim Statement on Internal Control for discussion at the March meeting.	Paul Lambert	
18	10.1.2	Send Ian Scott the link to Board papers on the Natural England website.	Emily Finnie	
19	10.1.4	Advise the Committee on timetable for the production of final internal audit reports.	Mike Doughty	
20	10.1.9	Submit proposals on 2009/10 training days for consideration at March meeting.	Emily Finnie	
21	10.2	Discuss suggestions from the Committee's review of its effectiveness with Helen Phillips and Dave Webster.	Christopher Pennell	
22	10.3	Circulate suggested changes to Committee's Terms of Reference for comment and check delegations to Audit and Risk Committee from the Board are consistent in its TOR.	Christopher Pennell and Emily Finnie	