

# Natural England Audit and Risk Committee

Paper No: AC/20/M1

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

26 September 2011, 13.15 -15.55

**Present:** Tony Hams Chair  
Catherine Graham-Harrison  
David Hill  
Joe Horwood  
Ian Scott

**In attendance:** Helen Phillips Chief Executive  
Dave Webster Executive Director, Capability  
Paul Lambert Director of Finance  
Adrian Brook Partner, Moore Stephens  
Helen Morris Head of Internal Audit and Assurance, Defra  
Mike Doughty Head of Internal Audit  
Mark Jones Director, RSM Tenon for item 6  
Paul Egginton Director, Director Systems, Knowledge and Information for item 11

**Observer:** Emily Finnie Board and Executive Services (Secretariat)  
Nigel Reader Board member

**Apologies:** Claire Rollo and Jo Raby, National Audit Office

**Declarations of Interest:** Nigel Reader wished it to be recorded that he was a Board member of the Marine Management Organisation (MMO). A protocol had been agreed with Defra, MMO and Natural England to manage any potential sensitivities or conflicts of interest.

**Action: Board and Executive Services Team to circulate Nigel Reader's protocol to all Committee members.**

## Pre-meeting

The Committee held a short pre-meeting.

### 1 Welcome

- 1.1 The Chair welcomed everyone to the twentieth meeting of the Natural England Audit and Risk Committee, and in particular Nigel Reader, Helen Morris and Adrian Brook. Nigel Reader was attending as an observer prior to taking on the position of Chair on 1 October 2011.
- 1.2 The Chair reminded everyone that it was Ian Scott's last meeting. Tony Hams said he could not have done the job without Ian's guidance and wise words and he had enjoyed his gentle but influential contributions to the Committee's business. The Committee extended its thanks to Ian Scott.
- 1.3 The Committee also noted that subject to Board agreement on 28 September: this was Catherine Graham-Harrison and Joe Horwood's last meeting; on 1 October Andy Wilson would be joining the Committee; and, that Audit and Risk Committee membership would be reduced to three Board members.

## **2 Minutes of the Nineteenth Meeting of the Audit and Risk Committee held on 13 June 2011 (AC/19/M1)**

- 2.1 The Committee **confirmed** the minutes of the nineteenth meeting of the Audit and Risk Committee held on 13 June 2011.

## **3 Matters Arising (AC/20/A1)**

### **Action Points from the Last Meeting**

- 3.1 The Committee noted that the matters arising from the last meeting had been completed or were covered by agenda items with the exception of the following updates from Dave Webster.
- 3.2 On Shared Services the Committee noted the implications of the Shared Services strategy for Defra and Natural England:
- 3.2.1 while there was no detailed plan yet, it was anticipated that savings would be delivered in the spending review period;
- 3.2.2 in 18 months time Oracle 11 would no longer be supported, but an option could be to try to extend the support to Oracle 11 if the go ahead of an upgrade was not given. This issue could force a decision by Cabinet Office;
- 3.2.3 the NAO review of Shared Services would report advice around the strategy and a case study on Defra to Government in February 2012;
- 3.3 On the protocol for Defra to share Audit and Risk Committee minutes and papers, the Committee noted that this had been delayed with a new Defra Audit and Risk Committee Chair and Secretary, although it was noted that MMO had been included in the recent circulation of Defra ARC minutes.

### **Action: Board and Executive Services to follow up circulation of Defra ARC minutes with Defra ARC Secretary.**

- 3.4 The meeting with Defra non-executive board members had been arranged for 2 December 2011, and Poul Christensen, David Hill and Nigel Reader would attend.

## **4 Update from Defra Head of Internal Audit (AC/20/P1)**

- 4.1 Helen Morris, Defra Head of Internal Audit and Assurance tabled an update on actions from the last meeting. The Committee:
- 4.1.1 noted the fraud at SSD was in the public domain. The press had reported nine people had been charged but it was noted none were reported as employed by Defra;
- 4.1.2 noted, with the completion of the 2010/11 accounts, that the JNCC actions were now closed;
- 4.1.3 noted Defra's HIA had secured agreement for circulation of final IT and Estates internal audit reports on those areas relevant to Natural England and other network members;
- 4.1.4 noted Nigel Reader would attend the next Defra ARC Chair's meeting on 1 December 2011;

- 4.1.5 noted Finance Directors were meeting on 4 October for discussions on the new Governance Statement and that Paul Lambert would be attending;
- 4.1.6 noted Mike Doughty would be attending the Heads of Internal Audit meeting on 18 October to discuss the network response to introduction of the Governance Statement. The Permanent Secretary and Defra ARC Chair would be looking for a Defra network view on assurance in the Governance Statement. There was also a proposal to agree a model for common assurance levels across the network;
- 4.1.7 noted the Defra Supervisory Board had agreed an action plan to address any changes required by the revised Corporate Governance Code for Central Government Departments;
- 4.1.8 noted that the designation of Marine Conservation Zones had been flagged to the Defra Supervisory Board as a strategic risk that had increased;
- 4.1.9 noted the transfer of responsibilities from Regional Development Agencies (RDAs) to Defra had been completed and Defra Internal Audit would finalise a Service Level Agreement with Rural Payments Agency Internal Audit to undertake audit work jointly for RDPE work transferring from RDAs.
- 4.2 The Chair thanked Helen Morris for her helpful report.

## **5 External Audit: Update since the June meeting**

- 5.1 Adrian Brook reported that last year's annual accounts process had been completed with no Management Letter actions and a lessons learned exercise. Work had begun on the audit of the 2011/12 annual accounts and the strategy would be presented to the December ARC meeting.

**Action: Adrian Brook to present strategy for audit of 2011/12 annual accounts to the December ARC meeting.**

- 5.2 In Claire Rollo's absence, Paul Lambert presented her report on the NAO Shared Services study. The Committee noted that Dave Webster and Paul Lambert had been interviewed as part of NAO's cross government review of shared services. The study was looking at the provision of shared services in central government departments, and Defra SSD had been selected to be part of the study. NAO was assessing the benefits that had been achieved from shared services to date and how they were performing. The study would also assess the Cabinet Office strategy and examine Defra's SSD. (ref update in 3.2.3)

## **6 Internal Audit Report (AC/20/P2)**

- 6.1 Mike Doughty introduced his Internal Audit report. The Committee reviewed and noted the assurance levels and noted management action plans for the recently completed internal audit review on Risk Management for Bat Volunteers, and that reports on Health and Safety Compliance and Wildlife Licensing would be circulated later that week. The bat volunteers report had prompted questions from some members and this was to be encouraged. It was noted that all questions had been answered by Dave Webster and Mike Doughty, but in future it was agreed that a reminder of issues raised between meetings would be included in the internal audit report.

**Action: Mike Doughty to include an update on any issues raised by members on final internal audit reports in his next internal audit report.**

- 6.2 The Committee reviewed and noted the status of work against the current internal audit plan for 2011/12 and in discussion:
- 6.2.1 noted that there had been delays in agreeing the terms of reference for Information Management and the Strategic Approach to NNR reviews to take into account the latest position in these areas of work, but that all other reviews were progressing to timetable.
  - 6.2.2 sought clarification on what would be included in the farm advice review and noted that it would focus on the effective management of contracts awarded for farm advice and training;
  - 6.2.3 noted Helen Phillips' update on the outsourcing of farm advice and Natural England's intention in discussion with Ministers to get traction on the programme to influence the delivery mechanisms to ensure they were joined up and customer focussed.
- 6.3 The Committee reviewed and noted Internal Audit was on target for the use of internal and external resources in delivering the current year Internal Audit plan.
- 6.4 The Committee noted that an External Quality Assessment of Natural England's Internal Audit provision had been requested, but could be delayed by resource constraints in Treasury and other government departments whose HIA provided this service. The Committee noted that internal audit standards required such reviews every five years and that a review was due for Natural England.
- 6.5 Mike Doughty set the scene for RSM Tenon's presentation. From 1 April 2012, Natural England intended to use the Defra framework contract for the provision of externally provided internal audit services. The arrangement should provide added value in providing common assurances because RSM Tenon were undertaking work across the Defra network.
- 6.6 Chair welcomed Mark Jones who gave a presentation covering: RSM Tenon; the Defra contract; the approach to supporting Natural England including providing value for money; and, development of the contract. The Committee noted:
- 6.6.1 RSM Tenon was a national practice ranking seventh in the league tables providing a fully outsourced or co-sourced (as for Natural England) internal audit service to over 500 public sector clients. Key to its internal audit delivery was management on a national basis but with local delivery;
  - 6.6.2 initial discussions had taken place with Mike Doughty over the deployment of a team to Natural England from 1 April 2012 and an input into the 2012/13 internal audit plan;
  - 6.6.3 development of work with Defra to introduce a common approach to assurance for the Governance Statement, and cross cutting audits of relevance across the Defra family with associated efficiency and assurance gains.
- 6.7 In discussion the Committee:
- 6.7.1 sought reassurance about the experience and qualifications of the team who would be working for Natural England and noted that everyone would be career internal auditors with relevant qualifications, or going through the process of qualification.
  - 6.7.2 noted the transition arrangements would allow PWC to complete the 2011/12 internal audit programme and that RSM Tenon had previous experience of managing transition arrangements.

- 6.7.3 for the record clarified the governance arrangements, (because it was important that they were understood by everyone), entailed RSM Tenon providing a service to Mike Doughty as Natural England HIA who had reporting lines to the Natural England Accounting Officer and Audit and Risk Committee. Reporting of any control issues to Defra would be via the Accounting Officer or Chair of the ARC as currently. However, Defra would benefit from having one organisation working to provide assurance across the network;
- 6.7.4 were reassured to note that RSM Tenon had the resources to meet internal audit needs across the Defra network at the times required to deliver each organisation's internal audit programme;
- 6.7.5 advised that the Defra framework contract in achieving efficiencies needed to manage the risk of sharing information and intelligence about different members of the Defra family and acknowledging the differences between them, and was reassured that a key part of RSM Tenon's service was tailoring internal audit needs to individual organisations;
- 6.7.6 explored the setting of common standards and noted that while audits could not be standardised, there could be standards for methodology and approach that would help Defra ARC in assessing the quality of internal audit work across the network and in monitoring the assurance levels it received;
- 6.7.7 supported the working proposition that adopting a standard approach would provide a framework within which individual assurance could take place;
- 6.7.8 noted there were no plans to extend the framework contract further across the network. Rural Payments Agency's internal audit delivery work is done in house and MMO's by Defra;
- 6.7.9 noted the specialist support offered by RSM Tenon and the decision process with Mike Doughty to agree when it would be appropriate to a particular audit;
- 6.7.10 welcomed the intention for final reports to include recommendations on examples of best practice and benchmarking information that would be of value to management.
- 6.8 Chair thanked Mark Jones for coming. The Committee looked forward to receiving reports from RSM Tenon.

## **7 Management Action Plan (AC/20/P3)**

- 7.1 Dave Webster introduced the Management Action Plan Status report. The Committee noted the assurance provided by the delivery of management action plans and in discussion:
  - 7.1.1 noted that future reports would include the status of agreed actions from the candidate Special Areas for Conservation (cSAC) review of Natural England's evidence bases and processes;
  - 7.1.2 noted that a letter from Defra was expected in response to a request to clarify Helen Phillips' role as Accounting Officer in relation to the cSAC review's findings. The letter would acknowledge that the review examined a process that had taken over 10 years to complete with the early part of the project up to 2006 undertaken while English Nature was the Government's statutory nature conservation adviser with Natural England assuming this role from October 2006.;
  - 7.1.3 noted that there were no outstanding critical actions;

- 7.1.4 welcomed an additional level of reporting providing a comparison of performance in dealing with outstanding agreed actions from Internal Audit reviews by team was included in Annex A;
- 7.1.5 agreed that there was a need to review old management actions to sign off those that had been overtaken by events or where the risk had been accepted. Formal sign off was necessary and this would be requested in a paper to the October Executive Board meeting with a report to the December ARC meeting.

**Action: Dave Webster to take a paper on clearance of old management actions to the October Executive Board and report to December ARC.**

- 7.2 In conclusion the Committee welcomed the thorough report and the discipline of reviewing management action plans in the tracking and reporting process.

## **8. Risk Management (AC/20/P4)**

- 8.1 The Chair reminded members that the Board had ultimate responsibility for the Strategic Risk Register. Paul Lambert introduced the current Strategic Risk Register (SRR) and the opportunity this agenda item provided for members to discuss the breadth of risks to be managed. No new risks had been identified since June 2011 but there had been some changes made to risk ratings following review by the Governance Group. New teams were being encouraged to adopt best practice for risk management and support was being provided through the half-year Internal Control Questionnaire process.
- 8.2 In discussion the Committee:
  - 8.2.1 recognised that the residual target for CAP reform was still red after action had been taken because of timeframes and Natural England's limited degree of influence;
  - 8.2.2 noted Defra HIA's observation that for customer service delivery and benefits realisation there could be challenge over whether it was cost effective to do the actions if they did not change the level of risk;
  - 8.2.3 considered that benefits realisation was described as a list of actions rather than a risk, and the risk was that the actions were not implemented;
  - 8.2.4 recognised that Natural England was taking more risks than in the past but this was not reflected in the risk appetite that was low for all strategic risks which could be misleading. A low risk appetite did not feel right. For example, delivery of the marine programme involved risk taking. The message to convey was that more was being done with less resources and what everyone was being asked to do involved higher risks;
  - 8.2.5 advised that the Strategic Risk Register needed to capture the perception of Natural England in the outside and how that would be managed;
  - 8.2.6 noted the Chief Executive's recognition of the points made about risk appetite. The Board's strategy to mitigate the effects of the reduction in resources available to Natural England had been to focus on a smaller number of issues with a consequential reduction in risk appetite.
  - 8.2.7 noted the Chief Executive's advice that the SRR should be used to manage risks and not as a means of wider communication;

- 8.2.8 advised that with uncertainty over the shared services strategy, the shared services risk was greater than recorded in the SRR;
- 8.2.9 noted that Defra HIA reported the generic issues in Natural England's SRR mirrored JNCC's on Marine Conservation Zones, but that across the Defra network it was difficult to draw comparisons between SRRs because of different approaches.
- 8.2.10 advised that it would be useful to describe a risk management standard;
- 8.3 The Chair thanked everyone for a useful and important discussion that he would report to the Board in his ARC update report on 28 September 2011.

**Action: Chair to include report on risk discussion in his ARC update to the September Board.**

## **9 Corporate Governance (AC/20/P5)**

- 9.1 Paul Lambert introduced the paper that provided an update on current developments in corporate governance and Natural England's compliance.
- 9.2 The Committee noted the revised version of Managing Public Money had been reviewed and that Natural England maintained a satisfactory level of compliance. However, three areas of additional review were necessary to take account of updated sections on Accounting Officer responsibilities and on the Governance Statement, and also the Triennial reviews for all Arms Length Bodies.
- 9.3 In reviewing the new requirements the Committee:
- 9.3.1 explored what might be required in the Board performance feature in the Governance Statement as the rationale for its inclusion was not obvious. While there was a well established process for Board members' self assessment this was for internal use and not for communication to the outside world. An external focus might be to report on how the Board discharged its responsibilities with regard to the organisation meeting its objectives. It was agreed that Boards should be monitored with attention to the degree to which they concentrated on strategy and carried out their monitoring and scrutiny roles.
- 9.3.2 expressed concern about the amount of work involved, not all in Natural England's control eg SSD, to follow the end to end process to produce the Governance Statement. The burden to the business of any undue compliance costs should be kept under review.
- 9.3.3 noted that there was no formally announced timetable for the Triennial Review of Natural England and that Defra was working with Cabinet Office on the scoping of the review.
- 9.3.4 explored the implications of the updated guidance on Accounting Officer responsibilities and welcomed the refreshing inclusion of ethos, behaviours and culture in a positive view of governance that was not limited to financial matters.
- 9.4 The Committee noted the update on the Bribery Act 2010 that introduced two new corporate offences: bribery of a foreigner and a new corporate liability. While the risk of the former was low, the risk of the latter was higher. It was noted that internal processes such as whistle blowing would need to be updated.

**Action: Paul Lambert to ensure that internal processes are updated as necessary to take account of the Bribery Act.**

- 9.5 The Committee noted that Defra had informed Natural England that it wished to update our Management Statement and Financial Memorandum by 31 March 2012. The Committee noted that formal sign off would be needed at December ARC and February Board.

**Action: Paul Lambert to bring the updated Management Statement and Financial Memorandum to the December meeting.**

## **10 Losses, Special Payments and Gifts Report for 2010/11 (AC/20/P6)**

- 10.1 Dave Webster introduced the losses, special payments and gifts report for 2010/11. The Committee noted the report and welcomed the improvements with a reduced number of incidents when compared with 2009/10. The Committee:
- 10.1.1 noted that the largest value for fruitless payments was for the purchase and subsequent non-use of Redfern rail tickets but that the value for money of the arrangement overall more than compensated for the £10 loss incurred in the admin fees for reimbursement of tickets that were not used;
- 10.1.2 noted that there were no information security issues arising from the loss of laptops.

## **11 Rural Payments Agency Report for 2010/11 (AC/20/P7)**

- 11.1 Paul Egginton introduced the paper that as requested by the Rural Payments Agency (RPA) ARC, brought an issue raised by RPA's HIA in his annual opinion to the Committee's attention. The Committee thanked Paul Egginton for his information paper and noted the internal audit finding related to an issue with accuracy and discipline that had occurred in a small number of cases in 2007 that with the implementation of actions in the lessons learned report had not recurred since.
- 11.2 The Committee noted that the request for the issue to be brought to its attention had come via Mike Doughty as HIA rather than to Tony Hams as Chair. It was agreed that Helen Phillips, in replying to RPA that the matter had been brought to the attention of the ARC, should also embrace the opportunity provided to suggest the introduction of a process for a two way exchange of ARC issues, internal audit findings and areas of significant concern.

**Action: Helen Phillips in replying to RPA that the matter had been brought to the attention of the ARC, to also suggest the introduction of a process for a two way exchange of ARC issues, internal audit findings and areas of significant concern.**

## **12 Cases of Reported Fraud**

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

## **13 Audit and Risk Committee's Annual Report to the Board (AC/20/P8)**

- 13.1 The Committee agreed formally its fifth annual report that would be presented to the Board on 28 September.

## **14 Audit and Risk Committee: Review of meeting, Membership and Terms of Reference, Forward Look and Dates of Meetings in 2012 (AC/20/P90)**

- 14.1 In its review of 'How did we do', the Committee concluded that it had been a good meeting with good papers and support from officers.
- 14.2 The Committee noted that it had a training session on emergency response and business continuity the following morning.
- 14.3 The Committee noted the programme of business for future meetings and that it would conduct its effectiveness review at the December meeting. Nigel Reader would be reviewing the methodology to be used with Dave Webster and Paul Lambert.
- Action: Dave Webster and Paul Lambert to review the methodology for the ARC effectiveness review with Nigel Reader.**
- 14.4 The Committee agreed the dates of meetings in 2012 as follows: 14 March, 13 June, 24 September, and 12 December.
- 14.5 The Chair brought the meeting to a close by thanking all officers around the table for the support provided to the Committee and its members. It had made his job as Chair over the past year very easy and he thanked Board members and officers for all their help over that time. He wished Nigel Reader well in taking over as Chair. The Committee recorded its thanks to Tony Hams.

## 15 Any other Business

- 15.1 There was none.

### Action Points

#### Twentieth Meeting of the Natural England Audit and Risk Committee –26 September 2011

No	Min ref	Action	Responsibility
1		Circulate Nigel Reader's protocol to all Committee members.	Board and Executive Services
2	3.3	Follow up circulation of the Defra ARC minutes with the Defra ARC Secretary.	Board and Executive Services
3	5.1	Present 2011/12 audit strategy to the December ARC meeting	Adrian Brook/ NAO
4	6.1	Include a reminder on the issues raised by members on final internal audit reports in the next internal audit report.	Mike Doughty
5	7.1.5	Take a paper on clearance of old management actions to October Executive Board and report to December ARC.	Dave Webster
6	8.3	Include report on risk discussions in ARC update to the September Board.	Chair
7	9.4	Update internal processes as necessary to take account of the Bribery Act.	Paul Lambert
8	9.5	Bring the updated Management Statement and Financial Memorandum to the December meeting.	Paul Lambert
9	11.2	In replying to RPA that the matter raised had been brought to the attention of the ARC, also suggest the introduction of a process for a two way exchange of ARC issues, internal audit findings and areas of significant concern.	Helen Phillips
10	14.3	Review methodology for ARC effectiveness review with Nigel Reader.	Dave Webster and Paul Lambert