

Natural England Audit Committee

NEB P07 25 Annex 2

Paper No: AC/4/M1

Title: Unconfirmed Minutes of the Fourth Natural England Audit Committee Meeting

10 September 2007, 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
Helen Dixon Director, National Audit Office
Mike Doughty Head of Internal Audit
Paul Lambert Director of Finance
Tony Dover Senior Specialist Risk
Emily Finnie Internal Audit Team Leader (Secretariat)

By invitation: Neil Serjeant Chief Executive, Defra Shared Services Directorate(Items1-3)

Apologies: Steve Allen, National Audit Office

Welcome

The Chair of the Audit Committee welcomed everyone to the fourth meeting of the Natural England Audit Committee.

On behalf of the Committee, the Chair welcomed Neil Serjeant, Chief Executive of Defra's Shared Services Directorate (SSD).

The following interests were declared: Christopher Pennell was a member of the English Nature Council until Vesting and Poul Christensen is on the Defra Management Board.

All members had attended useful briefings on Genesis from Paul Lambert, and on the Transition Programme from Jim Smyllie before the meeting.

1 Minutes of the Third Meeting of the Audit Committee held on 18 June 2007 (AC/3/M1)

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

2 Matters Arising (AC/4/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 David Hill, as a member of the JNCC Audit Committee, agreed to promote development of a joint risk register with JNCC. **(Action: David Hill)** Mike Doughty reported that he would be attending the next JNCC Audit Committee meeting and would report back. **(Action: Mike Doughty)**
- 2.3 The NAO reported that it had been agreed that pre-vesting body remuneration could be presented at the end of the Annual Accounts.
- 2.4 The Committee noted that assurance had been requested from Defra's Head of Internal Audit on SSD's services. Natural England's 2006/07 Statement on Internal Control had been shared with SSD and Defra's Head of Internal Audit.

3 Performance Presentation Defra Shared Services Directorate(AC/4/P1)

- 3.1 The Chair thanked Neil Serjeant for accepting the invitation to give a presentation. The Committee was looking for reassurance following reports on SSD internal control issues from Finance, Procurement and Internal Audit, and National Audit Office's advice that this was a risk area in relation to its audit of the annual accounts. Concerns had been compounded by the optimistic SSD response to the internal controls questionnaire. The Committee would be failing in its duty if it did not investigate how far it felt SSD was capable of significantly improving its service to Natural England which was a significant customer in its own right and independent of Defra.
- 3.2 Neil Serjeant gave a presentation in which he:
 - 3.2.1 acknowledged the Committee's concerns about shortcomings in the service provided for which he offered his apologies, but emphasised SSD's commitment to working in a spirit of constructive engagement with Natural England. Momentum had built up over recent months and improvements could be seen.
 - 3.2.2 outlined the establishment of SSD in April 2007 and plans to overcome the restraints under which it operated in being part of core Defra. While the organisation was now fit for purpose there remained resourcing issues.
 - 3.2.3 emphasised the mission statement's customer focus, but recognised the cultural changes that were needed to embed this in SSD.
 - 3.2.4 elaborated on the experience of the executive team and explained that Alex Kerr had been assigned as lead Director for Natural England.
 - 3.2.5 set out SSD's priorities to: stabilise operational delivery, establish good customer:supplier relationships, establish SLAs and deliver them, implement agreed governance structure, improve management information and recalibrate its business case for expansion.
 - 3.2.6 reported the Service Level Agreement had been signed and the Service Recovery Plan and Service Improvement Plan were well advanced. Project plans would be developed and there would be a focus on Key Performance Indicators.

- 3.3 In response to questions the Committee noted :
- 3.3.1 SSD had identified SSD middle managers were a contributory factor to customer focus issues. A learning and development programme had been designed to address this.
 - 3.3.2 reconciliations were now completed on time on a monthly basis, and the Service Recovery Plan included plans for the master file and enquiry centre problems. SSD was committing resources to address service shortcomings and Natural England was monitoring progress at monthly meetings with Alex Kerr.
 - 3.3.3 there was significant Oracle downtime in April. In the event of Oracle going down again lessons had been learned and SSD would be better equipped to deal with the problem and communicate to customers.
 - 3.3.4 the implication of Natural England withdrawing from SSD would be a reduction of 25-30% in the volume of its business, and this would have implications for future investment.
- 3.4 In discussion the Committee:
- 3.4.1 queried the Service Level Agreement process because in its view even after implementation of the Service Recovery Plan , Natural England would still not be receiving the custom made service it needed from SSD. There needed to be a balance between sorting out existing problems and investment to meet future requirements in the Service Improvement Plan and SSD needed to demonstrate it had the resources to commit to both.
 - 3.4.2 while accepting the mission statement, questioned whether this could be achieved while SSD was part of core Defra, and whether it could receive comfort from SSD's plans to recalibrate its business case and seek Executive Agency status.
 - 3.4.3 noted that SSD acknowledged Natural England was entitled to its own needs and that while Defra's Permanent Secretary supported SSD's aspirations to be a customer provider there were problems with implementing this aspiration.
 - 3.4.4 stressed the importance of Natural England's intention not to stand still and its requirement for a supplier to provide continuing developments in the service provided so that Natural England could achieve intended efficiencies.
 - 3.4.5 noted the Accounting Officer's commitment to a shared service approach, but supported her qualification that this needed to demonstrate efficiency and value for money if Natural England's reputation was not to be jeopardised.
 - 3.4.6 sympathised with Neil's Serjeant's frustration over delays in decision making compared with his experience in the private sector and asked whether Natural's England's support in pushing for decisions to be made more quickly would be of assistance.
 - 3.4.7 identified the most important thread in the discussions was SSD improving its level of performance to an acceptable level within its resource constraints so as to provide the necessary comfort to Natural England. This would be measured through monitoring the Service Recovery and Improvement Plans, but the Committee advised that timing was crucial with substantial action needed in the next 3-6 months to avoid implications for the audit of the 2007/08 accounts.

- 3.5 The Chair thanked Neil Serjeant. He had outlined a serious situation that the Committee would wish to monitor carefully, reflect upon and decide how best to advise the Accounting Officer and Board.
- 3.6 After Mr Serjeant's departure, the Committee concluded it was not reassured by Neil Serjeant's presentation and that there remained large reputational and other risks to Natural England in SSD maintaining and seeking to improve the services provided. The Committee advised that it would wish to see a plan for improvement to an acceptable level of performance to meet Natural England's responsibilities as an NDPB, and that a cut off line should be identified. As a Committee it asked to see a monitoring report as a standard agenda item at all future meetings.
- 3.7 The Committee's advice that countermeasures should be drawn up for this major risk was welcomed by the Accounting Officer. It was agreed that Dave Webster would prepare a paper for the next meeting including the improvement plan and matrixes and setting out the alternatives for service provision. **(Action Dave Webster)**

4 External Audit

5 Annual Report and Accounts and the NAO Draft Management Letter for 2006/07 (AC/4/P3)

- 5.1 The Chair explained that he intended to take items 4.1 and 5.1 together in the absence of a lessons learned paper(AC/4/P2), discussion on which would be deferred to the next meeting. He wished to focus discussion on the prospects of laying the accounts before Parliament at the first opportunity after the summer recess on 8 October which would be the day before the Board next assembled together.
- 5.2 Dave Webster suggested the Committee concentrate discussion on the management letter as the priority was to complete the audit and produce an unqualified set of accounts.
- 5.3 Helen Dixon introduced the overview of results in the draft management letter and the Committee noted two main areas of uncertainty needed to be resolved before the accounts could be finalised:
- 5.3.1 a difference on reserves of £360k remained which arose because the figure for financing received needed to make the accounts balance did not agree with the NAO calculated balance of that funding.
- 5.3.2 some uncertainties over the RDS figures at Vesting included in the accounts.
- 5.4 In discussion the Committee:
- 5.4.1 queried why when Natural England had inherited closing accounts with a clean bill of health from the Founding bodies at Vesting, as reported by the NAO to previous Audit Committee meetings, issues had subsequently emerged, and noted that this was because NAO had not tested the transfer to Natural England until its recent audit work.
- 5.4.2 expressed concern that it had not been notified at its last meeting about issues that subsequently delayed completion of the annual accounts, while recognising the hard work of Natural England and NAO teams.

- 5.4.3 noted the NAO's acceptance of the concerns expressed and recognition that they could have been more explicit about the risks associated with the changes in accounting policy and RDS figures, and lack of opportunity for a 9 month review of the accounts, and effective communication to Natural England.
- 5.4.4 requested reassurance about the timetable to finalise the accounts by the October deadline and noted that this depended on the outcome of the meeting with Defra on 12 September that could have knock on effects on other areas of the accounts.
- 5.4.5 noted Helen Dixon's need to seek technical advice on the materiality of the £360k if this was unchanged and that she would be able to take a view once she had this information and the outcome of the meeting on the RDS figures at Vesting.
- 5.4.6 queried the implications of NAO and Natural England not finalising the outstanding issues and noted that there would have to be a cut off point for investigations. The NAO would then have to consider its audit opinion.
- 5.4.7 advised the RDS figures would be an issue for the Defra accounts and that at least a note in their accounts would be expected if one appeared on Natural England's on this matter and Dave Webster agreed to discuss this, together with securing the necessary staff time in Defra to avoid a qualification, with the Defra Director of Finance. **(Action: Dave Webster)**
- 5.5 The Accounting Officer asked about the governance framework for NAO and its dispute resolution mechanism and Helen Dixon agreed to provide this information outside the meeting. **(Action: Helen Dixon)**
- 5.6 The Committee noted the current position with the annual accounts for 2006/07 and asked to be advised about the outcome of the meeting on 12 September. It was agreed that the weekly Board update would be used to keep Members informed and that the lessons learned paper would be taken at the November meeting. **(Action: Dave Webster)**
- 5.7 Returning to the Management Letter, the Committee noted:
- 5.7.1 the modest number of issues raised by NAO who had recognised that controls were still in development and would look at them in more detail next year.
- 5.7.2 the summary of unadjusted misstatements in Annex A amounted to £509,255, but recognised that £678k related to the Genesis recharge error from Defra.
- 5.7.3 NAO would issue a final Management Letter once the accounts were finalised, but that NAO did not anticipate that it would be very different from the current draft other than in areas in respect of the audit work carried out after the meeting, **(Action: NAO)**
- 6 Internal Audit Report (AC/4/P4)**
- 6.1 Mike Doughty introduced his report that provided the Committee with an update on the conclusion of the internal audit activity for 2006/07 and an update on progress with delivering Internal Audit services for 2007/08.

- 6.2 The Committee reviewed and noted the completion of internal audit work for 2006/07 that had informed the Head of Internal Audit's opinion to the Accounting Officer and in discussion:
- 6.2.1 noted this was the first time that it had formally received final reports and agreed that in future these should be circulated to Members as they were finalised but they would also be taken formally at the next Audit Committee meeting.
- 6.2.2 noted resource issues had been resolved in relation to Health and Safety and that the adequacy of the Health and Safety framework was now being tracked and would be brought to the next meeting. **(Action: Dave Webster)**
- 6.3 The Committee reviewed and noted progress in agreeing the scope of work within 2007/08 and in discussion:
- 6.3.1 received reassurance that while half the TOR for the reviews had still to be drawn up and then agreed at the October Executive Board meeting, PricewaterhouseCoopers had confirmed it had the resources available to do this work on time.
- 6.3.2 while understanding the reasons for the 2006/07 Regional reports not being deeply probing advised that the terms of reference for the regional reviews in 2007/08 should be drawn up in the context of the interconnections between regional and national work and should draw on the lessons learned from the recent planning and reporting exercise.
- 6.4 The Committee reviewed and noted the Management Plan status report noting that there was no outstanding action that the Head of Internal Audit wished to bring to the Committee's attention.
- 6.5 The Committee noted the update on resources and welcomed the appointment of an internal auditor, Peter Sleigh as a permanent member of staff. The Chair and Ian Scott confirmed their willingness to participate in the award of the external contract for 2008/09 and beyond and looked forward to receiving a timetable for the tendering and selection exercise. **(Action: Emily Finnie)**

7 Risk Management (AC/4/P5)

- 7.1 Dave Webster introduced the latest Natural England strategic risk register and the standard of risk management within Natural England using the Treasury's Risk Management Assessment Framework.
- 7.2 The Committee welcomed the output from the Risk Management Assessment Framework appraisal and in discussion:
- 7.2.1 considered the scoring to be objective and honest and was confident that the organisation was on track to meet level three.
- 7.2.2 welcomed further actions identified under each heading and requested further information on risk handling from officer's reflections on risk registers after the exercise to collect all extant risk registers. **(Action: Tony Dover)**
- 7.2.3 advised on the value of sub-risk registers in embedding risk management as long as there were not too many.
- 7.3 In reviewing the Strategic Risk Register the Committee;

- 7.3.1 queried the low risk appetite for risk 2 (failure to deliver environmental stewardship scheme management to time and standard) when its probability and impact were high, but recognised that there could be a high probability and impact with a low risk appetite even with appropriate management actions in place.
- 7.3.2 noted that in risk 7 (failure to retain key staff) the risk was in retaining and not in recruiting the right staff, but with time this risk would reduce.
- 7.3.3 noted the risk assessment in the risk register had not changed since its last review bar the risk in relation to SSD increasing from medium to high, where it could give the impression that the risks were not being managed down, but the reassurance was provided by the countermeasures taken to date.
- 7.3.4 noted the risks were described widely, each with many actions, to keep the risk register to one page.
- 7.3.5 advised consideration should be given to including the organisation's strategy for growth and generating new opportunities and noted that a Board view would be taken in the context of the Strategic Direction refresh and available funding.
- 7.4 In conclusion the Committee commended officers on the way risk management was being embedded in the organisation and the Chair invited Members to send in any further detailed comments on the Strategic Risk Register. (**Action Committee Members**)

8 The Audit Committee's First Annual Report to the Board (AC/4/P6)

- 8.1 The Chair introduced his draft first annual report to the Board. The Committee noted that the standard programme of Audit Committee business included consideration of the Committee's annual report to the Board at its June meeting, but for this year only, the Committee would give its first annual report to the Board in October, a year after Vesting.
- 8.2 The Committee agreed its first annual report to the Board subject to building in the outcomes of this September meeting and in particular: Shared Services, the annual accounts and the Treasury Risk Management model. The Committee agreed that the Chair and Emily Finnie should update the report for circulation to the Board. (**Action: Christopher Pennell and Emily Finnie**)

9 Cases of Fraud or Presumptive Fraud

- 9.1 Dave Webster had no cases of fraud or presumptive fraud to report. Dave Webster would report back on the November anti-fraud workshop at the next meeting. (**Action: Dave Webster**)

10 Audit Committee Review of Meeting, Forward Look and Dates for Meetings in 2008/09 (AC/4/P7)

- 10.1 The Chair thanked everyone, particularly Helen Dixon, for their contributions to the meeting that had had difficult issues to address. The Committee reviewed the meeting and concluded that the agenda, relevant and informative papers, attendees and timing had all been right to allow proper consideration of critical issues.

10.2 The Committee noted the standard programme of business for the next meeting on 26 November that would also include the additional items identified at this meeting and the external audit strategy for the 2007/08 accounts. (**Action:Emily Finnie**)

10.3 The Committee agreed the dates of meetings for 2008/09 as follows:

Wednesday 18 June 2008
Wednesday 10 September 2008
Wednesday 3 December 2008
Wednesday 18 March 2009.

All meetings would be held in Sheffield starting at 13.30.

11 Any other Business

11.1 The Chair reported that Audit Committee members still awaited resolution of their hours and remuneration. Dave Webster reported that it was resolved bar final Ministerial approval that should be received in early October. The Board and Audit Committee members looked forward to an update from Dave Webster. (**Dave Webster**)

Action Points

Fourth Meeting of the Natural England Audit Committee – 10 September 2007

No	Min ref	Action	Responsibility	Action taken
1	2.2	Promote development of a joint risk register with JNCC	David Hill	
2	2.2	Report back on the September JNCC Audit Committee meeting.	Mike Doughty	
3	3.7	Present a paper to the next meeting including the SSD improvement plan and matrixes, and setting out the alternatives for service providers.	Dave Webster	
4	5.4.7	Discuss inclusion of note on RDS figures in Defra's annual accounts with Defra's Director Finance	Dave Webster	
5	5.5	Provide information on NAO governance and dispute resolution	Helen Dixon	
6	5.6	Provide information on the annual accounts in the weekly Board update and bring lessons learned paper to November Committee meeting	Dave Webster	
7	5.7.3	Issue final Management Letter once accounts are finalised	Helen Dixon	
8	6.2.2	Bring a paper on the Health and Safety framework to the next meeting	Dave Webster	
9	6.5	Provide a timetable for the tendering and selection exercise for the award of the external contract.	Emily Finnie	
10	7.2.2	Provide reflections on the organisations risk registers after the exercise to collect all extant risk registers.	Tony Dover	
11	7.4	Members to send in any further detailed comments on the Strategic Risk Register.	Committee Members	
12	8.2	Finalise the Committee's annual report for circulation to the Board	Christopher Pennell and Emily Finnie	
13	9.1	Report back on the November anti-fraud workshop.	Dave Webster	
14	10.2	Draw up an agenda for the next meeting on 26 November.	Emily Finnie	
15	11.1	Provide an update on resolution of Audit Committee hours and remuneration.	Dave Webster	