

# Natural England Board



**Meeting:** 13

**Date:** 5 November 2008

**Paper No:** NEB PU13 07

**Title:** Audit and Risk Committee:  
Report on Meeting held on 10 September 2008

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

## **1. Purpose**

- 1.1. The purpose of this paper is to report on the Audit and Risk Committee's September meeting.

## **2. Recommendations**

- 2.1. It is recommended that the Board notes the unconfirmed minutes of the Audit and Risk Committee on 10 September 2008 as set out at Annex 1.

## **3. Issues Arising from the Committee's September meeting**

- 3.1. The Chair of the Committee gave an oral report to the September Board meeting but the unconfirmed minutes were not available for circulation.
- 3.2. The unconfirmed minutes of the Committee's 10 September 2008 meeting can be viewed at Annex 1.

## Natural England Audit and Risk Committee

Paper No: AC/8/M1

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

10 September 2008, 13.30-16.00

<b>Present:</b>	Christopher Pennell	Chair
	Poul Christensen	
	David Hill	
	Ian Scott	
<b>In attendance:</b>	Helen Phillips	Chief Executive
	Dave Webster	Executive Director Corporate Services
	Margaret McGhee	Director, National Audit Office
	Mike Lonsdale	National Audit Office
	Mike Doughty	Head of Internal Audit
	Paul Lambert	Director of Finance
	John Williams	Head of Procurement (Items 1-7)
	Paul Egginton	Director, Business Systems Improvement (Item 7)
	John Henstock	Head of Occupational Health and Safety (Item 8)
	Emily Finnie	Internal Audit Team Leader (Secretariat)
<b>Apologies:</b>	Pam Warhurst and Jo Raby.	

### Welcome

The Chair welcomed everyone to the eighth meeting of the Natural England Audit and Risk Committee. In particular, he welcomed Mike Lonsdale from NAO attending in Jo Raby's absence, and John Williams, Paul Egginton and John Henstock who were attending for their agenda items.

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

### 1 Minutes of the Seventh Meeting of the Audit and Risk Committee held on 18 and 30 June 2008 (AC/7/M1)

1.1 The Committee **confirmed** the minutes of the seventh meeting of the Audit and Risk Committee held on 18 and 30 June 2008.

### 2 Matters Arising (AC/7/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 Chair thanked the Finance Team and the National Audit Office for producing and clearing the annual report and accounts on time to lay before Parliament before the summer recess.
- 2.3 The Chair reported that the Defra Statement on Internal Control had not been shared with Natural England before completion of the annual report and accounts and noted that Helen Ghosh had accepted that there would always be timing difficulties associated with this.

### **National Audit Office Value for Money Study of SSSIs**

- 2.4 Helen Phillips gave an update on this review. The Committee:
  - 2.4.1 noted the second draft report had been received from NAO the previous evening and that officers had an initial view there were no improvements on the first draft, lack of context on improvements made in delivery and inaccuracies and un-evidenced recommendations. There was a considerable amount of work to be done by NAO before the report could be signed off by the Accounting Officer.
  - 2.4.2 recognised that the draft report was between officers and NAO at this stage, but emphasised that the final report was crucial to Natural England as the percentage of SSSIs in favourable or recovering states was a measure of performance for Natural England and many partners and should reflect that the SSSI target was one of the few PSA targets that was on track.
  - 2.4.3 advised that there was a larger reputational risk for Natural England here and expressed concerns about the methodology adopted and external contractors used by NAO.
  - 2.4.4 noted Natural England's concerns were shared by Defra.
  - 2.4.5 expressed concern that the original title 'Are SSSIs effective in delivering biodiversity' was not addressed by the draft report that had a changed title.
- 2.5 The Committee noted that Maggie McGhee would report its concerns to her NAO colleagues who were undertaking the review. **(Action: Maggie McGhee)**

### **3 Defra Shared Services Directorate (AC/8/P1)**

- 3.1 Dave Webster introduced the paper and tabled Natural England's commentary on the memo received on 8 September from Ian Watt, Defra's Director General Finance who had asked that his response be shared with the Audit and Risk Committee. The Committee noted the latest position on Project Synergy was that Defra Management Board's decision had been reviewed and it would now be asked, at its next meeting on 18 September, to agree that all activity remain in house with SSD and IBM working to improve levels of service (option 3).

- 3.2 The Committee welcomed consultation with Defra over this paper (AC/8/P1) and noted that Ian Watt had contacted Christopher Pennell prior to the meeting.
- 3.3 Poul Christianson informed the Committee that his conflict of interest would be handled by his taking no part in the Defra Management Board discussion.
- 3.4 The Committee reaffirmed its advice that Natural England's aims should be to achieve better value for money and to receive improvements to existing services and potential for future development. In discussing the commentary and exploring the opportunity for Natural England to source shared services from an alternative supplier in the future, the Committee:
  - 3.4.1 noted the current position on SSD performance and service improvements. While basic performance had improved there was no evidence that further necessary improvements would come quickly enough to allow Natural England to support Defra's option 3.
  - 3.4.2 advised that Natural England was a large enough customer (one of three) to matter to SSD, but considered there was no recognition that our concerns were being addressed and built into the options being considered by Defra.
  - 3.4.3 recognised that Natural England's relationship with Defra was complicated but advised in this case Natural England should be regarded as a customer which was not evident in Defra's commentary.
  - 3.4.4 advised that resolution of VAT would be a huge issue but that using a second tier supplier rather than Oracle or SAP could reduce costs by 75%. This had been achieved elsewhere by changing VAT status from an NDPB to a Crown NDPB which would be investigated. **(Action: Dave Webster)**
  - 3.4.5 advised that key questions for Natural England were: is Oracle the right vehicle and if so is Defra the right provider?
  - 3.4.6 noted John Williams's report on the market for shared services and the scope Natural England could have to use different providers, and therefore reduce the risks, compared with Defra's requirement to adopt a full Enterprise Resource Planning System.
  - 3.4.7 advised that the work in seeking an alternative provider should not be underestimated and that while Government Departments had a poor track record in this area, private sector systems should not be assumed to be foolproof.
  - 3.4.8 noted findings and recommendations in a recent NAO VFM report on another Government shared service provider echoed Natural England's proposals and should be followed up with the member of Natural England's expert group from that Department. **(Action: Dave Webster)**
  - 3.4.9 noted Dave Webster and Paul Lambert's concerns about Defra's case for funding the different options, and that SSD's annual report stated that it was prevented from taking on new customers because of lack of funding.
  - 3.4.10 advised that Defra would find option 3 (in house) to be just as demanding as option 1 (full procurement).

- 3.5 The Committee concluded that it did not wish to change its previous resolve. It still had the same concerns about the service provided by SSD that would not be overcome by adoption of option 3. In reconfirming its position, the Committee recognised the risks to Natural England in conducting a complex procurement exercise and in obtaining the savings necessary to cover VAT.
- 3.6 The Committee supported the next steps of continuing to work alongside SSD to secure service improvements while at the same time exploring outsourcing back office services. The Committee noted that Dave Webster would be meeting Ian Watt and that it would receive a report at its December meeting. **(Action: Dave Webster)**

## **4 External Audit**

### **4.1 Update on International Financial Reporting Standards Implementation (AC/7/P2A)**

4.1.1 Maggie McGhee introduced the update on International Reporting Standards (IFRS) implementation explaining that this had been delayed to 2009/2010. The Committee:

- noted the planning considerations for Natural England and in particular the timetable with key dates (trigger points);
- noted Natural England was on track with requirements.
- advised that both Procurement and Finance Team skills should be used in the review of contracts and drew attention to the more rigorous requirements for documentation of reviews.
- noted that at its next meeting it would have the opportunity to review the implementation of trigger point 1 and would need to track the ongoing project at each of its meetings. **(Action: Maggie McGhee, NAO)**

### **4.2 Progress on 2007/08 NAO Management Letter (AC/8/P2B)**

4.2.1 The Committee noted the final management letter from NAO on the 2007/08 audit and progress by management in implementing key findings set out in annex 2.

## **5 Internal Audit Report (AC/8/P3)**

5.1 Mike Doughty introduced his report. The Committee reviewed the assurance levels and agreed management action plans from recently completed internal audit reviews and in discussion:

- 5.1.1 noted there were no critical management actions, but advised that there was a considerable workload in implementing the high priority management actions that might benefit from prioritisation;
- 5.1.2 noted issues about schedules of delegation and development of policies in the Team Delivery review;

- 5.1.3 noted the External Funding findings and the amount of work that needed to be done at a local level, not least in changing the cultural acceptance of staff of external fundraising activity;
- 5.1.4 was pleased to see the assurance provided on Personal Performance Management given the ambitious scale of this programme;
- 5.2 The Committee sought the Head of Internal Audit's opinion on how receptive management was to audit findings and was pleased to learn that management was fully engaged in the process and debating the findings. It was recognised that in some cases management would not agree with recommendations and could decide to accept the risk. Such discussion was part of the dynamics of the control environment. The Committee was reminded that the Executive Board and Accounting Officer acted as final arbitrators signing off all final reports and management actions. The Committee received comfort in the thoroughness of this process that was now also planned to be adopted for external reviews.
- 5.3 The Committee noted the status report with terms of reference agreed by the Executive Board for all reviews planned for the remainder of 2008/2009.
- 5.4 The Committee reviewed and noted the assurance levels provided by the review of management action plans, and noted that there were no cases where no action had been reported.
- 5.5 The Committee noted the additional outcomes provided by Internal Audit work and in particular joint working with the Rural Payments Agency (RPA), and also noted the developing co-ordination with RPA and Defra's Chief Information Officers' Directorate over the wider assurance provision. However the latter was not yet comprehensive enough to provide assurance on all operations provided by IBM. Relevant assurance information on SSD was still not forthcoming although Natural England now had visibility on the project to implement control improvements at SSD based on the Defra Internal Audit findings. Helen Phillips gave an update on correspondence with Helen Ghosh on the shared endeavour to manage and control risks. The Committee looked forward to being advised of progress in implementing Helen Ghosh's proposal that Jane Bloodworth establish a group to examine across the Defra network how assurances could be improved (**Action: Mike Doughty**).
- 5.6 The Committee noted the external and internal use of resources in delivering agreed internal audit outcomes and was pleased to note the internal audit programme was on track.

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

- 6.1 Dave Webster introduced the item that provided the Committee with the opportunity to note the current position on risk management.
- 6.2 The Committee noted the arrangements for the Board discussion on risk in the following week when there would be the opportunity to review the new risks identified with stakeholders and to have a chance to consider whether the list was complete and to prioritise risks. A revised strategic risk register

from the Board discussion would be considered at the next meeting. **(Action: Paul Lambert)**

- 6.3 The Committee noted the strategic risk register and associated countermeasures and in discussion:
  - 6.3.1 advised that it was crucial to identify the difference between probability and impact, and risk appetite.
  - 6.3.2 advised that Natural England's policies should be flexible enough to respond to changes in priorities and policies on the political front.
- 6.4 The Committee noted the position on future risk management reporting.

## **7. Transfer of Genesis to Natural England (AC/8/P5)**

- 7.1 Dave Webster and Paul Egginton introduced the paper that gave an update on progress with meeting the transfer acceptance criteria and the risks associated with the proposed arrangements for the transfer of Genesis to Natural England.
- 7.2 The Committee noted:
  - 7.2.1 good progress to date in meeting the detailed acceptance criteria, the exception being those dependent on resolution of the valuation issue.
  - 7.2.2 overcoming the valuation issue was being addressed by exploring licensing arrangements with Defra.
  - 7.2.3 negotiations with Defra over terms and conditions designed to protect Natural England's interests and to manage the risks of taking the system into our control
  - 7.2.4 the Accounting Officer, in consultation with the Board, would take the final decision on the acceptance of Genesis at the November Board meeting.
- 7.3 In discussing the proposed solution to the valuation situation where the asset remained on Defra's books with Natural England having full operational control the Committee:
  - 7.3.1 queried whether this met with the new IFRS regulations.
  - 7.3.2 sought clarification on the reasons for the different valuations for Defra and Natural England and its accounting representation and noted NAO involvement with this.
  - 7.3.3 stressed that the wording of the contract was the key to Natural England's protection.
  - 7.3.4 received confirmation that Natural England had the infrastructure and resources for the proposed solution.

- 7.3.5 concluded that it was inevitable that Defra should retain a role in decision making on any change that materially affected the value of Genesis given that the asset would remain on Defra's books.
- 7.3.6 advised that the biggest risk would be associated with contingent liability.
- 7.4 In conclusion the Committee noted that the remaining issues to be resolved were to be covered by the licensing agreement and in particular noted the Defra arrangements for disaster recovery, the importance of confirming Natural England roles and responsibilities post transfer (criteria 23) and agreement of a new Atos contract prior to transfer (criteria 36). Paul Egginton and his team were congratulated for their thorough work and it was noted that the decision on transfer of Genesis to Natural England would be referred to the November Board. **(Action: Dave Webster and Paul Egginton)**

## **8. Health and Safety Annual Report (AC/8/P6)**

- 8.1 Dave Webster reminded the Committee that reviewing Health and Safety was included in its terms of reference and that it would therefore receive the Health and Safety Annual Report each year. John Henstock gave a presentation highlighting the key activities carried out by the national Health and Safety Team between 1 April 2007 and 31 July 2008 to enable Natural England to manage its health and safety risks.
- 8.2 The Committee was pleased to see progress and the strong support from management, and congratulated John Henstock and his team on their achievements.
- 8.3 In discussion the Committee:
- 8.3.1 supported centralisation of the health and safety function;
- 8.3.2 noted arrangements for consultation with the Unions and that the Unions were very supportive;
- 8.3.3 noted the commitment to health and safety training for managers and recommended that priority be given to operational managers;
- 8.3.4 noted that the Health and Safety Team were encouraging and supporting the production of risk assessments;
- 8.4 In conclusion the Committee was encouraged by the way health and safety was becoming embedded into the organisation with such positive impacts.

## **9. Audit and Risk Committee's Annual Report to the Board (AC/8/P7)**

- 9.1 The Committee agreed formally its annual report to the Board that was to be presented to the September meeting. A draft had been circulated and cleared by correspondence to meet the Board timetable. Christopher Pennell reported that he had met the Chair on 18 August who passed on his pleasure with the way the Committee was working. In presenting the annual report to the Board, the Chair was asked to give a robust update on Shared Services from this meeting. **(Action: Christopher Pennell)**

## **10. Losses and Special Payments Report for 2007/08 (AC/8/P8)**

- 10.1 Paul Lambert introduced the losses and special payments report for 2007/08. The Committee noted the report that Defra required under the terms of the Financial Memorandum. The Committee asked that JNCC be invited to look into the issue of ownership of data that was raised in the single tender action valued at over £100,000. **(Action: Paul Lambert)**

## **11. Cases of Fraud or Presumptive Fraud**

- 11.1 Paul Lambert had no cases of fraud or presumptive fraud to report.

## **12 Review of Meeting, Forward Look and Dates of Meetings in 2009/2010 (AC/8/P9)**

- 12.1 The Committee concluded that it had been an excellent meeting.
- 12.2 The Committee noted the programme of business for future meetings and noted that it would be invited to review its terms of reference at the December meeting. This was to tie in with its review of effectiveness although a case could also be made for doing this at the same meeting as agreeing its annual report to the Board.
- 12.3 The Committee agreed the dates and themes for training sessions as follows:
- 27 November 2008 - National School of Government Audit Committee conference
  - 3 December 2008 (morning) - PWC to facilitate Committee's annual review of its effectiveness
  - 18 March 2009 (morning) - Briefing on Organisational Performance Management.
- 12.4 The Committee agreed the dates of meetings in 2009/2010 as follows:
- Monday 15 June 2009
  - Wednesday 30 September 2009
  - Monday 7 December 2009
  - Wednesday 17 March 2010
- 12.5 The Chair expressed concern that the programme of Board dates for 2009 did not allow the Board to agree the annual report and accounts at a full meeting before the summer recess, but it was recognised that the dates had been chosen to fit in with the performance management cycle of reporting. Christopher Pennell would seek assurance that an alternative process could be found to allow the Board to take a view on the annual report and accounts for 2008/09. **(Action: Christopher Pennell)**

## **13 Any other Business**

- 13.1 There was none.

**Action Points****Eighth Meeting of the Natural England Audit and Risk Committee –10 September 2008**

<b>No</b>	<b>Min ref</b>	<b>Action</b>	<b>Responsibility</b>	<b>Action taken</b>
1	2.5	Report Committee's concerns over VFM Review of SSSIs to NAO colleagues.	Maggie McGhee, NAO	
2	3.4.4	Investigate VAT status of a Crown NDPB	Dave Webster	
3	3.4.8	Seek views of member of expert panel on NAO report on shared service provider.	Dave Webster	
4	3.6	Meet Ian Watt and report back on SSD to next meeting.	Dave Webster	
5	4.1.1	Report back to December meeting on implementation of IFRS trigger point 1.	Maggie McGhee	
6	5.5	Advise on progress in implementing the creation of Defra assurance network.	Mike Doughty	
7	6.2	Bring revised strategic risk register from the September Board to the next meeting.	Paul Lambert	
8	7.4	Refer decision on acceptance of Genesis to November Board meeting.	Dave Webster and Paul Egginton	
9	9.1	Present Annual Report to the September Board with an update on SSD.	Christopher Pennell	
10	10.1	Ask JNCC to look at ownership of data in relation to the single tender contract over £100k.	Paul Lambert	
11	12.5	Raise timing of 2009 Board meetings in relation to consideration of the annual report and accounts.	Christopher Pennell	