

2. Matters Arising

- 2.1 The Committee noted that the matters arising from the last meeting had been discharged.
- 2.2 Dave Webster gave an update on the recruitment of a fifth (external) member of the Committee. The Committee noted that the recent advertisement had been unsuccessful in attracting financially qualified candidates. In discussing the options the Committee:
 - 2.2.1 **agreed** that Treasury guidance that at least one member should have a financial qualification should be followed;
 - 2.2.2 accepted Helen Phillips' advice that because of timing it would be better to seek a one-year appointment under contract than to re-advertise;
 - 2.2.3 noted the position over remuneration;
 - 2.2.4 noted that options for the provision of such expertise in the longer term would be considered in the context of Board membership;
 - 2.2.5 supported Dave Webster and Chair seeking appointment of an individual on a one-year contract from one of 'the big four' or another firm, noting that this may negate the firm from competing for the contract for provision of internal audit services to Natural England. **(Action DW and Chair)**
- 2.3 The Committee noted that its advice on the Management Statement, Schedule of Reserved Matters and Delegations and 'Part 8' Agreement had been reported to the Board and that a scheme of delegations below CEO level had now been established by management which it would be useful for the Committee to see purely for information. **(Action DW)**
- 2.4 Helen Phillips reported on her recent appearance before the Public Accounts Committee (PAC) on Open Access. The Committee noted that the PAC had recognised a job well done and that its questioning had focussed on the escalation of costs. There were lessons to be learned for coastal access.

3. Internal Audit Report (AC/1/P2)

- 3.1 Mike Doughty introduced the internal audit report that provided an update on the provision of internal audit services and activity in Natural England.
- 3.2 The Committee reviewed and **endorsed** the Terms of Reference for Internal Audit subject to adding reference to co-ordination between external and internal audit in line with good practice advice from Treasury.
- 3.3 The Committee reviewed and **approved** the work plan for the remainder of 2006/07 having first, in discussion:
 - 3.3.1 noted that Helen Phillips had approved the work plan as Accounting Officer;
 - 3.3.2 sought reassurance that there was both internal audit and organisational capacity to deliver the programme on time;

- 3.3.3 noted the programme was set in the context of both legal risks (Health and Safety) and risks involved with new working arrangements (Financial and Regional checks);
- 3.3.4 expressed concerns about the Rural Payments Agency and delivery of Genesis and noted that the scopes of these reviews would take account of the projects underway in these areas; and,
- 3.3.3 noted the Genesis audit would help inform the decision on when Natural England would take over responsibility from Defra.
- 3.4 The Committee noted priority had been given to developing a six-month plan to provide assurance for the 2006/07 Statement on Internal Control but requested an Audit Strategy for 2007/08 and beyond, in line with best practice guidance, for consideration at a future meeting. **(Action MD)**
- 3.5 The Committee reviewed and noted the proposals for the delivery of service and contract arrangements and in discussion:
 - 3.5.1 noted the decision on the appointment of Head of Internal Audit would involve Defra Head of Internal Audit, and that Helen Phillips as Accounting Officer would approve the appointment in consultation with Christopher Pennell as Chair of the Audit Committee.
 - 3.5.2 accepted the proposal for interim Internal Audit provision in 2007/08 and looked forward to the preparation on a timely basis during the coming year of considered proposals for the long term provision of Internal Audit services, including contract services, for 2008/09 and beyond.

4. National Audit Office Strategy 2006/07 (AC/1/P3)

- 4.1 Helen Dixon introduced the National Audit Office's audit strategy for 2006/07, which set out their plan to carry out the audit of the financial statements before the summer recess. The audit work would be conducted on an ongoing basis throughout the year.
- 4.2 In discussion the Committee:
 - 4.2.1 noted that the risks identified by NAO in their strategy were generic risks for a new organisation set in the context of production of the financial accounts and did not necessarily reflect NAO's view of Natural England's capacity to manage them;
 - 4.2.2 recognised that the Audit Committee played an important role in governance which was reflected in the key risks;
 - 4.2.3 noted that risks arising from estates management issues would be picked up in work on the Estates Strategy, and also the Estates Roadmap that was being taken forward with each Regional Director;
 - 4.2.4 noted the timetable for the consideration of the joint accounts and annual report would allow the Committee and Board to give their advice on its tone and content at the March and April meetings before the Audit Committee was asked to comment on the final accounts in June. There was an issue about

the timing of the July Board meeting in relation to its consideration of the accounts that would need to be resolved; **(Action DW)**

- 4.2.5 noted that NAO's pre-vesting work examining the statements of assurance from the founding bodies was on target for completion;
- 4.2.6 was reassured that NAO would report any concerns as they were identified to the Accounting Officer and Chair of the Audit Committee, but in any event would report findings to the March Audit Committee meeting. **(Action NAO)**
- 4.2.7 noted that the NAO audit team was awaiting advice from its technical advisors on the statutory requirements for final accounts for the two closing bodies and that an update would be given at the next meeting. **(Action NAO)**
- 4.2.8 requested information on the NAO's fees once known. **(Action DW)**

5. Natural England Assurance Package (AC/1/P4)

- 5.1 Mike Doughty introduced the Natural England assurance package covering activity during the first half of 2006/07 provided to Natural England by the founding bodies. After review by the Audit Committee, the risks, issues and information available would be passed to those with current operational responsibilities within Natural England. **(Action MD)**
- 5.2 In reviewing and commenting on the assurance package the Committee:
 - 5.2.1 concluded that assurances from English Nature and the Countryside Agency were full and satisfactory but expressed concerns about the level of RDS assurance;
 - 5.2.2 noted that the Defra Statement on Internal Control for 2005/06 was not signed and sought cover from Defra over the potential financial implications for Natural England of disallowance;
 - 5.2.3 **agreed** that Chair should report the Committee's concerns about RDS to the Board and that Helen Phillips should write to Defra; **(Action Chair and HP)**
 - 5.2.4 sought clarification over costs associated with provision of shared services and supported Helen Phillips' decision not to agree to cost neutrality in the longer term;
 - 5.2.5 noted plans for discussion of overall efficiency targets for Natural England;
 - 5.2.6 raised the issue of staff morale that was included in the RDS Interim Statement on Internal Control and noted that discussions continued in the context of the Natural England change programme.

6. Risk Management (AC/1/P5)

- 6.1 Adrian Belton and Tony Dover introduced the paper, which set out the actions proposed and taken on risk management and invited the Committee to consider the Natural England top-level risk register.

- 6.2 The Committee noted work in progress to establish an embedded risk management process by March 2007 with risk as a component of planning workshops and included in all delivery agreements, and stressed the importance of evidence for the Statement of Internal Control.
- 6.3 In reviewing the Natural England top-level risk register the Committee:
 - 6.3.1 noted that the list of top-level risks was the outcome of Executive Board and Executive Leadership Group workshops;
 - 6.3.2 suggested that the description of the 10 top-level risks was on such a 'headline' basis that it failed to reveal the important componentry of each risk.
 - 6.3.3 risks 1-5 were of particular relevance to non-executives' advocacy role;
 - 6.3.4 queried the score scale and requested a clarifying note; **(Action TD)**
 - 6.3.5 identified the following risks: reconnecting with partners, staff morale, IT and finance governance, reliance on third parties, but accepted these were unrevealed components of one or more of the top-level risks;
 - 6.3.6 advised that while risk management should not stand alone a clear audit trail was needed;
 - 6.3.7 requested a paper on the intended methodology for risk identification and risk management for the next meeting, and to provide information on trends and on progress in managing the top-level and identified component risks, and to provide comfort on the direction of travel;**(Action AB and TD)**
 - 6.3.8 advised that the Board should consider the top-level risks.

7. Overall Process for Statement on Internal Control

- 7.1 Mike Doughty reported the process for the drawing up of the 2006/07 Statement on Internal Control for Natural England. The Committee noted that assurance would be provided from management, internal audit, the Audit Committee and third parties such as IBM, DFSSD and RPA. A draft would be available for consideration at the March Audit Committee meeting. The NAO advised that the Statement on Internal Control should reflect issues up until the time it was signed by the Accounting Officer.

8. Update on Status of Governance Framework (AC/1/P6)

- 8.1 Mike Doughty introduced the update. The Committee noted progress made in installing an overall governance framework for Natural England. Greatest progress had been made on Board governance with organisational development not yet so well defined.
- 8.2 The Committee:
 - 8.2.1 noted that the Partnerships Agreement that complemented the Management Statement would go to the Board;

- 8.2.2 requested a copy of the governance framework index colour-coded as to progress in completing; (**Action MD**)
- 8.2.3 noted that in due course members would receive a copy of all the governance documents on disc but in the meantime documents were being put on the intranet as they were agreed.

9. **Audit Committee Forward Look (AC/1/P7)**

- 9.1 The Committee **agreed** the dates of meetings for the remainder of 2006/07 and for 2007/08 as follows:

Tuesday 27 March 2007
Monday 18 June 2007
Monday 10 September 2007
Tuesday 11 December 2007
Tuesday 11 March 2008.

- 9.2 The Committee noted the programme of business.
- 9.3 The Committee **agreed** 20 February 2006 for a morning session of induction training with National School of Government.

10. **Any other Business**

- 10.1 Helen Phillips reported the Minister's recent decision on ERDP payments. She requested assistance from NAO in assessing the direction required by her as Accounting Officer to allow Natural England to issue agreements under environmental stewardship following the delay in agreeing the new Rural Development programme. (**Action NAO**).
- 10.2 The Chair reported on his attendance at the annual Treasury/NSG conference for Audit Committees, the moves towards improving the standards of professional financial expertise in Government Departments, and on the key changes in the new redraft of the Treasury Handbook for Audit Committees.

Action Points

First Meeting of the Natural England Audit Committee - 4 December 2006

Action	Responsibility
Pursue a one-year contract appointment to the Audit Committee.	Dave Webster and Christopher Pennell
Provide members with the scheme of delegations below CEO level.	Dave Webster
Draw up an Internal Audit Strategy for consideration at a future meeting.	Mike Doughty
Provide interim report on 2006/07 audit findings to March 2007 Audit Committee meeting	Helen Dixon and Steve Allen, NAO
Give an update on the handling of the final accounts for the closing bodies to the March Audit Committee meeting	Dave Webster and NAO
Provide information on the NAO fees for 2006/07 to the Audit Committee	Dave Webster
Pass on assurance package information to those with current operational activities.	Mike Doughty
Report concerns over assurance received from RDS to Board	Christopher Pennell
Write to Defra seeking cover from Defra over potential financial implications of disallowance given concerns over RDS assurance	Helen Phillips
Issue a clarifying note on risk scores	Tony Dover
Provide a risk management paper to the March Audit Committee meeting.	Adrian Belton and Tony Dover
Provide members with a copy of the Governance index	Mike Doughty
Review timing of July Board meeting to allow 2006/7 Financial statements to be approved prior to parliamentary recess	Dave Webster
Advise Accounting Officer on direction required from Defra to allow Natural England to issue agreements under environmental stewardship following the delay in agreeing the new Rural Development programme.	NAO

Action Point (Paragraph 6.3.4) from the Audit Committee meeting on 4 December 2006

Further to your meeting on 4th December 2006 this is to clarify the scoring scheme employed on the Risk Register.

1. Firstly, I would emphasise that there is a very high degree of subjectivity in any such scoring process.
2. Secondly, the initial Board Paper discussed “risk appetite”. For some areas of the private sector, such as financial services or manufacturing, it is possible to define this in terms of limitations on particular areas of lending exposure or on new product liability. However, for the public sector definition of risk appetite is much more difficult. Some assistance can be given in the scoring applied to the factors of probability and impact. In a mature organisation it would be normal to give some enhanced weighting to impact so that a Medium:High risk would score more than a High:Medium one. In a new organisation, where establishment of credibility is an important early goal, the enhanced weighting can be given to probability so that management attention is more focused to those areas where things have a higher potential to go wrong. This has been employed here.

	Probability	Impact
Low	3	2
Medium	6	4
High	9	6

3. The total score is the addition of the 2 scores for probability and impact.