

# Natural England Board



Meeting: 12  
Date: September 2008

Paper No: **NEB PU 12 07**

Title: **The Audit and Risk Committee's Second Annual Report to the Board**

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

## **1. Purpose**

1.1. The purpose of this paper is to present the Audit and Risk Committee's second annual report to the Board.

## **2. Recommendations**

2.1. It is recommended that the Board:

2.1.1. Note the Audit and Risk Committee's second annual report.

2.1.2. Consider whether there is any area of internal control or risk which it would like the Committee to investigate on its behalf.

2.1.3. Note the appended unconfirmed minutes of the Audit and Risk Committee's meetings on 18 and 30 June 2008 and the Chair of the Audit and Risk Committee's verbal update on the Committee's meeting on 10 September 2008.

## **3. Background**

3.1 The standard programme of Audit and Risk Committee business includes submission of an annual report to the Board. The Committee gave its first annual report to the Board in October 2007, a year after Vesting (NEB P07 25), and this, its second annual report covering the November 2007 and March and June 2008 meetings, is presented to the September Board meeting.

3.2. This report (Annex 1) includes a summary of the Audit and Risk Committee's business during the second year of Natural England. Copies of the November 2007 and March 2008 minutes have been circulated previously to the Board with the Chair's report (NEB P08 09 and NEB P10 10), and the Chair's report only to the June Board (NEB P11 09). The unconfirmed minutes of the June 2008 meeting are attached at Annex 2.

3.3. The Chair of the Committee will report orally at the meeting on the issues discussed at the Committee's meeting held on 10 September 2008.

## **Annex 1**

Title: **The Audit and Risk Committee's Second Annual Report to the Board**

By: **Christopher Pennell, Chair of Audit and Risk Committee**

### **1. Purpose**

- 1.1 The purpose of this paper is to present the Audit and Risk Committee's second annual report to the Board.

### **2. Recommendations**

- 2.1 It is recommended that the Board:

**note** the Audit and Risk Committee's second annual report and the appended unconfirmed minutes of the Audit and Risk Committee's meetings on 18 and 30 June 2008; and

**consider** whether there is any area of internal control or risk which it would like the Committee to investigate on its behalf.

### **3. Background**

- 3.1 The standard programme of Audit and Risk Committee business includes submission of an annual report to the Board. The Committee gave its first annual report to the Board in October 2007, a year after Vesting (NEB P07 25), and this, its second annual report covering the November 2007 and March and June 2008 meetings, will be presented to the September Board meeting.
- 3.2 This report includes a summary of the Audit and Risk Committee's business during the second year of Natural England. Copies of the November 2007 and March 2008 minutes have been circulated previously to the Board with the Chair's report (NEB P08 09 and NEB P10 10), and the Chair's report only to the June Board (NEB P11 09). The unconfirmed minutes of the June 2008 meeting are attached at Annex 1.

### **4. Establishment of the Audit Committee**

- 4.1 The Audit and Risk Committee was set up prior to Vesting of Natural England as a standing committee of the Natural England Board established in accordance with Schedule 1 19.1 of the NERC Act. Its role is to advise the Board on matters of financial accountability, risk and internal control. Its terms of reference were agreed at the fourth meeting of the Skeleton Body Board on 13 September 2006 and revised and agreed by the Board in December 2007.

### **Membership**

- 4.2 In accordance with its terms of reference the Audit and Risk Committee comprises five members, four of whom are members of the Board. The Board members are Christopher Pennell (Chair), Poul Christensen, David Hill and Pam Warhurst. Ian Scott, an external fifth member, was appointed in June 2007 to meet the Treasury guidance that at least one member of the Committee has relevant financial accounting experience, and his appointment has been extended for a further year until June 2009. In addition, David Hill is a member of the JNCC Audit and Risk Management Committee. Committee members were pleased to receive formal appointment letters from the Board Chair in October 2007.
- 4.3 The Chief Executive, as the Accounting Officer, is not a member of the Committee but attends all meetings along with the Executive Director Corporate Services, the Finance Director, the Head of Internal Audit and representatives from the National Audit Office.

### **Training**

- 4.4 The Chair and Executive Director Corporate Services attended the National School of Government's annual conference on Best Practice for Audit Committees on 22 November 2007. Chair and Pam Warhurst each attended a Risk and Control Workshop that were held for all teams. With the allocation of two days a year for training and development the Committee has agreed its programme for 2008/09 should include attendance at the National School of Government (NSG) Audit Committee Conference and a further tailor made day with NSG and PWC and/or internal and external audit.

## **5. Audit and Risk Committee Meetings**

- 5.1 The Committee meets four times a year in accordance with Treasury best practice. Since the last annual report three half day meetings have been held in Sheffield on 26 November 2007 and 10 March and 18 June 2008 and, additionally on the latter date, the Committee held a risk workshop with Audit Committee Chairs of five key stakeholder organisations. Additionally Chair and Ian Scott met Executive Director Corporate Services, Director Finance and members of Finance Team on 2 June for a thorough examination of the then current draft of the Annual Report and Accounts and on 30 June a quorum of the Committee met via teleconference to consider resolution of final issues raised in the NAO's interim report for 2007/08. All meetings have been well attended by members and supported by good papers from officers and the National Audit Office with whom good working relations have been established, with a new team assigned to Natural England from November 2007.

## **6. Audit and Risk Committee Business**

- 6.1 At its first meeting the Audit and Risk Committee agreed its annual programme of business which now forms the standard agenda for each meeting to which additional items are added as required. The second year's programme allowed the Audit and Risk Committee to meet its objective of assisting the Board to fulfil its corporate governance responsibilities through challenge, scrutiny, monitoring and advice to ensure that the control environment is maintained by Natural England and to provide 'critical friend'

advice to the Accounting Officer. A summary of the outcome of the meetings is set out under the following headings.

### **Internal Audit**

- 6.2 The Committee continued to keep an oversight of the internal audit function in Natural England. The Committee endorsed the internal audit strategy and the internal audit plan for 2008/09, and explored the wider assurance map that highlighted the gap in assurance provided to Natural England from Defra Shared Services (SSD) and IBM. The Committee monitored closely the 2007/08 programme and was pleased that in spite of being concentrated in the final months of the year it was completed by the end of April 2008 thanks to concerted efforts by the Head of Internal Audit and in-house senior auditor working with PWC. The Committee noted that PWC was awarded the 3-year contract for the provision of internal audit services from 1 April 2008. The new contract was awarded following a full competitive tender exercise that involved the Chair and Ian Scott on the award panel with the final decision being endorsed by the Chief Executive. The Committee has begun to receive high quality final internal audit reports and regular reports on the implementation of management actions that it monitors closely. The Committee welcomes the facts that the internal audit programme, which it endorses, is largely guided by the risks to the organisation which management has identified and that senior management take the emerging audit reports seriously with relatively prompt follow-up action.
- 6.3 The Committee noted that the Head of Internal Audit's opinion for 2007/08 (as provided to the Accounting Officer) was that he could give a moderate level of assurance that the control framework for Natural England was operating effectively and this was an improvement on the limited assurance given for 2006/07. However, the Committee noted that on those elements of Natural England's service provided through Defra Shared Services only a limited level of assurance could be given and no assurance was available on services provided through Defra's E-enabling contract with IBM.

### **Risk Management**

- 6.4 Risk management is an area where the Committee continues to take a particular interest. Risk and Control Workshops held throughout the organisation were welcomed in providing risk management guidance and training to teams, and the position on risk management reporting was noted. These enhanced the risk management process, which was considered robust and becoming increasingly embedded in the organisation on a top down and bottom up basis. The Chair and Pam Warhurst each attended a regional workshop. The criteria for the transfer of Genesis were reviewed and advice given to management on the associated risks. The strategic risk register of top level risks has been reviewed at each meeting, and specifically in recognition that it is time for the organisation to radically review its risk register, the Committee agreed to hold an innovative workshop with stakeholders to review Natural England's strategic risks. The Chairs of Defra, Environment Agency, Scottish Natural Heritage, Countryside Council for Wales and the Wildlife Trusts Audit Committees joined us for an excellent discussion facilitated by a Director from PWC on 18 June. Subsequently options were explored for the format and content of the Board Briefing and Workshop to be held in September which will be informed by ELG, Executive Board and Audit and Risk Committee discussions

## **Corporate Governance and Statement on Internal Control**

- 6.5 During the year the Committee has received regular updates on the governance framework, including work on the schedule of delegations and governance communications and training. On the Committee's advice all Governance documents are now accessible through the intranet and Natural England's web site. Both the results of the half year and full year internal control questionnaires have been considered, and it was concluded that the results provided a sound assessment of the standards of internal controls operating in Natural England in 2007/08. Where concerns remain they are exposed and both management and the Committee have the opportunity to ensure that action is taken. The Committee particularly welcomed the improved guidance given to management before they completed the full year control questionnaires and the greater confidence evident in the responses received. The 2007/08 Statement on Internal Control was drawn up in accordance with Treasury best practice and was informed by the results of the internal control questionnaires. The Committee reviewed an early draft of the Statement on Internal Control in March, and in reviewing the final version, before ratification at the June meeting, the Committee returned to the issue of assurance from Defra over Shared Services and IBM. It remains a concern that the Accounting Officer is exposed by gaps in assurance in these areas. Defra's own Internal Audit identified significant control weaknesses in SSD's operations, which the Committee felt should be reflected in the Natural England Statement of Internal Control. This matter has been raised in writing and at a personal meeting by the Audit and Risk Chair with Bill Griffiths, Chair of Defra's Audit Committee and by our Chief Executive with Helen Ghosh, Defra's Accounting Officer.

## **External Audit and the Annual Report and Accounts**

- 6.6 The National Audit Office Team changed with Maggie McGhee and Joanne Raby's assignment to Natural England from November 2007. The Committee received NAO's Management Letter on the 2007/08 Accounts and welcomed generous observations on the Accounting Officer's Statement on Internal Control. It was heartened by the report on closure lessons learnt from the 2006/07 Annual Report and Accounts. The Committee received the audit strategy for 2007/08, which included production of interim accounts for the first nine months of the year so that the final audit could focus on the last three months and the annual accounts. Also provided were regular reports on the areas of audit risk identified and the Committee was reassured by the detailed timetable and action plan agreed with NAO for handling the 2007/08 Annual Report and Accounts to avoid the difficulties encountered in 2006/07. The Committee reviewed a draft Letter of Understanding between NAO and Natural England which is required as the framework for the relationship between the NAO and its clients.
- 6.7 At its June meeting the Committee considered the annual report and accounts for 2007/08 and took comfort from the detailed work done by Chair and Ian Scott on 2 June (para 5.1). The Committee agreed that it would advise the Board to agree that the Chair and the Chief Executive, in her role as Accounting Officer for Natural England, should sign the Annual Report and Accounts for 2007/08. In considering the NAO report to those charged with governance, the Committee was relieved that one initial finding relating to voluntary severance provision that would have caused major concern was

withdrawn by NAO following challenge by the Finance Team, who were then able to agree management responses with NAO on all findings. The Committee was both relieved and pleased that both the NAO and Natural England's Finance team were able to stick to the demanding timetable for completing both the accounts and the audit and congratulated them on working well together to ensure that the report and accounts were, this year, unlike last year, laid before Parliament before the Recess.

### **Defra Shared Services**

- 6.8 Following the presentation from Neil Serjeant, Chief Executive of Shared Services Directorate at the September meeting, the Committee requested and received reports on SSD at each meeting. The Committee has monitored SSD's performance, considered an analysis of the feasibility of options for alternative delivery of these services and discussed contingency planning. A consultant's report that concluded that there was considerable scope for Natural England to receive better value for money was welcomed by the Committee and its recommendation that we should exploit the Defra decision to outsource was supported with the commitment to work alongside Defra to secure a better outsourced deal. The Committee is conscious of two significant risks – first, that the workload for Natural England staff in preparing for outsourcing is considerable, and, second, that any possibility of Natural England having to fund VAT on an outsourced arrangement would seriously undermine the value for money expectations from outsourcing. The Committee will continue to monitor progress at each meeting.

### **Other Business**

- 6.9 Additionally the Committee:
- noted the losses and special payments report for 2006/07;
  - considered a standard item on cases of fraud or presumptive fraud;
  - noted progress towards implementation of health and safety policy and procedures across Natural England;
  - received a report on data security;
  - briefly looked forward towards planning for the introduction of IRS (International Reporting Standards); and
  - received an explanation of the methodology being used by NAO in its VfM study of the SSSI system.

The Committee also reviewed its Terms of Reference and completed a competency framework to assist in reviewing its performance, a process adopted this year by the Board. Cases of fraud or presumptive fraud are a standard agenda item: there were no cases reported for the period of this report.

- 6.10 The Committee believes that it has now settled into its role in a confident and constructive manner and with good relationships with staff and with the NAO. It makes a point of reviewing the effectiveness of each meeting before closing

proceedings. The work of the Committee is 'self-generated' from its standard programme of items, supplemented by matters which it chooses additionally to investigate. The Board is reminded that it is free to commission investigative work of the Committee, hence the second recommendation at para. 2.1.

- 6.11 On a personal note I would like to record my warm appreciation of the commitment and thoroughness of my fellow Committee Members in avoiding the opposite risks of 'rubber-stamping' and of exhibitionist probing in favour of trying to constructively challenge and add value beyond mere compliance. If the Committee has been at all successful in this endeavour, it has been greatly helped by the many staff members who support its work. On the Committee's behalf, I thank them all, but particular appreciation for the support of Dave Webster, Mike Doughty, Paul Lambert, Nigel Darby, David Whitmore and our Secretary, Emily Finnie, and thanks to Maggie McGhee and Jo Raby of the NAO for their critical analysis of Natural England's activities. We additionally thank the Accounting Officer, Helen Phillips, for accepting our thoughts and advice with a generous and incisive grace.

## Annex 2

### Natural England Audit and Risk Committee

*Paper No: AC/7/M1*

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

**18 June 2008, 13.00-16.30**

**Present:** Christopher Pennell Chair  
Poul Christensen (via teleconference)  
David Hill  
Ian Scott  
Pam Warhurst

**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  
  
Emily Finnie Internal Audit Team Leader (Secretariat)

**Apologies:** None

#### **Welcome**

The Chair welcomed everyone to the seventh meeting of the Natural England Audit and Risk Committee.

The Chair was pleased to report that Ian Scott's membership had been extended for a further year.

Dr Richard Jarvis, Chair of the Countryside Council for Wales Audit Committee, a guest at the morning's risk workshop, joined the meeting as an observer for items 1-4.

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 Sixth Meeting of the Audit Committee held on 10 March 2008 (AC/5/M1)**

1.1 The Committee **confirmed** the minutes of the sixth meeting of the Audit and Risk Committee subject to two amendments from NAO as recorded in version 0.6 dated 16/04/08 presented to the April Board meeting:

- 4.7.1 Delete 'with discrepancies relating to consistency rather than control issues'
- 4.11.2 Delete from 'ie' to remove reference to value of materiality.

## **2 Matters Arising (AC/6/A1)**

2.1 The Committee noted that, apart from the update given below, the matters arising from the last meeting had been discharged or were covered by agenda items.

2.2 The Chair reported that he had met the Chair of Defra's Audit and Risk Committee who had confirmed that his committee would be looking at Shared Services, and that Defra's Statement on Internal Control would be informed by consultation and shared with Natural England.

## **3 Year End Internal Control Questionnaire and Statement on Internal Control for 2007/08 (AC/7/P1)**

3.1 Dave Webster and Paul Lambert introduced the paper that advised the Committee on the results of the year end 2007/08 internal control questionnaire and the proposed Statement on Internal Control for inclusion in the 2007/08 annual accounts.

3.2 The Committee reviewed whether the summary of the internal control questionnaire results provided a sound assessment of the standards of internal controls operating in 2007/08 and in discussion:

3.2.1 noted that Natural England's process had been shared with and adopted by the Rural Payments Agency;

3.2.2 noted a consistency of returns at the year end compared with the half year position and obtained more confidence from this year's results now that teams had a greater understanding of the issues following the series of regional risk and control workshops and could refer to intranet links when completing the questionnaire.

3.2.3 welcomed the high level of agreement over the application of controls and considered it a good set of results with 94% of responses in 'entirely agree' or 'partly agree' categories: an 8% improvement on last year.

3.2.4 noted a few areas of concern highlighted in the summary table and explored the reasons for these noting that they would be followed up by Finance Team with the teams concerned.

3.2.5 in respect of the audit of external affairs, it was noted that this was an area the Board had not discussed since February 2007, and a paper to a future Board meeting, possibly in the context of our brand position might be timely.

- 3.2.6 noted the improvement in control of assets that reflected management actions taken in year.
- 3.2.7 expressed concern that Defra Shared Services' self assessment did not equate with Defra's Internal Audit's opinion that there were three areas for SSD of significant control weaknesses in access controls, system auditing and segregation of duties resulting in a 'weak' opinion, and suggested that the Statement on Internal Control should be enhanced to include specific reference to these three areas. **(Action: Paul Lambert)**
- 3.2.8 considered the list of issues picked up from the questionnaire for inclusion in the Statement on Internal Control and agreed that business continuity planning awareness, business continuity testing and customer service standards should be included together with assurance over the standard of operation of controls by Defra Shared Services (SSD), and by IBM over Natural England data.
- 3.3 The Committee noted that the draft Statement on Internal Control had been drawn up in accordance with best practice. It had commented on an earlier version at its March meeting and in reviewing the current draft returned to the issue of assurance from Defra over Shared Services and IBM. The Committee:
- 3.3.1 concluded that while there had been improvements in the service provided by Defra Shared Services the level of assurance provided for SSD or IBM was not adequate, either because it was not coming through from Defra or because it was not included in Defra's audit programme, and advised that the IBM contract provisions should be checked. **(Action: Dave Webster/Paul Lambert)**
- 3.3.2 advised that the Statement on Internal Control should be amended to:
- Strengthen the sections about SSD and IBM;
  - Make the Natural England management actions with respect to SSD and IBM more robust to include reference to the remedy programme, influencing opportunities with the new SSD Director of Finance, and consideration being given to seeking indemnities.
- (Action: Paul Lambert)**
- 3.3.3 The Committee ratified the form and content of the Statement on Internal Control subject to inclusion of its comments and noted that it reflected the Head of Internal Audit's opinion for 2007/08 given in AC/7/P2.

#### **4 Internal Audit Annual Report and Head of Internal Audit Opinion for 2007/08 (including JNCC) (AC/7/P2)**

- 4.1 Mike Doughty introduced his final formal report and opinion to the Accounting Officer that had been informed by the draft Statement on Internal Control and final internal audit opinion received from JNCC.
- 4.2 The Committee noted a moderate level of assurance was given for the control framework operating in Natural England (which was one level higher than the previous year), but that on those elements of Natural England's service provided through Defra Shared Services only a limited level of assurance could be given. The Committee also noted that on those services provided

through Defra's E-enabling agreement with IBM, no level of assurance could be provided.

- 4.3 In discussion the Committee:
  - 4.3.1 endorsed the challenge of embedding risk management without introducing complex structures and reporting in paragraph 29;
  - 4.3.2 noted that the range of issues covered in the internal control questionnaire would be reviewed and that internal audit had a role in assessing the results;
  - 4.3.3 advised that in future years changes in delegation to Regions should be covered;
  - 4.3.4 noted the different assessments of assurance levels between Natural England and JNCC (and again for RPA and Defra at agenda item 8) and considered there was a case for consistency of terminology amongst internal auditors.

## **5 Annual Report and Accounts (AC/7/P3)**

- 5.1 Dave Webster introduced the annual report and accounts for 2007/08. The Committee noted and took comfort from the work done by Christopher Pennell and Ian Scott who had met Dave Webster, Paul Lambert and members of the Finance Team on 2 June for a thorough examination of the then current draft of the annual report and accounts.
- 5.2 The Committee offered congratulations on the annual report's presentation with its clear emphasis on partnership working, and also on all the work done to get the report to this advanced draft by this stage. It considered the text to be positive and upbeat. In reviewing the draft annual report the Committee:
  - 5.2.1 considered whether the foreword should refer to hard choices, but on balance concluded that its emphasis on positive outcomes for the organisation was right;
  - 5.2.2 advised that further consideration should be given to the accessibility of the 'distinctive public body' text on page 21 and to removing duplication between highlights in the second year and looking ahead in this section;
  - 5.2.3 advised that jargon should be avoided in reference to IS payments, and that reference to set aside on page 28 should be checked;
  - 5.2.4 advised that a final check to ensure consistency of statistics should be made eg the target for environmental stewardship on pages 14 and 26;
  - 5.2.5 found the colour coding of progress on a three year journey to be helpful but pointed out that there was an error on page 32 in recording a target as amber;
  - 5.2.5 advised that the 'risks and uncertainties' section on page 35 should be checked against the revised Statement on Internal Control;
  - 5.2.6 requested that 'Dr' should be added to Tom Tew's name on page 37;

- 5.2.7 noted it would be premature to be more specific in reporting progress on the target to invest in environmental enhancement.
- 5.3 The Committee next reviewed the annual accounts and in discussion:
- 5.3.1 recognised that it was normal practice for a NDPB to show a negative balance on its balance sheet as it cannot accrue for grant in aid due from Defra at 31 March, but advised that consideration should be given to presenting this in a more positive way. NAO was thanked for its offer to provide some wording used by other NDPBs for inclusion as an explanatory note. **(Action NAO)**
- 5.3.2 noted that 2006/07 cost headings could not be changed but that from 2007/08 there were full year comparators that would allow better descriptions to be used in next year's annual accounts to reflect Natural England's outcomes.
- 5.3.3 advised that to overcome the problem of 2006/07 and 2007/08 comparisons being distorted by 2006/07 RDS overhead costs being absorbed in Defra's accounts, consideration should be given to producing a pie-chart to show programme expenditure for 2007/08 and to providing a brief explaining any discrepancies ready for questions and answers following publication of the Annual Report and Accounts. **(Action Paul Lambert)**
- 5.3.4 advised that the reference to contingent liabilities on page 72 was open-ended and accepted NAO's suggestion that it would be better to state that the outcome, although unknown at this stage, would not be material.
- 5.3.5 noted that the 2007/08 losses and special payments report would come to the next meeting. **(Action: Paul Lambert)**
- 5.3.6 noted the only post-balance sheet event was with respect to Genesis and that Intra-Government balances were still subject to further work.
- 5.4 The Committee noted that the section on Board Members from page 76 needed to be verified by each Board Member as to its accuracy and that this draft should be issued via Board and Executive Services for quality assurance. It was agreed that additional guidance would be issued to clarify the dates the information should relate to, with a view to having a final version for approval at the Board on 25 June. **(Action Paul Lambert and Board and Executive Services).**
- 5.5 The Committee noted that the Board had received this version of the Annual Report and Accounts. It was agreed that its comments would be incorporated in the next version that would be tabled at the Board workshop in advance of the Board meeting on 25 June. **(Action: Paul Lambert)**
- 5.6 The Committee thanked Finance Team for all their hard work in producing the annual accounts. The Committee agreed that a date should be found at the end of the month to give 'on file' and teleconference consideration to the resolution of final issues raised in the interim NAO report. The minutes of this further meeting would be appended as Annex 1 to these minutes. **(Action: Secretariat to arrange)**

- 5.7 The Committee agreed that it would advise the Board to agree that the Chair and Chief Executive in her role as Accounting Officer for Natural England should sign the Annual Report and Accounts for 2007/08.

#### **National Audit Office ISA 260 Report (AC/7/P4)**

- 5.8 The NAO ISA report had been circulated as a late paper. Maggie McGhee introduced the final report to those charged with governance that set out main final audit findings and gave feedback on the key risks identified at the planning stage.
- 5.9 The Committee noted that NAO had completed its audit in accordance with its strategy and in reviewing the key audit findings:
- 5.9.1 was pleased to note that following challenge by Finance Team and advice from the NAO Technical Team, the Early Departure Provision finding had been withdrawn and NAO would now finalise the audit in this area.
- 5.9.2 noted the Overstatement of Accruals finding resulting in an audit adjustment of £500k this year would be resolved in the next few days on receipt of further information from Natural England, and would not be an issue in future years after introduction of Discoverer that would provide better financial information.
- 5.9.3 noted the recognition of the Estate Rationalisation Programme would result in an increase in provisions and expenditure of a further £1m.
- 5.9.4 noted that since Genesis would not transfer to Natural England before the recess, if at all, a post balance sheet adjustment would not be necessary.
- 5.9.5 noted the inconsistencies in the accounts for secondees because of issues with records provided by SSD but that this could be resolved with some consequential changes to the disclosure.
- 5.10 The Committee noted the summary of significant adjustments and the unadjusted differences that would be finalised at the end of the audit.
- 5.11 The Committee noted the audit methodology for the VFM Study of SSSIs and NAO's protocol on the security of the transfer of information between the two organisations that had been requested at the last meeting.

#### **6. Risk Management (AC/7/P5)**

- 6.1 Dave Webster introduced the item that provided the Committee with the opportunity to consider the outcomes of the pre-meeting with stakeholders and to note the current position on risk management.
- 6.2 In reviewing the risk workshop the Committee concluded that Natural England had been innovative in engaging with stakeholders to review its strategic risks, and that it had found the session very useful. Issues that had emerged from the pre-meeting included:
- 6.2.1 confirmation that Natural England's risk management processes were robust but that it was difficult to articulate specific, as opposed to, general risks.

- 6.2.2 recognition that Natural England could be more effective by sharing issues, and the need to see ourselves as others see us.
- 6.2.3 recognition of the need to engage with others outside Natural England's sector to identify and manage risks.
- 6.3 The Committee noted the current status of the strategic risk register and endorsed the process for reviewing the organisation's top level risks. In discussing the strategic risks the Committee advised:
  - 6.3.1 that funding from Defra should include the danger of reduced GIA if external funding was successful and advised that the management of the relationship with Defra was important here.
  - 6.3.2 that there would be benefits from the Futures Team being involved in the risk process and noted the plans to align the futures programme with the workforce strategy and medium term financial strategy.
  - 6.3.3 on the risks associated with the sustainability target.
  - 6.3.4 that a change in Government could be a threat or an opportunity, but also advised that changes in the machinery of Government were also a risk.
  - 6.3.5 that lack of appropriate anticipation was a risk.
  - 6.3.6 that the risk management internal audit report reminded of the need to focus on outcomes and not outputs and looked at in this way the risks could be reduced to seven because of overlaps.
- 6.4 The Committee explored options for the format and content of the Board risk workshop that would be informed by ELG, Executive Board and Audit and Risk Committee discussions. It would be wasteful of Board time and all this preparatory work for their workshop to be very open-ended, but they should not be faced with a fully polished draft which left them with little room for manoeuvre and imaginative suggestions. In discussion the Committee suggested asking the Board to prioritise the top ten risks from a longer list, asking each member to put forward a risk, or listing issues and asking the Board to articulate the risk. It was agreed that further consideration would be given to the Board's September workshop and that Dave Webster would refer back to the Committee if necessary. **(Action: Dave Webster)**

## **7. Defra Shared Services Directorate (AC/7/P6)**

- 7.1 Paul Lambert introduced the Defra Shared Services (SSD) action plan that had been drawn up following the independent report commissioned to review shared service delivery options. In discussion the Committee:
  - 7.1.1 expressed concern that while Natural England had confirmed that it would resource the plan, confirmation had yet to be received from SSD.
  - 7.1.2 advised that it was important to obtain commitment from SSD because there was a risk that its management time would be diverted to Project Synergy.

- 7.1.3 expressed concern over the apparent lack of urgency from SSD in getting Natural England's service up to acceptable standards.
- 7.1.4 advised that waiting for improvements was not the answer and that opportunities should be taken to seek change through the new Defra Finance Director and Chief Executive of SSD.
- 7.2 The Committee noted the latest position on SSD Project Synergy and in discussion:
  - 7.2.1 welcomed Natural England's involvement in Project Synergy and the resources to be devoted to the procurement process.
  - 7.2.2 noted the timescale and reasons for implementation not being possible before April 2010 and the need to manage the risk in the interim.
  - 7.2.3 asked what else could be done to influence change and noted that good working relationships were established to manage day to day performance through KPIs and noted that Dave Webster was a member of the project board that met monthly and would take the key recommendations on the project.
  - 7.2.4 expressed concern about the VAT issue that if Natural England had to pay for its own service provider it would result in a loss of 17.5% of total cost.
- 7.3 In conclusion the Committee requested SSD to be raised as a standard agenda item and asked Paul Lambert to bring an update to the next meeting. **(Action: Paul Lambert)**

## **8. Internal Audit Report (AC/7/P7)**

- 8.1 Mike Doughty introduced his report that gave an update on the specific outputs from recently completed reviews and progress on the 2008/09 programme.
- 8.2 The Chair asked whether the workload and following up management actions was being handled expeditiously and in discussion the Committee:
  - 8.2.1 welcomed the good start to the 2008/09 internal audit programme according to plan;
  - 8.2.2 recognised that management took the control environment seriously but suggested logging management actions that were overdue in the summary table as this would be a useful control indicating if there was going to be a problem. **(Action: Mike Doughty)**
  - 8.2.3 noted an additional control over management actions was the review at teams' quarterly performance meetings with Executive Directors.
- 8.3 In reviewing recent final internal audit reports the Committee noted the correlation between areas covered and the significant issues in the Statement on Internal Control that in turn reflected the strategic risks. The Committee noted the Natural England final reports on Organisational Reputation - Support Systems and External Communications, Scheme Payments, Access

to Nature and Business Continuity and from other review bodies' reports on Environmentally Sensitive Areas and Catchment Sensitive Farming. Two of the final reports had specific issues for non-executives and the Committee:

- 8.3.1 raised the issue of there having been no Board discussion about external communications since early 2007 and concluded that it would now, having been through the strategy refresh, be appropriate to discuss Natural England's brand.
- 8.3.2 endorsed annual consideration of risk by the Board and as a Committee would wish to repeat its annual assessment of risk management arrangements that should be confirmed in the schedule of business. **(Action: Emily Finnie)**

## **9 Cases of Fraud or Presumptive Fraud**

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

## **10 Audit Committee Review of Meeting and Forward Look (AC/7/P8)**

- 10.1 The Committee reviewed the meeting and concluded:
- 10.1.2 the risk workshop with stakeholders had provided a good amount of time to address strategic risks. It repeated it would be the intention to give stakeholders more notice as a number had said they would have liked to attend if not already committed to other engagements. It was noted that David Webb would provide a synopsis that together with the flip chart notes would be sent to Audit and Risk Committee members and attendees. **(Action: Emily Finnie)**
- 10.1.3 it had been a good meeting well chaired by Christopher Pennell. The amount of business at the June meeting was always a challenge but the level of attention to the annual report and accounts at the pre-meeting on 2 June had given confidence to other members.
- 10.1.4 the Audit and Risk Committee annual report to the Board that had not been included on the agenda because of pressure of other business should be cleared by correspondence after the Chair's meeting with the Board's Chair on 23 July (Note:rearranged for 19 or 20 August). **(Action: Christopher Pennell and Emily Finnie)**
- 10.2 The Committee noted that in addition to the standard programme of business the agenda for its next meeting on 10 September would include:
- Health and Safety Annual Report
  - Defra Shared Services
  - Losses and Special Payments Report
  - Formal consideration of the Committee's annual report to the Board
- However it was noted that it would be too early for the NAO's audit strategy for 2008/2009 which instead would be taken at the December meeting. **(Action: Emily Finnie)**

10.3 The Chair reminded the Committee that it could suggest agenda items and it was requested that Genesis and associated risks, progress on regional delivery, the futures programme and the new corporate planning and reporting systems should be given further consideration for a future agenda or training session.**(Action: Christopher Pennell and Dave Webster)**

10.4 The Committee noted and agreed the proposals for its training programme with attendance at the NSG Audit Committee conference and a further tailor made day with NSG and PWC and/or internal and external audit, and asked for the Secretariat to make bookings for the conference on 27 November and to find dates towards the end of the year for the second training day.  
**(Action: Emily Finnie)**

## 11 Any other Business

11.1 There was none.

### Action Points

#### Seventh Meeting of the Natural England Audit Committee –18 June 2008

No	Min ref	Action	Responsibility	Action taken
1	3.2.7	Enhance the Statement on Internal Control to include the three areas of control weakness in SSD identified by Defra internal audit.	Paul Lambert	
2	3.3.1	Check provisions for assurance in IBM contract.	Dave Webster and Paul Lambert	
3	3.3.2	Amend Statement on Internal Control to reflect Audit and Risk Committee discussion.	Paul Lambert	
4	5.3.1	Provide some wording used by other NDPBs for inclusion as an explanatory note about the negative balance on the balance sheet.	Maggie McGhee and Jo Raby	
5	5.3.3	Consider producing a pie-chart to show programme expenditure for 2007/08 and provide a brief explaining any discrepancies between 2006/07 and 2007/08 for questions and answers following publication of the Annual Report and Accounts.	Paul Lambert	
6	5.3.4	Bring 2007/08 Losses and Special Payments report to next meeting.	Paul Lambert	
7	5.4	Provide additional guidance to clarify the dates Board member information should relate to with a view to having a final version for approval at the Board on 25 June.	Paul Lambert and Board and Executive Services	
8	5.5	Incorporate the Committee's comments in the next version of the annual report and accounts to be tabled at the Board meeting.	Paul Lambert	

9	5.6	Find a date at the end of the month to give 'on file' and teleconference consideration to the resolution of final issues raised in the interim and final NAO reports.	Secretariat	
10	6.4	Give further consideration to arrangements for the Board's risk workshop in September	Dave Webster	
11	7.3	Bring an update on Defra Shared Services to the September meeting.	Paul Lambert	
12	8.2.2	Log overdue management actions in the summary table.	Mike Doughty	
13	8.3.2	Add review of assessment of risk management process to annual programme of business	Emily Finnie	
14	10.1.2	Send synopsis of risk workshop to members and attendees.	Emily Finnie	
15	10.1.4	Draft Committee's annual report to the Board and clear by correspondence.	Emily Finnie and Christopher Pennell	
16	10.2	Include items suggested at June meeting on September meeting agenda.	Emily Finnie	
17	10.3	Give further consideration to Genesis and associated risks, progress on regional delivery, the futures programme and the new corporate planning and reporting systems, for a future agenda or training session.	Christopher Pennell and Dave Webster	
18	10.4	Book members onto NSG Audit Committee conference and find dates for a second training day.	Emily Finnie	
19	Annex 1 1.4	Advise Members when the Annual Accounts and Accounts have been laid before Parliament.	Paul Lambert	
20	Annex 1 1.4	Provide an progress report on the NAO Management Letter action plan to the September meeting.	Paul Lambert	

## Natural England Audit and Risk Committee

*Paper No: Annex 1 to AC/7/M1*

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

**30 June 2008, 16.00-16.35**

**Present:** Christopher Pennell Chair  
Poul Christensen  
David Hill

**In attendance:** Dave Webster Executive Director Corporate Services  
Margaret McGhee Director, National Audit Office  
Joanne Raby National Audit Office  
Mike Lonsdale National Audit Office  
Paul Lambert Director of Finance  
Emily Finnie Internal Audit Team Leader (Secretariat)

**Apologies:** Ian Scott  
Pam Warhurst  
Helen Phillips Chief Executive

**Note:** As agreed at the meeting on 18 June (paragraph 5.6 of the minutes), this meeting was convened to give resolution of final issues raised in the interim NAO report that had been provided by NAO on 26 June and circulated on 27 June 2008. The meeting was held via teleconference.

### **1. NAO Interim Report for 2007/08 to Those Charged With Governance**

1.1 The Chair confirmed the position reached by the Audit and Risk Committee in consideration of the NAO 2007/08 audit findings. The Committee noted that it had considered the first progress report on the interim audit at its meeting on 10 March and on the final audit on 18 June. The interim audit had now been completed (dated 2 April) and benefited from inclusion of management

responses. The Committee was invited to review the NAO's observations and recommendations and management's responses. The Committee noted that management would be drawing up an action plan and agreed that it would wish to monitor progress at future meetings.

1.2 Maggie McGhee introduced NAO's report that concluded that control systems were bedding in and developing constantly as would be expected in a new organisation, and that this was reflected in the recommendations and management responses. The Committee was pleased to note that there were no findings that were 'show stoppers'.

1.3 The Committee considered each of the key audit findings and management responses and in discussion:

1.3.1 **High level financial management reporting (Recommendation 1)**

- Noted the recommendation raised in relation to a potential risk of overspend and that assurances given by management demonstrated that there were adequate controls for Defra reporting, GIA call down and resource accounting.
- Advised that management reporting needed to be concise and useful and advised against management reporting being made too unwieldy and complicated.

1.3.2 **Recommendations 2, 3 and 4**

- Noted the three interlinked recommendations about how financial management reporting could be extended and management's responses, and had no issues to raise.

1.3.3 **Validation of Monthly Account Reconciliations (Recommendations 5 and 6)**

- Noted that while the control of account reconciliations was taken seriously by management, re-performance tasks were not accepted as good use of specialist staff time when SSD had been set up to undertake transactional work for Natural England.
- Endorsed the agreement reached with NAO that Natural England would re-perform for interim and end of year accounts linked to key control events.

1.3.4 **Recommendation 7**

- Noted the recommendation and management response for the observations about outstanding migrated balances remaining unpaid.

1.3.5 **Management of Management Accounts to the Interim Nine Month Account (Recommendation 8)**

- Noted that the finding about the reconciliation of the management and statutory accounts was difficult for all organisations and that management had undertaken to look again at the best way of presenting this.

1.3.6 **Monitoring of Corporate Plan Target Budgets (Recommendation 9)**

- Noted NAO's observations on the monitoring of corporate plan target budgets and shared management's concern that NAO had been unable to place reliance on the adequacy of the monitoring control and had to undertake more substantial testing.

- Noted NAO's expectation that it would be able to place reliance on high level controls next year.

1.3.7 **Aggregates Levy Sustainability Fund Memorandum of Understanding (Recommendation 10)**

- Noted the recommendation and management's response.

1.3.8 **Authorisation of Government Procurement Cards (Recommendation 11)**

- Noted the recommendation and management's response and welcomed the opportunity to be provided by a replacement system to improve the controls.

1.4 In conclusion the Committee welcomed confirmation that the Annual Report and Accounts were on schedule to lay before Parliament on 14 July 2008. Members asked to be advised once the accounts had been laid. **(Action: Paul Lambert)** Finance Team was asked to provide a progress report on its action plan to the next meeting. **(Action: Paul Lambert)**

1.5 The Chair expressed the Committee's appreciation of the manner in which the NAO had conducted the external audit for this first full year of Natural England's existence. The carefully planned timetable for the audit had been a great improvement on the previous year for both parties.