# Scotland's Nature Agency

# Title: Audit and Risk Committee Annual Report 2021/22

**Date: 18 May 2022**

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| **Purpose:** | Information |
| **How does this link with our corporate priorities of improving biodiversity or delivering nature-based solutions to climate change:** | Governance as an overarching framework covers all NatureScot outputs, which are firmly linked to the corporate priorities of Protect, Restore, and Value. |
| **Summary:** | This report has been produced to summarise the work undertaken by the Audit and Risk Committee (on behalf of the Board of NatureScot) during 2021/22, and follows the format set out in the Scottish Government Audit and Assurance Handbook published in April 2018. |
| **Actions:**  | Board members to consider the work of the Audit and Risk Committee set out in this paper. |
| **Recommendations:**  | Board members are asked to acknowledge the work of the Audit and Risk Committee during the period 2021/22 as being relevant to support the Board in upholding its governance responsibilities. |
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| **Sponsor:**  | Ian Gambles, Audit and Risk Committee Chair |
| **Appendices**:  | Annex 1 - 2021/22 Internal Audit Plan |

# Purpose

1. This report summarises the main work of the Audit and Risk Committee during the reporting period 1 April 2021 to 31 March 2022.

2. The report has been produced to summarise the work of the ARC in support of the Board of NatureScot in its governance role.

# Background

## AUDIT AND RISK COMMITTEE MEETINGS

3. The ARC holds four core business meetings per financial year, with a separate meeting held in July for the review of the Annual Accounts. The key leads attending are:

* Accountable Officer
* Director of Business Services and Transformation
* Head of Finance, Planning and Performance
* Head of Internal Audit
* Planning and Performance Manager

4. Representatives of Audit Scotland have a standing invitation to attend both the Open and Closed sessions of all ARC Meetings, and have attended all during 2021/22.

5. Kate Broughton continued to Chair the ARC during 2021/22, and was joined by members Cath Denholm, Jackie Hyland, Nikki Yoxall and Ian Gambles.

## NATURESCOT INTERNAL AUDIT SERVICES

6. The substantive NatureScot in-house complement for the Internal Audit function is 1.73 full time equivalents (FTE)

• 0.73 F grade Head of Internal Audit;

• 1 D grade auditor.

7. During 2021/22 the in-house team was supplemented by a co-sourcing contract with Azets. This provides additional and flexible audit resources when required, including access to specialists such as computer and financial auditors.

## AUDIT SCOTLAND EXTERNAL AUDIT SERVICES

8. NatureScot has continued to receive the services and advice of Audit Scotland during 2021/22. We have been advised that for the 2022/23 financial year, the external auditor will be changing to Mazars.

9. The work of Audit Scotland for the 2021/22 financial year will include an independent opinion on the Financial Statements and additional information within the Annual Reports and Accounts. Audit Scotland will also review and report on the arrangements within NatureScot to manage performance, and regularity.

# 2021/22 Summary

## NATURESCOT ANNUAL INTERNAL AUDIT PLAN FOR 2021/22

10. Annex A summarises the 2021/22 Internal Audit Plan. All audits were completed as well as agreed consultancy input to a range of project boards or ongoing governance groups. The 2021/22 Annual Internal Audit Report, including the Head of Internal Audit’s annual assurance on the organisation’s internal control, risk and governance framework was presented to the ARC on 12 May 2022. This report outlined that 6 limited assurances were given during that period, relating to:

* Transforming the Workplaces;
* EBS Cloud Post Project Review;
* Lessons Learned Follow-Up;
* Project Management Approach;
* Forecasting Model;
* Ring Fenced Funding Approach.

11. Whilst this number of limited assurances is unusual, there is commonality in relation to the weaknesses and their root causes:

* Project management and ensuring that business support is focused on the key work areas.
* The challenging operating environment during 2021/22, balancing staff resource across the pandemic response, continuing to deliver business as usual and accelerating transformation work to support priorities in the new Corporate Plan and the new hybrid working environment.

12. Notwithstanding the limited assurance audits this year, given the scope and status of the 2021/22 audit plan and cumulative knowledge of control issues, the Head of Internal Audit was able to provide an assurance to the Accountable Officer that NatureScot’s framework for internal control, risk management and corporate governance is sound and the recommendations from the various audits will improve it further.

## INTERNAL AUDIT PERFORMANCE INDICATORS

13. The internal audit performance indicators for 2021/22 to date are set out in **Table 1**. Whilst the Priority 1 recommendation rate did not meet the agreed KPI, at the end of 2021/22, there were no delayed Priority 1 recommendations remaining.

**Table 1: Performance Indicators 2021/22**

| **Audit Team Performance Indicator** | **Target** | **Progress** |
| --- | --- | --- |
| Staff Adequately Qualified | 100% | 100% |
| Management of Closure Process – draft reports to HIA by agreed deadline. | 100% | 100% |
| Customer Satisfaction – average overall score out of 5 (1 = poor, 5 = excellent). | 4 | 4.1 |
| **Follow-up Performance Indicator** | **Target** | **Progress** |
| Priority 1 Recommendations – rolling average implementation rate. | 85% | 79% (at end of Q4 2021/22) |

## ANNUAL REPORT AND ACCOUNTS

14. The Annual Report and Accounts were submitted to the Audit and Risk Committee in July 2021. The Committee was assured by the information provided by NatureScot’s Finance Team and Audit Scotland, and was content to recommend approval of the ‘Draft’ Annual Report and Accounts for 2020/21 by the Chief Executive as NatureScot’s Accountable Officer.

## GOVERNANCE STATEMENT

15. The draft Governance Statement for 2020/21 was presented to the Audit and Risk Committee in May 2021. The Committee was assured by the information provided and concluded that the evidence adequately reflected the organisation’s governance arrangements during 2020/21.

## RISK MANAGEMENT

16. The Audit and Risk Committee discussed the corporate risks at the end of each quarter. The ARC is satisfied with the overall management of risk within NatureScot, and has continued to consider ‘deep dives’ looking specifically at those risks that have been static for some time. Horizon scanning is also undertaken, giving an opportunity to look ahead at potential areas of risk, and suggest appropriate mitigating action.

17. Deep dives considered during 2021/22:

* Risk 283 – Wildlife Management
* Risk 137 – Staff Management
* Risk 679: Land Parcel Ownership/Management Contact Data

18. The Audit and Risk Committee received the Annual Risk Management Review for 2020/21 and Risk Management Action Plan 2021/22 at its meeting in May 2021. The Committee endorsed the Risk Management Action Plan for 2021/22 and discussed the 3 initial actions recorded.

19. Members have closely monitored progress on the Structural Funds risk, receiving updates both at their meetings and outwith. The Board were also kept informed of developments via quarterly updates from the ARC Chair, as well as by communications outwith meetings.

## INFORMATION MANAGEMENT & CYBER SECURITY

20. The Audit and Risk Committee is provided with quarterly Virus & Malware risk reports, as well as an Information Management Threat Assessment. These reports provide details on the level of virus activity and cyber security threats experienced by NatureScot and resultant remedial or pre-emptive action during each quarter.

21. The current level of cyber security and information management risk to NatureScot is currently at High. NatureScot’s current Information Management and Cyber Security controls continue to provide an adequate level of security, with 5 out of 6 compliance areas rated green.

22. After their cyber-attack, SEPA published a list of actions to be taken to protect their organisation from similar attacks in the future. This list was shared with NatureScot, and work is ongoing to implement the changes relevant to the IS infrastructure and software.

## ISO27001, CYBER ESSENTIALS AND CYBER ESSENTIALS PLUS CERTIFICATION

23. We are currently taking forward an external review on our alignment with ISO27001:13. The previous assessment in January 2021 showed good progress with a high equivalent compliance score.

## GENERAL DATA PROTECTION REGULATION

24. The ARC has maintained visibility of data protection issues and NatureScot continues to monitor compliance with the GDPR. No significant issues have arisen during the year. The ARC has begun to focus more on wider information management issues, where progress on the development of information asset registers has been relatively limited, partly as a result of the pandemic.

## MID-YEAR FINANCIAL REPORT

25. The Audit and Risk Committee received its mid-year financial report for 2021/22 at its November 2021 meeting, enabling their challenge and scrutiny.

26. The following key themes were identified for the second half of the financial year:

* Additional Budget Allocations
* Structural Funds
* Scottish Government Budget Pressures and Planning
* Glencripesdale Sale

## MEDIUM TO LONG TERM FINANCIAL PLAN

27. The Audit and Risk Committee considered the Medium to Long Term Financial Plan (MLTFP) at its May 2021 meeting. This was the first time that such a plan had been considered at ARC.

28. The following key themes were identified in the plan:

* Grant in Aid Funding
* Leverage (Structural Funds, Green Finance)
* External Funding
* Income Generation
* Transformation
* Capital Investment

29. It was noted that the MLTFP will develop in response to the new Corporate Plan for 2022-26 and the Resource Spending Review (RSR) expected to be published at the end of May 2022. The RSR, in particular, will provide much greater certainty over the Grant-in-Aid funding that NatureScot can expect for the next 5 years.

1. The next version of the MLTFP will be shared with the Audit and Risk Committee in the second half of 2022.

**AUDIT AND RISK COMMITTEE SELF-ASSESSMENT EXERCISE**

31. The Audit and Risk Committee undertakes a self-assessment exercise every two years. The exercise took place in February 2021, and identified some minor actions to take forward prior to the next exercise, which will take place in February 2023.

## VALUE ADDED BY THE AUDIT AND RISK COMMITTEE

1. In addition to the ARC’s responsibilities for reviewing the comprehensiveness of assurances through a process of constructive challenge, they have also added value to the organisation in the following ways:
* Maintaining and developing relationships to continue an open and transparent culture.
* Suggesting and supporting the refresh on risk appetite in support of the new Corporate Plan.
* Providing oversight of limited assurances and the common threads between Structural Funds.
* Continuing review of Corporate Risk deep dives by the ARC.
* Continuing oversight by the ARC of the organisation’s response to the Covid-19 pandemic.

### Recommendations

33. It is recommended that the Board acknowledges the activities of the Audit and Risk Committee during 2021/22 as being relevant in supporting the Board in upholding its governance responsibilities.

### Annex 1: 2021/22 Internal Audit Plan

**2021/22 Project Boards/Teams Contribution:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Audit** | **Origin** | **Corporate Plan Link** | **Progress/Start Date** | **Assurance Level** | **Anticipated Date to ARC** |
| Review of Governance Statement Evidence | Governance Statement | Outcome 4 | Advisory role - undertaken | N/A | N/A |
| Information Security Forum | Ongoing Group | Outcome 4 | Advisory role - undertaken | N/A | N/A |
| Business Transformation Steering Group | Corporate Risk 85 | Outcome 4 | Advisory role - undertaken | N/A | N/A |
| MS365 Programme Board | Director Request & Corporate Risk 85 | Outcome 4 | Advisory role - undertaken | N/A | N/A |
| Organisational Design | Directors Request & Corporate Risk 85 | Outcome 4 | Advisory role - undertaken | N/A | N/A |

**2021/22 Required Audits:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Audit** | **Origin** | **Corporate Plan Link** | **Progress/Start Date** | **Assurance Level** | **Anticipated Date to ARC** |
| 2021/22 Risk Management System | Governance Statement & PSIAS | Outcome 4 | Closed | Good | May 2022 ARC |

**2021/22 Other Audits:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Audit** | **Origin** | **Corporate Plan Link** | **Progress/Start Date** | **Assurance Level** | **Anticipated Date to ARC** |
| Delivery of the Climate Change Peatland Action Target | Weak Assurance & Corporate Risk 253 | Outcome 2 & 3 | Closed | N/A – health-check | May 2022 ARC |
| Lessons Learned Framework | Weak Assurance & Corporate Risk 85 | Outcome 4 | Closed | Limited | February 2022 ARC |
| EBS Cloud Move – Post Project Review | Major Change Project & Corporate Risks 21, 85 & 137 | Outcome 4 | Closed | Limited | November 2021 ARC |
| Covid-19 Lessons Learned | Corporate Risk 583 | Outcome 1, 2, 3 & 4 | Closed | N/A – Lessons Learned | May 2022 ARC |
| Ring Fenced Funding (Azets) | Corporate Risk 21 | Outcome 2 & 4 | Closed | Limited | May 2022 ARC |
| Forecasting Model (Azets) | Corporate Risk 21 | Outcome 4 | Closed | Limited | May 2022 ARC |
| Marine Protected Areas Stakeholder Engagement | Corporate Risk 53 | Outcome 2 | Closed | Satisfactory | February 2022 ARC |
| Orkney Native Wildlife Project | Major Change Project & Corporate Risk 283 | Outcome 3 | Closed | Satisfactory | May 2022 ARC |
| Project Management Approach | Director Request | Outcome 4 | Closed | Limited | February 2022 ARC |
| Effectiveness of Transforming the Workplace | Corporate Risk 85 | Outcome 4 | Closed | Limited | August 2021 ARC |