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# Title: Audit and Risk Committee Annual Report 2022/2023

**Date: 22 June 2023**

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| --- | --- |
| **Purpose:** | Decision |
| **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 2022/23, 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 endorse the work of the Audit and Risk Committee during the period 2022/23 and confirm that it is effective in supporting the Board in upholding its governance responsibilities. |
| **Report Authors:** | Helen McGeorge, Head of Internal AuditDavid Johnston, Head of Finance, Planning & PerformanceSara Lewis, Governance Support Manager Jane Macdonald, Director of Business Services & Transformation |
| **Sponsor:**  | Ian Gambles, Audit and Risk Committee Chair |
| **Appendices**:  | Annex 1 - 2022/23 Internal Audit Plan |

# Purpose

1. This report summarises the main work of the Audit and Risk Committee during the reporting period 1 April 2022 to 31 March 2023.

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, which was held in December, for the review of the Annual Report & 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, and lately Mazars, have a standing invitation to attend both the Open and Closed sessions of all ARC Meetings, and have attended all during 2022/23.

5. Ian Gambles took over from Kate Broughton as ARC Chair in April 2022. Members are Nikki Yoxall (from May 2021), Colin MacPhail and Heather Reid (from May 2022) and Margaret Davidson (from September 2022).

## 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 2022/23 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 received the services and advice of Mazars during 2022/23, however Audit Scotland remained in attendance at ARC meetings until the Annual Report and Accounts had been formally signed in December 2022.

9. The work of Mazars for the 2022/23 financial year will include an independent opinion on the Financial Statements and additional information within the Annual Reports and Accounts. Mazars will also review and report on the arrangements within NatureScot to manage performance, and regularity.

# 2022/23 Summary

## NATURESCOT ANNUAL INTERNAL AUDIT PLAN FOR 2022/23

10. Annex A summarises the 2022/23 Internal Audit Plan and the control assessments of the areas reviewed. All audits were completed as well as agreed consultancy input to a range of project boards or ongoing governance groups. The 2022/23 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 11 May 2023.

11. This report showed that NatureScot’s framework for internal control, risk management and corporate governance is broadly sound, with a number of well controlled areas. However, there were some areas that needed strengthening, including:

* Operation of NatureScot’s Health & Safety Risk Framework.
* Corporate Plan Measures of Success.
* Stakeholder Engagement Framework.
* Project Management Approach.

12. These areas often had common themes – having effective measures of success, monitoring of progress and subsequent follow-up. Improvements will be tracked through formal internal audit recommendations (some of which have already been completed) or follow-up audits.

## INTERNAL AUDIT PERFORMANCE INDICATORS

13. The internal audit performance indicators for 2022/23 are set out in **Table 1**. Whilst the Priority 1 recommendation implementation rate did not meet the agreed KPI, at the end of 2022/23, there were no delayed Priority 1 recommendations remaining (which represent areas of high risk).

**Table 1: Performance Indicators 2022/23**

| **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% | 68% (at end of Q4 2022/23) |
| All Recommendations – rolling average implementation rate. | N/A | 69% (at end of Q4 2022/23) |

## ANNUAL REPORT AND ACCOUNTS

14. The Annual Report and Accounts were submitted to the Audit and Risk Committee in December 2022. 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 2021/22 by the Chief Executive as NatureScot’s Accountable Officer.

## GOVERNANCE STATEMENT

15. The draft Governance Statement for 2021/22 was presented to the Audit and Risk Committee in May 2022. The Committee was assured by the information provided and concluded that the evidence adequately reflected the organisation’s governance arrangements during 2021/22.

## 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 2022/23:

* Risk 71 – NatureScot’s responsibilities for delivery of AECS under the SLA with Scottish Government
* Risk 691 - Lack of Support for FUSION Financial and Procurement Modules
* Risk 393 - Future Funding of NatureScot

18. The Audit and Risk Committee received the Annual Risk Management Review for 2022/23 and Risk Management Action Plan 2022/23 at its meeting in May 2023. The Committee endorsed the Risk Management Action Plan for 2023/24 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.

## INFORMATION MANAGEMENT & CYBER SECURITY

20. The Audit and Risk Committee is provided with quarterly Security Threat Assessment reports, as well as alternating quarterly Information Management and Information & Cyber Security reports. These reports provide details on information management risks and issues; 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 cyber security risk to NatureScot is currently judged as High. NatureScot’s current Information Management and Cyber Security controls continue to provide an adequate level of security, with 4 out of 6 compliance areas rated green.

## ISO27001, CYBER ESSENTIALS AND CYBER ESSENTIALS PLUS CERTIFICATION

22. Colleagues are currently taking forward an external review on NatureScot’s alignment with ISO27001. Five of the ten key actions in the report have been completed, the remaining five are making good progress to completion and expected delivery is Q1 2023/24. The next review of ISO27001:13 will be delayed slightly until the new control set is formally released.

23. NatureScot have obtained Cyber Essentials certification but were unable to obtain Cyber Plus. Colleagues in Technology and Digital Services are to complete the roll-out of the new smart phones with Mobile Device Management (MDM) before Cyber Plus certification can be taken forward. The other tasks that were impeding the re-certification progress have been completed.

## GENERAL DATA PROTECTION REGULATION

24. The ARC has maintained visibility of data protection issues and NatureScot continues to monitor compliance with the GDPR. Colleagues continue to embed the approach of working collaboratively with project teams on finding creative solutions to data protection that enhance privacy as well as deliver project outcomes. Colleagues also continue to support the roll out of the M365 project. Most data protection advice is still provided on request and demand has remained steady across Q1 & Q2 this financial year. DPO resource is 1.1 FTE, however 0.5 FTE of that is currently deployed to support Freedom of Information (FOI) demands. This means the proactive, policy side of GDPR has not progressed as much as hoped. However, expected changes to the UK GDPR and Data Protection Act (2018) proposed by the UK Government mean that any policy work done now is likely to need reworked in the coming months.

## MID-YEAR FINANCIAL REPORT

25. The Audit and Risk Committee received its mid-year financial report for 2022/23 at its November 2022 meeting, enabling their challenge and scrutiny.

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

* Cost of Living Pressures.
* Additional Budget Allocations
* Structural Funds
* Scottish Public Finance Pressures, In-year spending controls and budget monitoring
* Glencripesdale Sale
* Internal Audit Recommendations on Forecasting and Ring Fenced Funds

## MEDIUM TO LONG TERM FINANCIAL PLAN

27. The Audit and Risk Committee considered the Medium to Long Term Financial Plan (MLTFP) at its November 2022 meeting.

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 outlook for Grant in Aid remains the largest factor with a high degree of uncertainty. The Resource Spending Review announced in May did not provide the anticipated detail at individual organisation level and had been overtaken later in the year by the effect of cost of living pressures on public finances.

1. The views of the Committee were sought on the approach, key financial themes and how the plan should be developed following the budget announcement in December 2022, to ensure it adds value to Committee.
2. The next version of the MLTFP will be shared with the Audit and Risk Committee in the second half of 2023 and will be incorporated into the Finance Update.

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

32. The exercise took place in May 2023, and included an extended discussion of the ARC’s strategic priorities and ways of working. The outcomes from this self-assessment are expected to further improve the effectiveness of the ARC, and will be implemented over the coming months, in discussion with the Chair of the Board where appropriate. The self-assessment will be conducted again in 2025.

## 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.
* Providing oversight of limited assurances on the Structural Funds risk.
* Continuing review of Corporate Risk deep dives by the ARC.

### Recommendations

34. Board members are asked to endorse the work of the Audit and Risk Committee during the period 2022/23 and confirm that it is effective in supporting the Board in upholding its governance responsibilities.

### Annex 1: 2022/23 Internal Audit Plan

**2022/23 Project Boards/Teams Contribution:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Audit** | **Origin** | **Corporate Plan Objective** | **Progress/Start Date** | **Control RAG Rating** | **Date to ARC** |
| Review of Governance Statement Evidence | Governance Statement | New Ways of Working | Advisory role - completed | **Majority of Key Business Controls in Place and Working** | N/A |
| Information Security Forum | Corporate Risk 47 | New Ways of Working | Advisory role - completed | **Operating Well**  | N/A |
| Business Transformation Steering Group | Corporate Risk 85 | New Ways of Working | Advisory role – completed  | **N/A - Group Stepped Down**  | N/A |
| MS365 Programme Board | Transformation Project & Corporate Risk 85 | New Ways of Working | Advisory role - completed | **Operating Well** | N/A |
| Paybill Oversight | Mid-Year Review | New Ways of Working | Advisory role - completed | **New Paybill Modeller Developed for 2023/24** | N/A |

**2022/23 Audits:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Audit** | **Origin** | **Corporate Plan Objective** | **Progress/Start Date** | **Assurance Level / Control RAG Rating** | **Date to ARC** |
| Workload Prioritisation and Management | Corporate Risk 137 | New Ways of Working | Closed | **Satisfactory** **(Design of New Framework)** | August 2022 (Stage 1)May 2023 (Stage 2) |
| SRDP Service Level Agreement Compliance | Corporate Risk 71 | New Approaches to Agriculture | Closed | **Satisfactory** | August 2022 |
| Staff Wellbeing Framework | Corporate Risk 137 | New Ways of Working | Closed | **Satisfactory** | November 2022 |
| Health & Safety Risk Framework | “What Keeps You Awake At Night” Sessions | New Ways of Working | Closed | **Satisfactory (Design)** | **Limited (Operation)** | February 2023 |
| Corporate Plan Measures of Success | Corporate Risk 645 & 646 | All Corporate Plan Objectives | Closed | **Limited (Measures)**  | **Satisfactory (Reporting)** | May 2023 |
| Stakeholder Framework | Corporate Risk 646 | New Ways of Working | Closed | **N/A (Health Check)** | February 2023 |
| Business Continuity Arrangements – Azets | Corporate Risk 47 | New Ways of Working | Closed | **Satisfactory** | February 2023 |
| Project Management Follow-Up | Limited Assurance | New Ways of Working | Closed | **N/A (Health Check)** | May 2023 |
| Green Finance Strategy | Corporate Risk 393 | Natural Capital | Closed | **N/A** **(Future Development Areas)** | May 2023 |
| Internal Audit Quality Assessment – Azets | Public Sector Internal Audit Standards | New Ways of Working | Closed | **Generally Conforms** | November 2022 |