

Board Paper

Date

29 November 2023

Title

Annual Report and Accounts

Report Author

Angel Lai, Head of Finance and Corporate Services

Responsible Executive Director

Richard Greenhous, Chief of Staff

Paper for decision

Issue

1. The first draft of the Annual Report and Accounts (AR&A) were tabled to ARAC in August. The audit has now taken place and the final AR&A are planned to be published in December.

Recommendation

2. The Board is recommended to:
 - a. Note that Natalie Prosser, as Accounting Officer, has reviewed the AR&A and is satisfied that the information contained within is accurate.
 - b. Note the content of ARAC's report to the Board on its business in the year 2022/23.
 - c. Consider ARAC's recommendation to the Board on whether to approve the AR&A, which Paul Leinster, as chair of ARAC, will provide at the meeting following ARAC's earlier consideration of the AR&A.
 - d. Note that the ministerial review is currently occurring.
 - e. Consider and approve the AR&A, subject to any comments arising out of the ministerial review and finalisation of the external audit.
 - f. Agree to delegate the final approval of the AR&A and Letter of Representation to the Chair together with the Chief Executive in the event of amendments to the AR&A tabled today (arising from either the ministerial review or audit completion work).

Background

3. The draft AR&A were brought to ARAC in August, and again in November following the substantive audit work performed by the NAO and immediately prior to this meeting.
4. ARAC has prepared a report for the Board on its business and the assurance it received during the year 2022/23, which is tabled separately on the Board's agenda.
5. Paul Leinster will provide an oral update on ARAC's consideration of the AR&A and whether the Board should approve the AR&A subject to any comments arising out of the ministerial review and finalisation of the external audit.
6. Material amendments to the AR&A are examined in the Analysis section of this paper.

Analysis

Material amendments to the draft AR&A

7. All arms-length bodies (ALBs) publish AR&A. The AR&A is the key mechanism of accountability to Parliament, the public and stakeholders for our spending, efficiency, effectiveness, economy and therefore value for money. It is also a platform to explain our work, choices and impact.
8. The AR&A must be trustworthy, transparent, fair, balanced and understandable. There is extensive guidance setting out expectations for annual reports, and several good practice guides. Much of the content is prescribed, but we also have discretion - notably in the presentation of information above what is mandatory, and the structure of the performance report.
9. The expectations on the OEP are set in the Environment Act 2021: we must publish our annual report and accounts each year; our annual report and accounts must be laid before Parliament and the Northern Ireland Assembly; our annual report must include an assessment of whether the Secretary of State and the Northern Ireland Department provided us with sufficient sums to carry out our functions in the relevant financial year.
10. The expectations are standard, save for the last point. Counsel's opinion was sought to guide the production of our first AR&A last year, including whether the assessment is on the total funding provided or the constituent components from Defra and DAERA, and how we should take account of any operational restrictions that may be imposed on the use of funding we are provided. Wording has now been included in the AR&A as follows:

This section has been redacted as its publication would be prejudicial to the effective conduct of public affairs.

The Board is required to comment on the quality of the data received. The following wording has been added to the Governance Statement and we would like to draw the Board's attention to this.

"Data and information were provided to the board within the formal reports it received. This included information on complaints received, risks, progress in delivering our corporate plan

and certain other performance information. All information provided to the board was scrutinised and assured by the executive leadership in advance. The board judged the information it received proportionate and of appropriate quality.”

11. The NAO have provided ARAC with a draft Audit Completion Report This will be finalised and sent through at the end of the audit, along with the Letter of Representation. We are recommending that the Board delegates final approval of the Letter of Representation to the Chair of the ARAC together with the Chief Executive. At the time of writing this paper, the NAO have advised that “they anticipate recommending to the Comptroller and Auditor General(C&AG) that he should certify the 2022-23 financial statements with an unqualified audit opinion, without modification in respect of both regularity and the true and fair view on the financial statements”.

Northern Ireland

12. We include description of our work in Northern Ireland and the use of resources provided by DAERA. Given the very short period in which our remit in Northern Ireland was confirmed, there is limited specific content to disclose.

Finance and Resource

13. The proportionate approach to reporting aims to meet the needs of users in an efficient way.
14. We forecast £56k of non-pay expenditure related to the AR&A. This includes the NAO fees (£41k), some specific advice on accounting treatments and accounting policy (£10k) and printing fees (£5k). This is proportionate, with the largest element determined by the NAO.
15. The preparation of our AR&A is a significant undertaking. We forecast in total 0.8 FTE, mostly in the finance team. We have recruited specific staff to support this activity this year.

Impact Assessments

Risk Assessment

16. The ARAC agreed key areas of risk on which NAO focussed in its audit:
 - a. The deficiencies in internal control ARAC considered in its May meeting, relating to the entering of transactions on the accounting system and absence of timely reconciliations. We have disclosed these deficiencies in the governance statement, and the NAO is increased its testing alongside other activity to mitigate.
 - b. The accounting treatment of leases and the recognition of assets
 - c. The presumed risk of override of management controls.
 - d. The governance of the OEP’s first year of operations
17. There was a greater risk of errors being identified during audit than for most public bodies given the very low materiality threshold which applies to the OEP’s accounts (£105,000 overall, with an error reporting threshold of £2,100).

18. These are reflected in the external auditors' financial audit completion report. This states that they anticipate recommending to the Comptroller and Auditor General(C&AG) that he should certify the 2022-23 financial statements with an unqualified audit opinion, without modification in respect of both regularity and the true and fair view on the financial statements.
19. In summary, the auditors' assessment of the key areas of risk is:
- a. Significant Deficiencies in Internal Control – We were content the actions taken by management in year were sufficient to address the significant deficiencies identified during the planning of the audit, and our extensive audit testing did not indicate any additional impact on the ARA. Management will need to ensure the control environment is regularly maintained through the year and embedded in regular processes.
 - b. Presumed risk of management override of controls – From our testing, we did not identify any intentional instances of management override of control. However, our findings indicate the need for accounting decisions to be taken objectively, and for greater attention around cut-off issues such as prepayments and the year in which transactions are recognised.
 - c. Leases (IFRS 16) – From our testing, we identified errors relating to the calculation of the right of use asset and lease liability valuation. We also identified the incorrect recognition of a material dilapidations provision, which was adjusted and removed.
 - d. Recognition of assets – From our testing, we did not identify any issues relating to the recognition of assets in year.
 - e. OEP first full year of operations – We did not identify any issues within our testing relating to this being OEP's first full year of operations.
20. The threshold for mandatory sustainability reporting changed in year. Our work to develop our sustainability policy will be considered by the Board in December. It was not complete at the time of relevant data capture to support Defra's sustainability reporting. We have made the disclosures we are able and signal that we expect to make more information available in future years, notably as we occupy Wildwood and are able to obtain relevant data.
21. We do not anticipate material comment from the Ministerial review. Non-material comments will be considered by the Chair and Chief Executive, and (in the case of significant concern) any more substantive comment may need to be considered further by the Board. Defra are well aware of the timeline for approval required, to lay at the intended time.

Equality Analysis

22. No material equalities impacts have been identified.

Environmental Analysis

23. The AR&A explains our work to further our principal objective in the period.

Implementation Timescale

24. If the Board agrees this paper's recommendations, the AR&A need to be signed off by the Chair and Accounting Officer by 7 December in preparation of laying the accounts to the Parliament on 14 December 2023 and publication.

Communications

25. We are developing our communications plan. While important, we do not envisage the AR&A being a major publication event and our plans will be proportionate in that context, consisting laying in Parliament and the Assembly, publication on our website under cover of brief explanatory text, and reactive Q&A.
26. The 2022-23 AR&A will be available to all staff once published.

External Stakeholders

27. The draft 2022-23 AR&A was provided to Defra and DAERA for ministerial review and consideration on 16 November 2023.
28. We are also working with other key stakeholders (such as the House of Commons Environmental Audit Committee and House of Lords Environment and Climate Change Committee) to ensure they understand the position.

ANNEXES LIST

This section has been redacted as it contains information for future publication