

# Board Paper

<b>Paper Title:</b>	Board Briefing Note – Audit and Risk Assurance Committee Meeting 7 <sup>th</sup> December 2018
<b>Paper Reference:</b>	<b>NRW B 19.06</b>
<b>Paper Sponsored By:</b>	<b>Karen Balmer, Chair of Committee</b>
<b>Paper Presented By:</b>	<b>Karen Balmer</b>
<b>Purpose of Paper:</b>	Briefing for the Board
<b>Recommendation:</b>	To note update provided

## Issue

To provide the NRW Board with a Briefing from the NRW Audit and Risk Assurance Committee Meeting , 7<sup>th</sup> December 2019.

## Recommendation

The Board are recommended to note the briefing below.

## Briefing:

Board Members serving this committee post the departure of Nigel Reader and Ruth Hall are:

Karen Balmer (Chair)  
Chris Blake  
Rosie Plummer  
Peter Rigby (for part)

## External Audit

- A brief update was provided by the WAO and we were advised that the annual audit plan and fees will be discussed at the next ARAC meeting.
- A further allegation with regard to NRW's timber contracts had been received and this was being looked into under a wider piece of work to look at NRW's contract framework
- WAO advised that it was unlikely that NRW's accounts would be qualified on the grounds of regularity based on the insignificant level income that was received in the current financial year. However, the 2018-19 annual audit plan would still include timber testing.
- Jane Holownia was introduced. Jane will be undertaking the Future Generations audit and will work with NRW to consider the extent to which NRW is acting in accordance

with the sustainable development principles, the wellbeing objectives and the five ways of working.

- The future generations audit will take a supportive rather than scrutinising approach. Executive Team are to determine which objectives they want to work through and, using a workshop style approach, will develop an action plan for improvement.

### Timber Sales Review

- Grant Thornton attended the meeting and we heard from Fred Brown and Susan Jax with regard to progress.
- Ahead of the formal report, Fred Brown advised that their work had revealed areas for improvement under four broad headings; Contract Governance, Financial Reporting, The Wider Organisation, and Other
- Recommendations on how to significantly improve NRW's governance arrangements with regard to these areas were suggested, and these will be documented in detail in the report to follow.
- An action plan will be developed to ensure that these recommendations are met fully and swiftly.
- ARAC Chair, Board Members and CEO were united in their view that immediate action was essential. It was noted the NRW Chair was to put a task and finish group together to oversee this and to ensure the recommendations were expedited swiftly

### Annual Report & Accounts

- ARAC noted 2 new financial accounting standards IFRS15 and IFRS 9
- IFRS 15 – revenue contracts with customers (effective January 2018) – The standard will affect NRW's Charges and Fees as well as commercial and external revenue streams. A more detailed paper is being prepared with regard to this along with a meeting with WAO ahead of the 2018-19 audits for them to consider NRW's proposals. ARAC will be further updated in March.
- IFRS 9 – Financial Instruments. This introduces a new “expected loss” impairment model, that requires more timely recognition of expected credit losses. NRW credit loss risks would primarily be bad debt for which a provision is made in the balance sheet on an annual basis. IFRS 9 introduces a new way to calculate bad debts and now labels them as impairment losses.
- Increasing timber prices will lead to an increase in value of the WG estate.
- The long term contract value expected in 2018-19 was £265k however the accounts will show a value of £335k. The increase being a result of their being a larger proportion of higher value products than predicted.
- Sign off of the Annual Report and Accounts. It was confirmed by WAO that the role of ARAC was to scrutinise the annual accounts from a due diligence perspective and to provide assurance. WAO had recommended that the Board be more involved in the annual reporting process and that NRW should factor that into the timetable for production. ARAC members confirmed that the Board had been involved in the production of last year's annual report.

### Standard Reporting

ARAC received routine reports on the following:

- Internal Audit
- Risk Assurance
- Losses & Special Payments

- Information & Cyber Security

The scheduled policy review and annual update on Whistleblowing was postponed to March due to unexpected sickness absence.

### **Governance**

- It was noted that the recently updated ARAC terms of reference would be reviewed as part of the governance review being undertaken by Rosie Plummer.