

**MINUTES OF AUDIT AND RISK ASSURANCE COMMITTEE MEETING
HELD IN TRINITY HOUSE LONDON ON 11 JUNE 2014**

Present:

Mrs E D Johnson (Chair)
Professor P Matthews
Mr D J Ring

In attendance:

Captain I McNaught - Executive Chairman (EC)
Mr J S Wedge - Director of Finance & Support Services (DoFSS)
Mr D Greenwood - National Audit Office (NAO) *(by telephone)*
Mr N Haigney – former Group Head of DfT Internal Audit (for items 1-6)
Mr Tim Le Mare – Group Head of DfT Internal Audit
Mr B Nunn – Financial Accountant
Mrs R Roberts – Audit & Performance Manager (APM)
Mr J D Price – Legal & Risk Manager & Secretary (LRM)

1. Apologies for Absence

1.1 There were no apologies for absence.

1.2 The Chair welcomed Mr Le Mare to his first meeting of the Committee as the new Group Head of DfT Internal Audit. He had replaced Mr Haigney who was attending to present his report on the 2013/14 Assurance Testing Audit and his Annual Opinion as Head of Internal Audit for 2013/14.

2. Conflicts of Interest

There were no conflicts of interest beyond those already declared in the Register of Members' Interests.

3. Minutes of Meeting on 27 March 2014

Approved and signed.

4. Matters Arising

4.1 Arising from item 4.2, Professor Matthews reported that, once Natural Resources Wales had shaped up its responsibility matrix, he would be in a position to share it with the Committee. He anticipated being able to do so before the next meeting.

[Action: Professor Matthews]

4.2 Arising from item 7, DoFSS reported that discussions had been held with the Triennial Reviewer about whether an expanded Corporate Governance and Risk Management audit might, at least in part, replace the Triennial Review process. Despite strong representations there had been no recommendation to that effect in the Report on the Review.

4.3 Arising from item 11, Mr Haigney reported that he had reviewed the ratings in respect of the recommendations in the CDM Regulations Follow-Up Audit Report with the Audit Team and was content that they were appropriately rated. Any change would not have affected his Annual Opinion.

4.4 Arising from item 14, the Committee noted that it had been confirmed to the DfT that there were no changes at year-end to the Management Assurance Statement previously submitted for the period April to December 2013.

4.5 Arising from item 17, DoFSS reported that there was to be a meeting with Mr Buchan, the DfT Financial Controller, on 30 June.

5. Trinity House Assurance Testing & Follow Up Audit

Mr Haigney presented his report to the 2013/14 Assurance Testing & Follow-Up

Audit. Overall 'Substantial' assurance could be derived that systems of corporate governance, risk management and internal control were well established and working effectively, although very minor control weaknesses had been identified. There had been four medium-level recommendations covering purchase card monitoring; performance monitoring of long-term contracts; duplicate payment testing; and review of the reconciliation of the cash book and purchase ledger. Three of the four recommendations had been implemented. There had also been six low-level recommendations.

6. HIA Annual Internal Audit Report 2013/14

Mr Haigney presented his Opinion on the adequacy and effectiveness of TH's framework of governance, risk management and control in 2013/14 in accordance with Public Sector Internal Audit Standards which required the Head of Internal Audit to provide the Accounting Officer with such an Opinion. On the basis of the evidence obtained during 2013/14 he was able to provide an overall 'Substantial' assurance rating. Whilst there had been one 'Partial' rating in respect of audits carried out in 2013/14, key audits such as the Corporate Governance and Risk Management Audit and the Assurance Testing Audit had resulted in 'Full' and 'Substantial' ratings respectively. The 'Partial' rating had been in respect of the tri-GLA helicopter contract where there had been three high priority findings but a second audit on the subject had resulted in 'Reasonable' assurance. His Opinion had been informed by the compliance work carried out by the in-house TH Internal Audit Team; the results of quality audits carried out by the MCA and ABS, disclosures by Management; and observations made by the NAO. There were no specific issues to which attention should be drawn in the Governance Statement.

In terms of KPIs, the Committee noted that only two client satisfaction questionnaires had been returned and that each GLA received a questionnaire for tri-GLA audits. It agreed that the issue and return of TH questionnaires should in future be co-ordinated by the APM.

[Action: DfT Internal Audit/APM]

The Chair thanked Mr Haigney for his work and support to the Committee during his time as Group Head of Internal Audit.

7. TH Annual Report and Accounts 2013/14

Mr Nunn presented the TH 2013/14 Annual Report and Accounts. The draft document had been sent out to Members ahead of the meeting and had been updated as a result of comments received.

In terms of significant changes since 2012/13, the Statement of Comprehensive Net Income showed a deficit for the year of £2,192,000 compared to £9,949,000 in 2012/13. This was due in large part to a lack of losses on revaluation in 2013/14 compared to 2012/13. On the other hand depreciation was higher due to the asset base being higher. In terms of the Statement of Other Comprehensive Income there was no significant net gain on revaluation of Property Plant and Equipment (PPE) in 2013/14. Actuarial restatements had resulted in a loss of £10.955M. The Statement of Financial Position showed pension liabilities of £180.743M as at 31 March 2014 compared to £167.258M in 2012/13. It would be the last year that these liabilities would appear in the TH Accounts. The bulk transfer payment to the Principal Civil Service Pension Scheme (PCSPS) was the responsibility of the GLF with no liability retained by TH. In terms of TH this would lead to a stronger Statement of Financial Position, although the impact of the Government grant would be seen at GLF level.

In terms of the Governance Statement APM noted that some minor amendments requested did not appear in the version of the Annual Report and Accounts in the papers. In particular the reference to PwC on pages 26 and 30 should be removed. Mr Nunn agreed to amend the Statement accordingly.

Professor Matthews noted that the Annual Report did not contain evidence in respect of the organisation's vision of being a trusted world class organisation and regarded

as such by stakeholders. DoFSS and LRM confirmed that work was to be carried out during 2014/15 in this regard and would be covered in the Report in 2014/15.

Professor Matthews also proposed, and the Committee agreed, that there should be reference in the Executive Chairman's Review to the Risk Response Criteria, which was an innovative leading edge approach to assessing response times.

[Action: Financial Accountant]

8. NAO Report

Mr Greenwood presented the NAO's Audit Summary Report on the 2013/14 Accounts. Overall, the audit had resulted in no significant issues, although there were some issues still to cover at GLF level. The NAO's Audit Opinion would be at GLF level. In particular, the Government Actuary's Department (GAD) pension liability transfer valuation at 1 April 2014 would not be received until September 2014 and this would affect the disclosures in the TH Accounts. The NAO was working towards completing the GLF audit in September. Although the fieldwork in respect of the TH Accounts had been completed, he would clarify whether the TH Accounts could be considered complete prior to the valuation from GAD. He noted the wish of the Committee to resolve the issue as soon as possible for the sake of good order in terms of closing off the TH Accounts.

[Action: NAO]

In terms of the audit of the TH Accounts he was pleased to report that to date the NAO had found no adjusted or unadjusted errors in the transactions and balances that exceeded the threshold defined in its Audit Planning Report as clearly trivial (£21K). In the Planning Report two significant financial statement risks had been identified that could affect transactions and balances. These were in respect of the pension liability transfer previously discussed and the incorrect valuation of PPE. Testing had confirmed that appropriate valuation methodologies (including indexation) had been applied and that valuation results were accurately reflected in the Accounts. It was clear that TH had led the GLA revaluation process. Testing was still on-going to review the consistency of accounting for PPE valuations between the three GLAs.

He thanked Mr Wedge and his team for their significant work in producing on the Annual Accounts. The Chair, joined by the other Members, added their thanks, in particular to Mr Nunn for a very good Annual Report and set of Accounts.

Subject to resolution of outstanding issues, the Committee agreed the Annual Report and Accounts for submission to the Board for approval.

[Action: DoFSS]

9. Estimated Costs for GLF 2013/14 Audit

The Committee noted the estimated costs for the audit of the GLF. Mr Greenwood added that the NAO did not anticipate any increase in its fee.

10. 2014/15 Internal Audit Plan Progress Report

APM presented the Progress Report on the 2014/15 Integrated Internal Audit Plan. Since the Report had been submitted the report on the Shipboard Management System Audit of THV ALERT had been received. Quarter 1 included an additional audit of the AIS process authorised by the Director of Operations because of issues with the Maritime Mobile Service Identity (MMSI) numbering for AIS transmitters. The audit was underway. In noting the report the Committee approved the postponement of the internal audit of the Monitoring Process to Quarter 1 in 2015/16 so as to allow time for the forthcoming review of planning by the HR & Planning Manager to take place and any changes to bed in, subject to no known risks or issues. The audit would be resourced by the DfT team. The Committee also approved the change in resource for the Succession Planning Audit to a Senior Manager within TH rather than the DfT team. As succession planning had been identified as a thematic audit to be carried out in all three GLAs, it was agreed that TH would share its terms of reference with the DfT team to ensure a joined up approach. The Committee also agreed that the issue of SVS turnover would not be

part of the audit and noted that it would be examined through the staff survey. It was further agreed it would keep in reserve for the time being the spare 10 days to resource another audit if necessary. **[Action APM]**

Mr Le Mare observed that the Integrated Internal Audit Plan was very comprehensive and that a more integrated approach in terms of assurance was in line with DfT's thinking.

11. Report on Outstanding Internal Audit Recommendations

APM presented her report on the implementation of matters arising from audit reports. Since writing her report she was able to advise that the low-level finding regarding job descriptions for Co-ordinated Fleet Management Members had been completed and closed out. In addition the overall potential improvement in respect of budget preparation had been actioned. In noting the report, the Committee agreed the recommendation that any action in respect of the CDM audit findings should be postponed until the new CDM Regulations and Approved Code of Practice had been finalised. **[Action: APM]**

12. Review of Risk Registers

LRM presented his report on the review of the Corporate Risk Register, which also contained a summary of the outcome of the quarterly review of the Organisational Risk Register and the Directorate/Departmental Registers beneath it. Due to changes in the risks in respect of the Triennial Review and Pensions between the last Committee meeting and the Board, the Register had been updated again prior to the Board meeting. The Register submitted to the Board was as set out in the papers for the meeting, other than the risk in respect of the Triennial Review had been reduced further to 100 following its approval by the Shipping Minister and Minister for the Cabinet Office. It was anticipated that this risk would be de-escalated at the next review. One point to note in respect of pensions was that, although the strategic issues associated with the transfer to the PCSPS had been resolved, work was still continuing with the implementation phase and this was reflected in the HR Risk Register.

In noting the report for submission to the Board, the Committee agreed that the wording of the risks in respect of the reclassification issue should be broadened to encompass the risk that the DfT might act or make a decision in respect of TH based on information returned without fully understanding the matter. **[Action: LRM]**

13. Fraud, Bribery & Whistle-Blowing Return 2013/14

LRM reported that there had been no cases of fraud, bribery or whistle-blowing reported in 2013/14 other than the theft of cash amounting to £1,068 from THV PATRICIA. Steps had been taken to reduce the risk in this regard. Internal Audit and the NAO confirmed that they were not aware of any other incidents.

14. Proposed Meeting Dates – 2015

The proposed meeting dates for 2015 were agreed.

15. Any Other Business

None.

16. Date of Next Meeting

It was agreed that the next meeting would be in TH on 18 September 2014.