

**MINUTES OF AUDIT AND RISK ASSURANCE COMMITTEE MEETING
HELD IN TRINITY HOUSE LONDON ON 19 SEPTEMBER 2013**

Present:

Mrs E D Johnson (Chair)
Professor P Matthews
Captain N Palmer

In attendance:

Captain I McNaught – Executive Chairman (EC)
Mr J S Wedge - Director of Finance & Support Services (DoFSS)
Mr P Oliffe - National Audit Office (NAO)
Mr N Haigney – Acting Group Head of DfT Internal Audit
Mrs R Roberts – Performance Manager (PM)
Mr J D Price - Secretary (LRM)

1. Apologies for Absence and Introductions

There were no apologies for absence.

The Chair welcomed Mr Haigney and Mr Oliffe to their first meeting of the Committee. Mr Haigney was a PwC Director on secondment to DfT Audit and Risk Assurance (ARA) and was Acting Group Head of Internal Audit covering Mr Coates, who was taking a career break. Mr Oliffe was the new NAO Engagement Director and had recently returned to the NAO after a two-year secondment at the Home Office.

2. Conflicts of Interest

Mr Wedge declared an interest as a Trustee and Treasurer of the Royal Alfred Seafarers Society. There were otherwise no declarations of interest beyond those already declared in the Register of Members' Interests.

3. Minutes of Meeting on 11 July 2013

Approved and signed.

4. Matters Arising

4.1 Arising from item 6, Mr Haigney reported that the review of the KPIs in respect of the performance of DfT Internal Audit was in hand.

4.2 Arising from item 10, PM reported that a briefing paper had been prepared for the GLA Chief Executives' Committee meeting. As regards the Internal Audit Charter, it was proposed that it should be an integrated document covering the TH in-House Internal Audit team and the DfT ARA team. Draft documents would be submitted to the next meeting of the Committee for review and comment. **[Action: PM]**

4.3 Arising from item 12, LRM reported that the Board had re-affirmed its risk appetite. Assurance that Management was operating in line with that appetite would be sought from the Internal Audit function. **[Action: LRM / PM]**

4.4 Arising from item 16.2, Mr Haigney advised that Ms Clare White of PwC would oversee delivery of ARA's Internal Audit's work for TH, assisted by Mr Nick Banks. She would work with PM helping her develop into the Head of Internal Audit role.

5. Report on MMIS Advisory Review

Mr Haigney presented the report on the Maintenance Management Information System (MMIS) Advisory Review which had been carried out, as TH planned to replace its existing MMIS. The object of the review had been to provide Management and the Project Board with independent feedback on the current

governance framework, the processes in place for defining business requirements and whether lessons learned from previous implementations had been captured and were being addressed. As the review was not an in depth review of control effectiveness, an audit opinion had not been provided, although a more formal assurance audit could be carried out at a later date, once the project had progressed. Three key recommendations had been made covering: (i) the need for a clearly articulated vision for the system; (ii) the need to create a cross-functional user group accountable to the Project Board for achieving the project vision; and (iii) that consideration be given to the application of PRINCE2 throughout the project lifecycle. Management had responded positively. DoFSS added that it had been a very helpful audit, which the auditor had conducted very competently. Indeed, enquiries had been made as to whether the auditor could assist with developing the new TH IT strategy but was unavailable. That said, TH remained interested in some external technical expertise in this area and this was under consideration.

6. Central Fleet Management – Thematic Review

Mr Haigney presented the outcome of the Central Fleet Management Review. The controls over central fleet management were established and testing showed them to be generally working effectively across the GLAs except for some areas where controls needed to be strengthened. In particular there was a need for greater alignment between the MOU for Inter-GLA Ship Support and the delivery objectives of the Co-ordinated Fleet Management (CFM) Group. In addition, there was a need for the key risks and performance measures identified to be re-assessed and approved by Management (IGC 5 & Chief Executives Committee) to ensure that they were relevant and appropriate and targeted key areas. The overall assurance rating had been reasonable. EC added that the report had been helpful and provided some good pointers ahead of the Fleet Review in 2015. In noting the report the Committee agreed that it could have provided greater clarity in terms of the relationship between the various Groups and Committees and the use of acronyms.

7. Progress Report on Integrated Internal Audit Plan

PM presented an update on progress in terms of delivery of the new integrated Internal Audit Plan. There had been some slight slippage to the programme in the second quarter due to the summer holiday period. All the second quarter audits now had a planned start date. The ISO9001 Quality Management System and ISO14001 Environmental Management System Surveillance audits would take place on 30 September and 1 October at St Just Outstation and Wolf Rock Lighthouse. The DfT Internal Audit time, which had become available as a result of the cancellation of the tri-GLA thematic audit of environmental management systems by the Chief Executives' Committee, would be re-assigned to the follow-up audit of the Construction, Design and Management Regulations. It was also proposed to hold a workshop in early December to develop the 2014/15 Internal Audit Plan ahead of the annual review of the TH Management System in January. In noting the report the Committee commended PM for a well-written, concise report. It further agreed that an additional column should be added to the Integrated Audit Plan showing the audit rating, using a consistent system for DfT and TH audits. It also agreed that all or part of the days allocated to risk, governance and control advice should be used to fund the development of a refreshed Internal Audit Strategy and Plan setting out how the Internal Audit functions should be delivered in future. The Internal Audit Plan would have clear links to corporate planning and KPIs. Mr Haigney, Ms White and PM would meet in October to discuss the approach to Internal Audit planning.

[Action: PM / Mr Haigney]

The Committee agreed that it did not wish to receive TH Internal Audit reports in full but did wish for any significant issues to be flagged. **[Action: PM]**

8. Draft Terms of Reference for CIL Light Dues Forecasting Audit

DoFSS presented for information the draft terms of reference for the CIL Light Dues Forecasting Audit. It was the first time that a GLA (CIL) had requested an audit of a service provided by another GLA (TH). In summary CIL had requested an

assurance test of the current Light Dues income forecasting process carried out by TH to ensure it provided a fair basis for its forward planning. In this connection he was concerned to ensure that TH would be given the opportunity to comment on the accuracy and fairness of the report. Mr Haigney confirmed that this would be the case. In noting the draft terms of reference the Committee agreed that it was appropriate for it to receive the final report and that Mr Haigney should approach CIL for it to be released accordingly. **[Action: Mr Haigney]**

9. Annual Report & Accounts – Close-out of Outstanding Issues

Mr Oliffe reported that the GLF Accounts were to be considered by the DfT Group Audit Committee on 24 September. There were only minor issues outstanding. It was anticipated that the GLF Accounts would be signed off and laid before Parliament in early October. There would be an increase in the audit fee due to the additional work required in connection with the revaluation of non-current assets. The total cost would be £18K (£5K per GLA + £3K to cover consolidation into the GLF and adjustments). It was not anticipated that this additional cost would be repeated in respect of the 2013/14 accounts. As previously reported, the NAO considered that TH had produced a very good set of accounts for 2012/13 and had been very co-operative and helpful throughout the audit process.

10. Change of NAO Engagement Director

The Committee noted the letter from the NAO advising of the change in Engagement Director. Mr Oliffe added by way of background as the new Engagement Director that he had previously been involved with auditing a number of different areas of Government, although not transport. His two-year secondment to the Home Office had given him a better understanding of operational issues, which he would bring to bear in his new role at the NAO. He had returned to take responsibility for all the DfT Financial Audit area.

11. Central Government Annual Report & Accounts: Consultation on Simplifying and Streamlining Presentation

DoFSS presented for information TH's response the consultation on simplifying and streamlining the presentation of annual reports and accounts. As a preparer of the accounts TH had identified the valuation of non-current assets and environmental reporting, as areas where current requirements were most burdensome. It was not yet known when the outcome of the consultation would be published. The Committee supported the response and concurred that the changes to the valuation of assets potentially gave a misleading impression of the financial position of the organisation. Mr Oliffe reported that a number of options were being considered for Arm's Length Bodies and others in terms of simplification of reporting.

Professor Matthews reported that new regulations were to come into force for private companies for financial years ending on or after 30 September 2013 covering Directors' remuneration and strategic reporting. Mr Oliffe reported that no parallel changes were proposed for public sector accounts in 2013/14.

12. Fraud and Bribery Response Plan

DoFSS presented the Fraud and Bribery Response Plan, which had been updated to reflect recent change to the DfT Fraud and Bribery Response Plan. It now covered not only the Management response to an incident of fraud or bribery but also the steps, which staff should take if they became aware of fraud or bribery. In noting the revised Plan the Committee agreed that the Committee Chair should be included as an alternative contact point to a member of staff's Senior Manager or DoFSS, where fraud and/or bribery were discovered or suspected. The Plan should also be cross-checked against the Fraud and Bribery Policy and, once agreed, promulgated at team meetings. Consideration should also be given to establishing a fraud and bribery risk register and the need to train staff in fraud investigation. The Plan was otherwise agreed subject to minor amendment. **[Action: DoFSS/LRM]**

13. Hospitality Registers

DoFSS presented and the Committee noted the TH and R&RNAV Hospitality Registers for the period from April 2011 to August 2013. It was agreed that the registers should be resubmitted in 12 months' time. **[Action: LRM]**

14. Register of Members' Interests

The Committee noted the Register of Members' Interests and that it would be updated to include DoFSS's new role with the Royal Alfred Seafarers Society. It too would be resubmitted in 12 months' time. **[Action: LRM]**

15. Report on Risk Register Review

LRM reported that following the last meeting the Corporate Risk Register had been reviewed by the Board and Executive Committee. No new risks had been added to the Register but the value of the target risk position in terms of the risks associated with CIL's Strategy '2015 & Beyond' had been increased from '80' to '150' and the post mitigation position in respect of the risk of failing to make the required financial returns as a result of reclassification lowered from '133' to '75'. It was anticipated that this risk would shortly be de-escalated to the Organisational Risk Register. The 'Pension' risk had been left unchanged, as there still remained uncertainty about joining the PCSPS. In this connection it was of note that the Directorate/Departmental registers had recently undergone their formal six-monthly review and the risk of failing to secure a smooth transition of the administration of TH pensions into the PCSPS had been added to the HR risk register. In noting the position the Committee asked that the post-mitigation position of the CIL Strategy risk should be reviewed and the risks associated with the move to CIL self-funding and the Scottish Independence Referendum be broadened to include associated devolution issues and re-evaluated accordingly. The Committee otherwise agreed the submission of the Corporate Risk Register to the Board. **[Action: LRM]**

LRM added that, although quantitative risk scores had been added to the Corporate Risk Register, this had not been done in respect of the Directorate/Departmental Registers and enquired as to the Committee's views in this regard. In his view quantitative values aided the escalation/de-escalation process. The Committee agreed that the views of the SMT should be sought accordingly. **[Action: LRM]**

16. Audit Issues – Progress Report

LRM presented a progress report on outstanding DfT Internal Audit recommendations. There remained only three outstanding covering (i) the training of additional staff in pension administration, which would fall away on joining the PCSPS; (ii) the installation of a safe at Portland Bill Lighthouse; and (iii) the need to tighten the cash reconciliation process at the Lighthouse. He proposed, and the Committee agreed, that there should in future be an integrated report covering all outstanding Internal Audit recommendations presented by PM. As regards TH Internal Audits, PM reported that some outstanding issues related to updating the Marine Manual, which was being held pending resolution of issues in connection with the Maritime Labour Convention. There was nothing significant about which the Committee should be concerned.

17. Any Other Business

The Chair reported that it was Captain Palmer's last meeting as a Member of the Committee, as there were to be changes to the Non-Executive Directors' membership of Board Committees and other bodies. If the Secretary of State and the Court of TH approved the nomination of Mr David Ring, as the new Non-Executive Director on the Board, he would replace Captain Palmer on the Committee. The Chair thanked Captain Palmer for his contribution to the work of the Committee over the last 18 months.

18. Date of Next Meeting

It was agreed that the next meeting would be held on 19 December at Trinity House in London. It would be preceded by the annual meeting of the Committee with auditors without the Executives and Secretary present.

