

*[Prior to the commencement of the formal agenda Members met with Audit Representatives without Executives and the Secretary present. A note of the main points discussed is appended to these minutes]*

## **MINUTES OF AUDIT AND RISK ASSURANCE COMMITTEE MEETING HELD IN TRINITY HOUSE LONDON ON 18 DECEMBER 2014**

**Present:** Mrs E D Johnson (Chair)  
Professor P Matthews

**In attendance:** Captain I McNaught - Executive Chairman (EC)  
Mr J S Wedge - Director of Finance & Support Services (DoFSS)  
Mr D Blake - National Audit Office (NAO)  
Mr T Le Mare – Group Head of DfT Internal Audit  
Mr N Banks – Internal Audit  
Mrs R Roberts – Audit & Performance Manager (APM)  
Mr J D Price – Legal & Risk Manager & Secretary (LRM)

### **1. Apologies for Absence & Introductions**

Apologies were received from Mr Ring.

The Chair welcomed Mr Blake to his first meeting of the Committee as the NAO Audit Manager responsible for the audit of the General Lighthouse Fund (GLF).

### **2. Conflicts of Interest**

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

### **3. Minutes of Meeting on 18 September 2014**

Approved and signed.

### **4. Matters Arising**

**4.1** Arising from item 3.1.2, Professor Matthews reported that Natural Resources Wales (NRW) had signed off the specification for the review of responsibilities and their cascade. DoFSS reported that he had discussed the responsibility matrix and assurance map with Mr Reader, the NRW's Audit Committee Chair, and they had agreed to remain on touch. TH had shared with NRW its 'Responsible, Accountable, Consulted and Informed' or 'RACI' diagrams supporting its planning process.

**4.2** Arising from item 4, Mr Blake reported that the GLF Annual Report and Accounts for 2013/14 had been laid before Parliament on 14 October. It had not been necessary for the Accounts to be recertified.

**4.3** Arising from item 6, Professor Matthews proposed that, whilst the succession planning audit had included a potential improvement to develop a succession plan for Executive Directors, the potential improvement should be expanded to include contingency/emergency planning in the event of the sudden loss of a Director or key member of staff. The Committee agreed that APM should revert to the auditor on the point. **[Action: APM]**

**4.4** Arising from item 7, LRM reported that it was planned to arrange an exercise to test the status of documentation in the event of a serious or fatal accident in the early summer. **[Action: LRM]**

### **5. Audit & Risk Assurance Committee Terms of Reference**

LRM reported that, in line with best practice, the Committee's terms of reference (ToRs) were reviewed annually. They followed the model terms of reference set out in the Treasury's Audit & Risk Assurance Committee Handbook. The proposed amendments were largely editorial or to ensure better alignment of the ToRs with those in the Handbook. The Committee approved the revised ToRs for submission to

**6. Integrated Audit Plan 2014/15 – Progress Report**

APM presented the progress report on the Integrated Audit Plan. Since compiling the report, the draft report in respect of the wrecks audit had been received. The audit of the IT process was due to commence the following day. A meeting was to be held later that day to review the draft terms of reference and deliverables in respect of the commercial fees and financial planning audit. Professor Matthews noted that changes were taking place in terms of the approach to commercial work and, with this in mind, he believed that the commercial audit should focus on how commercial work was currently managed. APM agreed to raise the point at the meeting later that day.

[Action: APM]

The renewal audit for ISO 9001 / ISO 14001 in January / February would include the initial certification audit of OHSAS 18001. To support this, a one-day readiness review would take place in Harwich on 2 January.

Mr Le Mare added that the Government Internal Audit Agency (GIAA) element of the internal audit programme had 57 audit days planned but the total was likely to be about 50. APM agreed to add a key to explain the ratings in respect of the progress against the achievement of the Plan. TH internal auditors currently had 40 days in which to complete their audit, which did not align with the approach taken by GIAA. Consideration would be given to the feasibility of the TH approach being aligned accordingly. Page numbers would also be added to the report.

[Action: APM]

**7. Internal Audit Report on Risk Appetite**

APM presented her report on risk appetite findings from the audits carried out to date in 2014/15. She recalled that the Committee required the Internal Audit function to provide assurance that Management was operating in line with the relevant affirmed risk appetite. To this end the responsible Senior Manager, in conjunction with the LRM, defined the risk appetite of the area being audited prior to the audit. Managers were then asked their opinion and the results compared, as set out in her report. The results showed that, broadly, Managers were adopting the appropriate risk appetite. Further work would be carried out in 2015 to raise awareness about risk appetite through briefings and training. The Committee noted the report accordingly.

[Action: LRM/APM]

**8. Internal Audit Report – Statutory Superintendence & Management Role**

Mr Banks presented the report on the audit of TH's statutory superintendence and management role, the objective of which had been to provide independent and objective assurance that the superintendence role was contributing to the UK Government's commitment to the International Convention for the Safety of Life at Sea (SOLAS) with respect to Aids to Navigation (AtoN) and to review the inspection, audit and reporting procedures to assess whether TH's obligations under the Merchant Shipping Act were being met. The audit included observing an AtoN inspection. No exceptions had been noted, other than there was no programme of audits for Competent Harbour Authorities planned for 2014, for which a low priority finding had been issued. The audit had resulted in a rating of 'substantial assurance', the highest level achievable. In noting the report the Committee agreed that the report should include an explanation of the key terms and roles referred to in the report.

[Action: Mr Banks]

**9. Draft Integrated Audit Plan 2015/16**

APM presented the draft Integrated Audit Plan for 2015/16. Key points to note were that, as previously agreed, she had prepared the draft Plan in liaison with the Group Head of Internal Audit and the TH Senior Management Team. It would be put to the Annual Review of the TH Management System meeting on 8 January and a final draft submitted to the Committee in March. The number of audits recommended for resourcing by GIAA had increased and now included the Fleet Review process; Light

Dues as a result of the changes arising from CIL self-funding; and core financial controls (assurance testing). The HR and Planning Manager had requested that the audit of the TH training plan be substituted by an audit of pensions due to a number of contract management issues with MyCSP. DoFSS added that the complaints process had been invoked against MyCSP. In noting the position the Committee agreed that, amongst other things, the audit should check that TH was doing all it reasonably could to facilitate the transition process and to support the contract management process. The Committee further agreed that consideration should be given to another audit planning workshop in late 2015 to inform the preparation of the 2016/17 Integrated Audit Plan. **[Action: APM]**

The Committee also agreed that the draft 2015/16 Plan should be linked to the Corporate and Organisational Risk Registers and suggested that some further audit work be linked to some of the recommendations of the recent Triennial Review potentially to reduce the burden from future such Reviews. **[Action: APM]**

**10. Audit Report on Internal Audit System**

APM presented the report on the outcome of the audit of the Internal Audit System carried out during the autumn of 2014. No non-conformities and 4 potential improvements had been raised, two of which had already been closed out. There had been a substantial assurance rating. She hoped that the report provided assurance to the Committee that the Internal Audit function was operating satisfactorily. The Committee noted the report accordingly.

**11. GLF Audit Planning Report**

Mr Blake presented the Planning Report for the 2014/15 Financial Statement Audit of the GLF. The amount of work carried out would be sufficient for an opinion to be given on the financial statements of the GLF. The NAO would visit each GLA spending a week at each authority conducting the interim audit and a further week for final audit work. A key audit risk was in respect of the gain/loss on the settlement of the GLAs' pension liability. Management arrangements would be reviewed regarding (i) the completeness and accuracy of data provided to the Government Actuary's Department and Hymans Robertson, the GLAs' actuaries, and (ii) correct accounting for any gains/losses. Certification of the Accounts would possibly be before the Parliamentary Summer Recess. In this connection Mr Blake agreed to let LRM know the best time for the TH Audit & Risk Assurance Committee to meet in terms of reviewing the TH Annual Report & Accounts. **[Action: Mr Blake, NAO]**

The Committee noted that the overall fee would be £75K, less than in 2013/14.

**12. Report on Outstanding Audit Recommendations**

APM presented the Report on Outstanding Audit Recommendations. The outstanding recommendation from the MMIS advisory review had now been implemented. The audit actions arising from the construction design and management follow up audit remained open pending finalisation of the new Approved Code of Practice. No non-conformities had been raised as a result of the ISO 9001 / ISO 14001 surveillance audit in October. Seven opportunities for improvement had been identified. It was proposed, and the Committee agreed, to move the target completion dates for the non-conformities arising from the major floating aid on station maintenance audit to 31 January 2015 to allow for a root cause analysis and full consideration to be given to the issues raised.

**13. Petty Cash Float Review Request**

DoFSS reported that, following the theft of cash from THV PATRICIA in September 2013, the Committee had agreed that the cash float on board each Vessel should be reduced from £500 to £150. In the light of experience and strengthened security, the paper proposed restoring the limit to £500 for THVs GALATEA and PATRICIA. However, following discussion with the Director of Operations and further analysis, he believed that a limit of £400 for PATRICIA and £200 for GALATEA were appropriate, the higher limit for PATRICIA reflecting the need to purchase

consumables in connection with the PATRICIA voyages. The limits would be subject to a further review in six months' time and Internal Audit would be requested to review the arrangements as part of their financial controls audit. The Committee agreed the proposal on the basis that there was now sufficient security in place.

**[Action: DoFSS]**

**14. Internal Audit Charter**

Mr Le Mare reported that APM and he had reviewed the current Internal Audit Charter, as a result of which some changes were proposed. The main alterations were the inclusion of references to the Maritime Labour Convention and OHSAS 18001 and the replacement of 'DfT ARA' with 'GIAA'. The Committee noted and agreed the changes.

**[Action: APM]**

**15. Government Internal Audit Restructuring/Service Level Agreement**

Mr Le Mare reported that the current Service Level Agreement with TH needed revising to reflect the establishment of the GIAA, which would become an Executive Agency from 1 April 2015. There remained some issues to be resolved including the basis on which fees would be charged before the SLA could be finalised. Once the outcome was known, he would brief DoFSS and APM accordingly and also propose a fee level for 2015/16 which would be circulated to the Committee and formally submitted for consideration to the March meeting. There were no plans to outsource the Agency's work, although the Agency contracted in services when needed. Under the new arrangements the Accounting Officer would have a greater influence as to who the new Head of Internal Audit would be. In summary GIAA believed that the service should be tailored to what worked best for the client in terms of its assurance needs.

**[Action: Mr Le Mare]**

**16. Report on Corporate & Organisational Risk Registers**

LRM presented the report on the recent review of the Corporate and Organisational Risk Registers, which had been considered by the Senior Management Team and the Executive Committee. In noting the report, the Committee agreed that, having regard to the SVS turnover rate of about 25%, consideration should be given to increasing the overall risk rating to 300 or more. DoFSS added that the Executive Remuneration Committee had agreed a number of measures to seek to mitigate the risk. The Committee further agreed that, in view of the issues with pension service delivery by MyCSP, the probability level should be reconsidered with a view to increasing it. It also agreed that the narrative in respect of the GNSS vulnerability risk should be expanded to include inter alia reference to the recent presentation on the issue to the DfT's Maritime Administration Board and other steps being taken to raise awareness beyond the maritime community. The Committee otherwise agreed the Registers for submission to the Board.

**[Action: LRM]**

**17. Any Other Business**

Professor Matthews enquired whether the Service was sufficiently prepared for potential adverse weather or indeed pandemic illness. EC responded that the Executive Committee took having the resilience to respond to wrecks and AtoN incidents extremely seriously and had discussed planning and other priorities with the HR and Planning Manager at its last meeting. Significant employee absence was covered by its Business Continuity Plan.

**18. Date of Next Meeting**

It was agreed that the next meeting would be on Wednesday 25 March 2015 in TH London and would follow a meeting of the Directors' Remuneration Committee.