

**MINUTES OF AUDIT AND RISK ASSURANCE COMMITTEE MEETING
HELD IN TRINITY HOUSE LONDON ON 9 JULY 2015**

Present: Mrs E D Johnson (Chair)
Mr D J Ring

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 – Head of Internal Audit (*from item 4*)
Mr D Chan – Internal Audit
Mrs R Roberts – Audit & Performance Manager (APM)
Mr B Nunn – Financial Controller (FC)
Mrs N Wright** - Commercial Manager (CM)
Mr J D Price – Legal & Risk Manager (LRM)

*Attended by telephone

** Attended by telephone for item 7

1. Apologies for Absence

Apologies were received from Professor Matthews.

2. Conflicts of Interest

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

[Post Meeting Note: This agenda item will in future be headed 'Declarations of Interest' as agreed by the Board on 15 July]

3. Minutes of Meeting on 25 March 2015

Approved and signed.

4. Matters Arising

4.1 Arising from item 4.2, LRM reported that an exercise to test documentation in the event of a serious accident would be carried out on 12 August. He would provide a report on the outcome to the next meeting of the Committee. **[Action: LRM]**

4.2 Arising from item 4.4, APM reported that a workshop to consider the 2016/17 and subsequent integrated audit plans would be held on 2 December in TH Harwich. It would be facilitated by the Government Internal Audit Agency (GIAA) as part of their 10 days of audit management work.

4.3 Arising from item 11, EC reported that he had written to GAD and the final pension transfer figure had now been agreed.

4.4 All other actions had been completed or appeared separately on the agenda.

5. Management System Annual Report

LRM reported that it had been agreed by the Committee previously that it should receive the Management Representative's Annual Overview Report on the Management System, as it formed part of the overall TH assurance framework. As previously reported, the Annual Management Review meeting had been moved from January to June to link with the end of the financial rather than calendar year to facilitate reporting. This report covered the first June meeting. Since January TH had obtained recertification to the ISO 9001 and 14001 Standards and certification for the first time to the OHSAS 18001 Standard. Furthermore, since that time the Annual Verification Document of Compliance Audit and Intermediate Verification Audit of THV PATRICIA's Safety Management Certificate had taken place and had

resulted in no non-conformities or observations. In addition, the first integrated audit plan had been completed to timetable. The Executive and Senior Managers had concluded at the meeting, based on their review of the Management System, that it remained suitable, adequate and effective and met the requirements of the TH quality standards. The Committee noted the position and congratulated all those involved on a very good outcome.

6. HIA Annual Internal Audit Report 2015/16

Mr Le Mare presented his Internal Audit Annual Report & Opinion. On the basis of the evidence obtained during audits carried out in 2014/15, he was able to provide an overall substantial assurance rating on the adequacy and effectiveness of TH's arrangements for corporate governance, risk management and control processes. There were no significant weaknesses that in his opinion fell within the scope of issues to be reported in the Governance Statement. The audit work performed during the year consistently resulted in substantial opinions, the highest level achievable, with no high priority findings and only one medium priority finding. APM had shared her succession planning and other audit work, which was taken into account in his Annual Report. The Committee noted Mr Le Mare's Annual Opinion accordingly.

7. Commercial Fees and Financial Planning Audit

Mr Chan presented the Audit Report on Commercial Fees and Financial Planning which had resulted in an overall substantial assurance rating. Although not part of a tri-GLA review, a similar audit had been undertaken in respect of CIL and one was scheduled for NLB in 2015/16. The TH audit had resulted in three low priority findings. The first related to the fact that the completion document checklist had not been retained in accordance with the agreed procedure. The issue had since been addressed by Management. Secondly, Management did not perform credit checks on all new customers before entering into a contract to deliver commercial work. The Committee noted that it was proposed that all contracts over £10K except those with public sector bodies would be checked but agreed that all contracts other than those with UK public sector bodies should be checked. **[Action: DoFSS/CM]**

Mr Chan added that the third finding related to improving the forecast used to set the annual commercial income target. In this connection the Committee noted that TH's primary role was to deliver its statutory functions. Commercial work could only be undertaken if it was not likely to prejudice TH's statutory role and potential contracts were declined for this reason. CM added that targets needed to be realistic and TH was currently forecast to achieve £1.8M in 2015/16 against a target of £2M. It was noted that CM had as an objective for 2015/16 the development of an improved formal forecasting process to generate a realistic target for commercial income from 2016/17 onwards. It had been noted during the audit that TH did not obtain formal customer feedback on their performance in respect of commercial activity. In this connection the Committee noted that the recent stakeholder survey had included commercial customers and the feedback from this group had been very good. CM added that consumer feedback was sought from users of PATRICIA Voyages and Lighthouse visitor centres where feedback was also extremely positive. The Committee noted that there would be a further stakeholder survey in 2½ years' time and agreed that it should be left to CM to determine whether a survey focussed on commercial customers should be carried out ahead of the next stakeholder survey.

8. Health & Safety Audit Report

Mr Le Mare reported that the Health and Safety Audit had formed part of a tri-GLA review, whereby separate health and safety audits were performed at TH, NLB & CIL. Individual reports had been produced for all three GLAs, in addition to an overall assessment summary of health and safety across the GLAs. TH had a stronger health and safety system based on the evidence sighted and audit work undertaken. The audit of TH had resulted in an overall substantial assurance rating. There had been one medium-level finding and one low-level finding. The medium-

level finding related to the fact that the SVS/marine operations generic risk assessment register had been due for review in September 2014 but had not been reviewed since September 2013. This had since been addressed by Management. The low-level finding had related to the fact that one of the job descriptions sampled had not reflected the health and safety responsibilities of the post. All job descriptions were being reviewed to ensure compliance in this regard. The Committee noted the report accordingly.

9. Integrated Audit Plan 2015/16 – Progress Report

APM reported that the Integrated Audit Plan for 2015/16, which had been approved by the Committee out of session, was running to programme. A timetable had been agreed with GIAA for scoping the audits to be undertaken by the Agency.

10. Report on Outstanding Audit Recommendations

APM reported that there were no overdue open non-conformances or potential improvements. The position regarding recommendations arising from audits carried out by Mr Le Mare's team had already been discussed. The corrective actions in response to the four minor non-conformities raised during the ABS renewal audits of ISO 9001/ISO 14001 and the initial audit of OHSAS 18001 were now complete for three of the four minor non-conformities raised. It was anticipated that the remaining non-conformance would be closed out shortly. The next ABS Surveillance Audit would be on 30 September and 1 October and would take place in St Just.

11. Statutory Superintendence & Management Role Clarification

The Committee noted the paper from GIAA clarifying the roles of Inspector of Seamarks and Local Seamarks Auditor in terms of the Superintendence and Management Audit Report.

12. Annual Report & Accounts 2014/15

Mr Nunn presented the Annual Report & Accounts for 2014/15. Key points of note were that total income was down by £7M as a result of lower drawdowns from the GLF principally due to the fact that TH was no longer making cash pension payments. Capital expenditure had also been £1M lower than in 2013/14. Staff costs were up by £2M primarily due to TH now having to make employers' pension contributions on behalf of current employees to the PCSPS. Depreciation was £704K higher as a result of increased asset values leading to increased depreciation. Other expenditure was up by £926K in the main because of a higher level of impairments in 2014/15. Nab Tower and Bardsey Island Lighthouses had had to be impaired as the total cost of the projects had exceeded the Depreciated Replacement Cost of the assets. He then set out how the pension transfer manifested itself in the accounts. Interest payable was £400K in 2014/15 down from £7.2M due to the pension transfer and there being no notional scheme interest to account for in 2014/15. Other comprehensive income showed a surplus of £8.5M due to gains arising from the revaluation of property, plant and equipment. Overall, and due in large part to the pension transfer, there had been a surplus of £186M during the year compared with a deficit in 2013/14 of £12.6M.

Also of note was that there were now a Strategic Report and a Directors' Report, which had previously been combined. Mr Blake added that he had no comments to make on Mr Nunn's report.

The Committee thanked DoFSS and his team for the high standard of their work and, subject to some minor amendments, approved the Annual Report & Accounts for 2014/15 for submission to the Board. **[Action: DoFSS]**

13. NAO Report

Mr Blake opened his report by thanking the Finance Department for their support and co-operation during the audit. TH had presented a high quality first draft of the

Accounts, which had greatly assisted the process. The Consolidated Schedules and Annual Report and Accounts for the GLF were still awaited but it was hoped that they would be available by the end of the following week. The GLF Accounts would be considered by the DfT Audit Committee at the end of August. Once approved, they would be signed off by the Permanent Secretary and laid before Parliament in September. The audit had focussed on material areas. No material misstatements had been found in the TH Accounts. A key risk identified at the start of the audit process had been the process for accounting for pensions. In this connection Management's arrangements for ensuring the robust transfer of data to the PCSPS had been reviewed to ensure that the gain and loss arising from the transfer had been correctly recognised and disclosed in the financial statements. The NAO had been content with the approach taken by all three GLAs to the pension issue. The Committee noted the outcome of the audit and thanked Mr Blake and his team for their work.

14. Review of Risk Registers

LRM presented his report on the outcome of the quarterly review of the Corporate Risk Register (CRR) and the registers beneath it. As far as the CRR was concerned, there were no new risks on this occasion. The most significant risk continued to be SVS retention, although steps were being taken to mitigate the risk, which DoFSS outlined to the Committee. The risk of an adverse outcome to the Fleet Review remained but was stable. The risks associated with the service delivery issues with MyCSP also remained but the position had stabilised a little with some improvements seen in the service. There was an increasing risk of an adverse RPI-x formula being imposed from 2016/17 reflecting comments from the DfT at the last JSB about reductions in expenditure likely to be imposed on Central Government. The Committee reviewed the CRR and noted that changes since the last review and agreed its submission to the Board. **[Action: LRM]**

15. Fraud & Bribery Return 2014/15

LRM reported that there had been no reported incidences of fraud, bribery or whistleblowing in 2014/15.

16. Proposed Meeting Dates 2016

The proposed meeting dates for 2016 were agreed. **[Action: LRM]**

17. Any Other Business

Mr Le Mare reported that the next DfT meeting of Audit Committee Chairs was due to be held on 3 September. Mrs Johnson confirmed that she would be attending.

18. Date of Next Meeting

It was agreed that the next meeting would be held in TH London on 17 September 2015.