

**MINUTES OF AUDIT AND RISK ASSURANCE COMMITTEE (ARAC) MEETING
HELD IN TRINITY HOUSE LONDON ON 17 DECEMBER 2015**

Present: Mrs E D Johnson (Chair)
Professor P Matthews (*for Part of Part 1 & Parts 2&3*)
Mr D J Ring

In attendance: Captain I McNaught - Executive Chairman (EC) (*for Part 2*)
Mr J S Wedge - Director of Finance & Support Services (DoFSS)*
(*for Parts 2&3*)
Mr D Blake - National Audit Office (NAO) (*for Parts 1&2*)
Mr D Chan – Internal Audit (*for Parts 1&2*)
Mrs R Roberts – Audit & Performance Manager (APM)
Mr J D Price – Legal & Risk Manager & Secretary (LRM) (*for Parts 2&3*)

*Attended by telephone.

Part 1

The Members of the ARAC met with Mr Chan representing the Government Internal Audit Agency (GIAA) and Mr Blake from the NAO. Feedback from the GIAA was very positive – there was a good working relationship with TH. APM, as integrated audit co-ordinator, was regarded as very proactive (especially in comparison to the approach of the other GLAs) and there was good engagement across the Directorates in the areas where audits were carried out. In responding to audits, communication was good and with evidence used to deal with any disagreements, issues were resolved. The integrated audit plan was working well in the GIAA's opinion and, indeed, the NAO regarded it as best practice and had used it as an example to others.

In respect of the external audit, there was a good relationship with Finance staff and the GLF Accountant was receptive to any issues raised. It was acknowledged that there was more pressure on staff as the audit squeezed two weeks' work into one but that collectively they had managed to achieve what was necessary. Moving forward, more up front discussions and a better understanding of expectations, combined with doing more early on, would smooth the process. In this regard, the suggestion of producing early skeleton report and accounts was well received.

The GIAA felt that there was a good appreciation of risk within TH and this was evident from their audit work.

APM felt she had good dialogue with Senior Managers. They responded proactively to tackle things and to use Internal Audit to help them. Generally actions were followed through and, if any were missed, they were addressed when chased up. In terms of the value of Internal Audit across the organisation, it was planned to do a questionnaire on improvements that could be made which would address the proportionality of audit attention and challenge the frequency of audits and their value. The findings from this would be used to improve even further the standard of audits and the GIAA offered support with any emerging training needs.

There were no feelings of undue management pressure from anyone, the relationship with Management appeared very healthy.

It was noted that the auditors' direct contact with the Accounting Officer was not as frequent in TH as it was in the other GLAs and the GIAA would take this point forward and instigate more regular meetings. **[Action: Internal Audit]**

Part 2

1. Apologies for Absence

Apologies were received from Mr Le Mare, Head of Internal Audit.

2. Declarations of Interest

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

3. Minutes of Meeting on 17 September 2015

Approved subject to the phrase 'The NLB accounts would in future be certified' in Section 6 being amended to read: 'The NAO was currently in discussion as to whether the NLB accounts would be certified'. **[Action: LRM]**

4. Matters Arising

4.1 Arising from item 4.1, LRM reported that the first part of the exercise to test the documentation in the event of a serious accident, 'Exercise Wavewash', was underway with participants required to produce the relevant documentation within two weeks. A report on the outcome of the exercise would be provided to the next meeting of the Committee. **[Action: LRM]**

4.2 Arising from item 10, Mrs Johnson reported that in terms of credit card benefits she had been advised that there could potentially be an issue in terms of benefits in kind, which should be borne in mind.

4.3 All other matters had been actioned.

5. Audit & Risk Assurance Committee Terms of Reference

LRM reported that the terms of reference had recently been reviewed. As a result a small number of minor amendments were proposed to reflect better the role of the Committee and its operation. The ARAC noted and agreed the proposed changes for submission to the Board. **[Action: LRM]**

6.3 GLF Audit Planning Report

Mr Blake presented the Audit Planning Report on the 2015/16 Financial Statement Audit. The accounting records of the GLAs were examined prior to consolidation in the Accounts of the General Lighthouse Fund (GLF). These latter Accounts were certified. There was no provision for a separate audit certificate for the TH Accounts and, as such, no audit opinion was expressed on them. Whilst the overall focus of the audit was on the GLF Accounts, those of the GLAs needed to be audited to enable an opinion to be given on the GLF Financial Statements. Furthermore, the Board needed sufficient independent assurance on the accuracy of the TH Financial Statements to enable it to approve the Annual Report and Accounts. A risk based approach would be taken to the audit. The significant Financial Statement risks identified were the risk of management override of controls and of fraud in revenue recognition. Both were standard risks. In terms of the GLF audit, risks below the 'significant risk' level were in respect of property, plant and equipment, the Merchant Navy Officers' Pension Fund, CIL financing and eLoran early termination costs. Any issues arising during the interim audit would be brought to the attention of the ARAC. In terms of sector developments the IFRS 13 Fair Value Measurement would apply from 2015/16. There would be no material changes to the way in which TH valued its assets. In terms of the timetable for the audit, the interim audit would be carried out in February/March. The final audit would be completed between April and June and the results reported to the individual GLA ARACs in July. In this connection Mr Blake undertook to keep LRM informed as to any requirement to amend the date of the TH ARAC currently scheduled for 7 July 2016. The Committee noted and agreed the report. **[Action: NAO]**

7. Integrated Internal Audit Plan for 2015/16 – Progress Report

APM presented a progress report on the 2015/16 Internal Audit Plan. There were two updates since the report had been submitted. The Waste Management Audit Report had been issued and the Environmental Planning audit would commence in January. The dates for the interim NAO audit would be added to the Plan. The Information Risk Policy audit was to be postponed to Quarter 4 to reflect auditor

availability. The Plan was on target to be completed by the end of the financial year. In noting the position the Committee agreed that the extent of audit activity overall needed to be sufficient to satisfy external certification requirements, be proportionate to the level of risk and bring added value.

8. Internal Audit Report on Risk Appetite

APM presented the Internal Audit Report on Risk Appetite. She reported that the Committee required the Internal Audit function to provide assurance each year that Management was operating in line with the affirmed risk appetite. The results showed that this was very largely the case. There had been a difference in the case of ship maintenance but this had been as a result of auditees viewing the process from a specific aspect of ship maintenance. In response a question from DoFSS LRM agreed to raise at the SMT Strategy Day the need for risk appetite in terms of developing future strategy to be more 'open' than 'cautious'. **[Action: LRM]**

9. Internal Audit Report on Business Continuity

Mr Chan presented the Internal Audit Report on Business Continuity. The audit had resulted in a substantial assurance rating. Three low priority findings had been identified relating to the involvement of facilities management, the 'Red Pack', which outlined the immediate steps to be undertaken in the event of an emergency, and the use of social media. In this connection LRM reported that he had received some late feedback on the Report following its issue in terms of the management structure for facilities management. In noting the feedback the ARAC agreed that LRM and Mr Chan should liaise over some revised wording for the Report accordingly. It further agreed that, having regard to the recent issues in terms of the Central Monitoring and Control System (CMCS) backup facility, the area should be included on the audit plan for early in 2016/17. **[Action: LRM/Mr Chan/APM]**

Professor Matthews highlighted the importance of the organisation continuing to be resilient in terms of business continuity in the event of the unexpected loss of a key member of staff.

10. Internal Audit Report on Wreck Designations

Mr Chan presented the Internal Audit Report on Wreck Designation Follow-Up and Aids to Navigation Monitoring and Management. The objective had been to provide independent objective assurance as to the adequacy and effectiveness of the arrangements in place to respond to wrecks and follow-up wreck designations in accordance with the tri-GLA Risk Response Criteria and to monitor and manage AtoN. It had been a comprehensive audit resulting in a substantial assurance rating. There had been only one low priority finding relating to surveying of designated wreck, which had been since closed out. The Committee noted that the MCA did not always directly provide the Planning Centre with information on wrecks which had occurred and that liaison was continuing with the MCA on this point. EC added that the fact that it had been raised in an audit report would be helpful to TH in its discussions with the MCA. The Committee further noted that the three GLAs had been audited on the subject and that the HR & Planning Manager was keen for the findings from each audit to be shared between the GLAs. The Committee agreed that it was content for the TH report to be shared. **[Action: APM/ Mr Chan]**

11. Report on Outstanding Audit Recommendations

APM presented a report on the current status of the implementation of actions arising from audit reports. There had been two outstanding matters arising from GIAA Internal Audit Reports. The outstanding action from the Commercial Fees and Financial Planning audit regarding the forecasting of annual commercial income had been completed and incorporated in the Corporate Plan. The second arising from the Health and Safety audit regarding health and safety responsibilities being detailed in job descriptions was on schedule for completion by the target date of 31 December. One minor non-conformity had been raised as a result of the ABS surveillance audit at St Just against the OHSAS 18001 Standard in respect of

helicopter operations documentation. The corrective action response had been accepted by ABS without query. Six opportunities for improvement had also been identified, some of which also related to helicopter flight documentation. The next surveillance audit would be held week commencing 14 March 2016. The Committee noted the position accordingly.

12. Report on Internal Audit Planning Workshop

Mr Chan presented a report on the outcome of the Internal Audit Planning Workshop held on 2 December. The workshop had been held in two parts. The first part had involved ARAC Members and Executive Directors and the second part the SMT and the Commercial Manager with a joint wash-up session at the end. The discussions had focused on the key risks of the organisation both at present and in the future. The discussions had been very largely aligned. The key themes had been the Fleet Review; political considerations; the relationship with DfT; technology risks including cyber security; internal communications; workforce planning; organisational culture and behaviours; research activity and significant contracts. In terms of the next steps, work would now commence on preparing a draft Internal Audit Plan for the next three years with a particular focus on 2016/17 taking account of these themes and for the need for work on core financial controls. In this connection LRM added that it was intended to submit the draft plan to the Executive Committee in February following input from the SMT. Once agreed, it would be circulated out of session to ARAC members for their agreement. **[Action: Mr Chan/APM/LRM]**

13. Report on GLAs' Triennial Risk Management Review

LRM reported that the GLAs undertook a joint risk management review every three years, using a firm of risk managers. Willis Ltd. had secured the contract for the most recent review. On this occasion the contractor had been specifically asked to look at the GLAs' processes for dealing with new and emerging risks. They had commented favourably on TH in this regard citing the horizon scanning sessions arranged as part of Internal Audit planning workshops.

Willis had reviewed the risk management arrangements within the GLAs and had concluded that they continued to be well prepared to handle current risk exposures and any such that might appear in the short to medium term, albeit they had made a small number of recommendations for improvement, which they described as refinements rather than improvements. LRM summarised the recommendations relevant to TH. A report on the Review would be submitted to the Board in January. The Committee noted the report accordingly.

14. Management Assurance Statement 2015/16

APM presented the draft Management Assurance Statement for the nine months to December 2015, which had been reviewed by the Executive Directors and SMT. The areas identified for improvement were for the information of the ARAC and would not be submitted to the DfT. They would, however, be included in an action plan and be followed up. One area – Records and Freedom of Information - had achieved a 'Moderate' rather than 'Substantial' rating. It was for the ARAC to consider whether it was content with the ratings and associated explanations. In noting the proposed ratings and having regard to the work to be completed in terms of succession planning, the ARAC agreed that the rating in this respect should be lowered to 'Moderate'. It also agreed that, notwithstanding the work undertaken by the IT Department in terms of compliance checking, having regard to the training to be undertaken in terms of information security, the rating should also be lowered to 'Moderate'. The Committee otherwise agreed the Statement. It further agreed that the return to the DfT should highlight that TH was not a NDPB and that for the purposes of the GLF, the DfT dealt with TH as if it were an Executive NDPB where this did not conflict with the statutory position of TH or the interest of the GLF.

[Action: APM]

15. Report on Corporate & Organisational Risk Registers

LRM presented a report on the outcome of the latest review of the Corporate and

Organisational Risk Registers and the Directorate/Departmental Registers beneath them. The risk of an adverse outcome in terms of the Fleet Review had increased and had become the most significant risk alongside the SVS retention risk. The GNSS vulnerability risk, although something largely outside the control of TH, had also increased a little following the decision to cease eLoran transmissions from 31 December. The risk of the imposition of an adverse RPI-X formula had fallen following indications from the DfT and Lights Advisory Committee that TH's RPI-X proposals from 2016/17 would be acceptable. As far as the Organisational Risk Register was concerned, the main issue to note was the increase in risks linked to the Fleet Review. He noted that almost all the risk issues raised at the Internal Audit workshop were covered in either of one or both of the registers. The Committee noted the report and agreed that the Organisational Risk Register and the relevant Departmental Registers should be reviewed to ensure that the issues in terms of the CMCS were appropriately reflected. The Corporate and Organisational Risk Registers were otherwise agreed for submission to the Board. **[Action: LRM]**

16. Any Other Business

None.

17. Date of Next Meeting

It was agreed that the next meeting would be held in TH on 6 April 2016.

Part 3

1. Future Internal Audit Arrangements

The Committee discussed the current contract with the GIAA, which was for 12 months to 31 March 2016. Having regard to a number of factors it agreed that the contract should be extended for a further period of 12 months to 31 March 2017. For audit trail purposes it was also agreed that there should be a note from EC as Accounting Officer covering the extension of the contract. **[Action: LRM/EC]**