

**MINUTES OF AUDIT AND RISK ASSURANCE COMMITTEE (ARAC) MEETING
HELD IN TRINITY HOUSE LONDON ON 15 DECEMBER 2016**

Present: Mrs E D Johnson (Chair)
Professor P Matthews (for Part One and Part Two Items 1-12)
Mr D J Ring

In attendance: Captain I McNaught - Executive Chairman (EC)*
Mr A Damen – Director of Business Services (DBS)*
Mr T Le Mare – Head of Internal Audit**
Mr N Banks – Internal Audit**
Mr R Copeman – NAO Engagement Director**
Mrs R Roberts – Audit & Performance Manager (APM)
Captain R H Barker – Director of Navigational Requirements (DNR)
(for Part Two Item 16)
Mr J D Price – Legal & Risk Manager & Secretary (LRM)*

* Attended for Parts Two and Three ** Attended for Parts One and Two

Part One

1. Annual Meeting of Committee Members with External & Internal Audit

It was noted that the GLF was a new area for the NAO Engagement Director but his impression so far was that all looked tidy. His focus going forward would be on assets and people. For assets, he was interested to look at their condition to assess TH's impairment values and for people, opportunities for fraud detection, for example, theft from stores, theft of fuel, unattended items etc. Theoretical risks currently, not based on evidence, but he would be looking at internal controls over theft/fraud to assess for assurance. The price charged for diesel was an area NAO might look at, for example, fuel costs across the Lighthouse estate to see if there were any anomalies.

It was suggested that it would be useful to provide the Engagement Director with a brief induction to TH at Harwich to show him the scientific advancement TH worked on regarding power and how it maintained its estate.

GIAA commented that they were not aware of any issues in these areas and in general when issues did arise, they were well managed. The organisation was well controlled and there had been renewed energy across the GLAs with the appointment of Mr Damen as DBS. Risk identification was regarded as very robust and internal controls were good, evidenced by results from GIAA work and TH internal audits which were very professional. He had no significant concerns to raise.

It was welcome that management was engaging more in discussion on the scope of audits to ensure these added value. The relationship with GIAA was constructive and management was regarded as having a good grasp and focus in terms of key risks.

Brexit was mentioned as not being on the risk register. This would be brought up under the relevant agenda item in Part Two. The internal audit strategy and plan were also on the agenda to give a clear steer to GIAA for 2017/18 audit planning.

Part Two

1. Apologies for Absence and Introductions

There were no apologies for absence.

Mrs Johnson welcomed Mr Copeman to his first meeting of the Committee and those present introduced themselves. Mr Copeman explained that he had worked for the NAO since 1999 and had audited a number of areas within Government since that time.

2. Declarations of Interest

Mrs Johnson declared that she had recently become a Non-Executive Director and Chair of the Audit Committee of the Raven Housing Trust. She did not see any conflict with her role at TH. There were otherwise no declarations beyond those already declared in the Register of Interests.

3. Minutes of Meeting – 15 September 2016

Approved and signed.

4. Matters Arising

All matters arising had been actioned or would be so at the appropriate time.

5. Audit and Risk Assurance Committee Terms of Reference

LRM reported that the terms of reference for the Committee had undergone their annual review, as a result of which it was proposed to include a reference to the Committee's role in respect of fraud, bribery and whistle-blowing matters and to make a small number of editorial amendments. The Committee noted and approved the proposed changes for submission to the Board. **[Action: LRM]**

6. GLF Audit Completion Report

Mr Copeman reported that the GLF Completion Report for 2015/16 was being finalised. It was not anticipated that there would be any issues affecting the TH Accounts. If there were, he would advise accordingly. The GLF Accounts were likely to be signed off by the DfT Permanent Secretary in January.

7. NAO Audit Strategy for 2016/17 Audit

Mr Copeman presented the Audit Planning Report on the 2016-17 Financial Statement Audit. As set out in the proposed timetable, it was intended to bring the audit completion date forward compared to 2015/16. In this connection the ARAC noted that the Board would need to approve the Annual Report and Accounts earlier than previously, possibly in early July following consideration by the Committee. Mr Copeman agreed to revert to LRM with a timeline by which the Board would need to have approved the Report and Accounts. **[Action: Mr Copeman]**

In response to questions from the Committee, Mr Copeman confirmed that, whilst the NAO did not place direct reliance on the work of Internal Audit, this work was taken into account when considering the risk profile of the entity to be audited. In terms of significant risks to the Financial Statements, these were management override of controls and risk of fraud in revenue recognition which were standard risks for any audit. No change in the level of either risk was anticipated at this stage. The other two risks affecting TH were the risk of revaluation inaccuracy in terms of property, plant and equipment and the risk of high impairments and provisions as a result of damage due to the remote and exposed locations of Lighthouses. The audit would seek to establish whether assets were in the condition in which the organisation believed them to be. At the GLF level there was a risk of inappropriate exchange rates being used when consolidating Irish Lights figures into the GLF Accounts. Subject to no additional work being required, the audit fee would be the same as for the 2015/16 audit.

The Committee noted the position accordingly.

8. Integrated Internal Audit Plan – Progress Report

APM presented the progress report on the Integrated Internal Audit Plan, which remained largely on target and which she anticipated would be completed by year-end. As regards the governance and communications audit, as previously agreed, the governance aspect had been reallocated to a higher priority need, the tri-GLA Fleet Review. The number of days to be allocated to the communications audit was under consideration. In terms of other updates, the post project review audit was on track and the draft report had been received for the OP.57 audit of THV GALATEA. In terms of external audits the ISM Code Safety Management Certificate, International Ship & Port

Facility Security Code and Maritime Labour Convention renewal audit of THV ALERT had taken place. One non-conformity had been raised in respect of confined space entry, most of the actions arising from which had been closed out. In addition, there had been an ISO 9001/ISO 14001 and OHSAS 18001 surveillance audit at Swansea and Mumbles Lighthouse in October. No non-conformities had been raised. There had been five potential improvements against the OHSAS 18001 Standard.

9. Risk Appetite

APM reported that a review had been carried out of TH's risk appetite in 2014/15 against the Treasury five-point scale of 'averse', 'minimalist', 'cautious', 'open', and 'hungry', the outcome of which was that the Board had agreed that risk appetite varied depending on the activity, ranging from 'averse' for key statutory safety of navigation work or compliance with legislation to 'cautious' or 'open' for some commercial work. The Internal Audit function was required to give the ARAC assurance that management was operating in line with the agreed risk appetite. To this end establishing the risk appetite in operation against that agreed for an activity formed part of the audit process. The results obtained during the audits carried out in 2016/17 showed that the risk appetite in operation was very largely in line with the agreed risk appetite. In noting the outcome, the ARAC agreed that future reports should include as an annex a summary of the key indicators for each of the five points of the Treasury scale. **[Action: APM]**

10. Report on Audit of Core Financial Controls

Mr Le Mare presented the report on the audit of core financial controls, which was an audit carried out on an annual basis. The 2016/17 audit had focused on cash; purchases and payables; revenue and receivables; manual journals to the general ledger; commercial; and travel and subsistence. The audit had resulted in a substantial assurance rating that the framework of governance, risk management and control was adequate and effective. Mr Copeman confirmed that the scope and outcome would be taken into account in the NAO's risk rating for its forthcoming audit. He added in this connection that the NAO's audit was of the GLF and he would therefore produce with the GLF Audit Strategy an appendix for each GLA. **[Action: Mr Copeman]**

Mr Le Mare added that the core financial controls audit had resulted in two low-priority findings covering (i) bank account signatories albeit mitigated by a number of other controls and (ii) two issues in relation to the 25 sample travel and subsistence claims audited. In both cases Management was taking action to address the issues identified. The ARAC noted the report.

11. Report on Implementation of Audit Report Matters

APM reported that there were issues outstanding from two GIAA audits. The first was in respect of the Buoy Yard Team Member with facilities management responsibility participating in a business continuity audit. It would be closed out during the following week with a planned exercise. The IT resilience, user and rights management audit had resulted in four low-priority findings. Work was progressing as set out in the Report. Some of the target dates had been amended for the reasons stated. All three recommendations arising from the table-top major incident exercise 'Wavewash' had been completed. It was anticipated that a number of outstanding in-house Internal Audit recommendations with the Marine Operations Manager would be closed out before the next meeting. The ARAC noted the report and the revised close-out dates for the IT resilience, user and rights management audit.

12. Draft Management Assurance Statement

APM presented the draft Management Assurance Statement for the period from April to December 2016. The Statement had incorporated improvements and changes to the question sets since 2015/16. The responses had been reviewed by the Senior Management Team and the Executive Committee. Since submission of the draft Statement to the Executive Committee, the question in respect of anti-fraud and bribery training at 1.2.1 had been modified by the DfT resulting in the rating for Section 1.2 being increased from 'moderate' to 'substantial'. The ARAC noted the reasons for the

level of assurance in respect of the performance management and knowledge and records management being moderate. The Committee considered that the response to question 2.5.3 in the contract management section in respect of training should be changed to 'all' resulting in the rating being increased to 'substantial'. It also asked that the approach to section 3.2 (analytical assurance) be further reviewed with the Director of Navigational Requirements, together with Section 3.5 (Research), in order to acknowledge the core function of Trinity House. **[Action: APM]**

Mr Le Mare reported that the original intention had been to take a more principles based approach to the 2016/17 Statement and noted that answers could be in some cases be better tailored to reflect the particular practices / controls in place within Trinity House. The example used was 6.5 personal security as, whilst Trinity House did not carry out national security vetting, other effective controls were applied in relation to recruitment. The APM agreed to review 6.5 in liaison with the HR Manager.

[Action: APM]

The ARAC noted that the GLAs were to share their proposed responses at the next IGC 6 (Legal & Risk) meeting and that the Executive Chairman would submit the return with a covering note. The ARAC agreed that the Management Assurance Statement once finalised should be circulated for sign-off by members. **[Action: APM]**

13. Three Year Internal Audit Strategy & Plan 2017/18

APM presented a report setting out the business activities proposed for review by GIAA during 2017/2018, subject to agreement of audit fees. For 2016/2017 following an internal audit planning workshop, a refreshed three year Internal Audit Strategy and Plan had been developed and agreed by the ARAC in April 2016. Due to changes in management in 2016, there were some refreshed ideas as to where GIAA could place most value on activities to be audited. As the in-house team had carried out an audit of the survey process in 2016/17, it was proposed that the work to be undertaken by GIAA on the process be replaced by a mid-term review of the tri-GLA Fleet Review project. The ARAC agreed. The Committee also agreed that 12 days on public relations were more than was necessary and that significantly fewer days would suffice potentially releasing days for other audit work. In a response to a question from DBS, Mr Le Mare confirmed that the total days shown were indicative and there was flexibility in the terms of carrying over audit days to the next year. Mr Le Mare and APM agreed to rework the Plan in the light of the feedback received for consideration at the next meeting and as part of the 2017/18 Integrated Internal Audit Plan. **[Action: Mr Le Mare/APM]**

14. Review of Internal Audit Arrangements

The ARAC noted that the MOU with GIAA was for 12 months and subject to annual review. Mr Le Mare reported that he was content with the operations of the contract. The ARAC noted this and other feedback and agreed that the function was generally providing added value and was responsive to the changing environment and the level of risk. It would discuss the matter further in Part Three.

15. Report on Corporate & Organisational Risk Registers

LRM reported on the outcome of the latest review of the Corporate Risk Register (CRR) and the Organisational Risk Register (ORR) which sat beneath it. The ARAC and the Board reviewed the latter annually in December/January. In terms of the CRR, as anticipated, the risk of an adverse outcome to the Fleet Review process remained the most significant risk and had increased slightly for the reasons given in his report. A new risk had been added covering the possibility of industrial action by the Support Vessel Service, details of which DBS provided to the ARAC.

Mr Le Mare noted the reference to being drawn into e-PIMS under the policy risk in the ORR and reported that GIAA had been commissioned to undertake a cross-DfT review of e-PIMS compliance, as set out in the letter from the DfT Director of Group Commercial Services to EC. GIAA was looking to finalise the organisations in scope and he would follow up TH's involvement separately with LRM. **[Action: Mr Le Mare]**

LRM added that Brexit had not been included as a specific risk, although referred to in both registers. TH's powers and responsibilities were derived from the SOLAS Convention, which would be unaffected by Brexit. That said, the JSB had asked the CEC and LRM to produce a Brexit risk register and this work was in hand.

The ARAC otherwise approved the CRR and ORR for submission to the Board.

[Action: LRM]

16. Fleet Review Risk Register

DNR reported that the audit of the Project Initiation Document process for Phase 2 of the Fleet Review was proving helpful in terms of providing assurance that the project was moving forward supported by a sound basis of governance. Throughout the process it was important to remember that the overarching driver was the UK and Irish Governments' obligations under SOLAS Chapter V Regulation 13 in terms of providing such AtoN as the volume of traffic justified and the degree of risk required and ensuring the delivery of those obligations.

DNR then briefed the Committee on each of the risks in the TH Fleet Review Risk Register. The highest rated risk was an adverse outcome to the Fleet Review process overall and reflected the position in the CRR. Engagement with key stakeholders throughout the process was essential in terms of mitigating the risk and seeking to ensure the most appropriate fleet construct to meet the GLAs' responsibilities. Another key risk was a breakdown in tri-GLA consensus. The non-integration of each GLA's objectives could lead to a flawed outcome. The potential for the spot market evaluation exercise to produce a skewed or unclear outcome was also an issue and this was being mitigated by ensuring a robust assessment exercise. The risk of a failure to deliver TH's statutory duties during the project was also present and was being mitigated by TH seeking to ensure its risk response criteria were met.

The ARAC thanked Captain Barker. In noting the register, the Committee agreed that the risk of a breakdown in tri-GLA consensus linked to the non-integration of each GLA's objectives leading to a skewed outcome was significant. It therefore agreed that the wording and rating of that risk should be reviewed on the basis that it was more significant than shown in the register.

[Action: DNR/LRM]

17. Any Other Business

None.

18. Date of Next Meeting

It was agreed that the next meeting would be held in TH on 29 March 2017.

Part Three

1. Outcome of Review of GIAA Contract

Following the discussion under Part Two agenda item 14, the Committee considered further the internal audit arrangements with GIAA noting that flexibility in terms of scope and delivering added value were essential. Providing constructive feedback to GIAA on audits should assist GIAA in enhancing its audit work going forward. It was pleasing to note that GIAA were willing to be flexible in terms of carrying forward audit days from one year to the next.

2. Future Internal Audit Arrangements

The ARAC agreed that there should be a further MOU with GIAA for internal audit services for 12 months from 1 April 2017, subject to agreement of audit fees, and that the arrangement should be further reviewed in 12 months' time. The position should be formally confirmed with Mr Le Mare, together with the agreed flexibility on carrying over audit days.

[Action: DBS]