

**MINUTES OF AUDIT AND RISK ASSURANCE COMMITTEE (ARAC) MEETING
HELD IN TRINITY HOUSE LONDON ON 6 JULY 2017**

Present: Mrs M Amos (Chair)
Professor P Matthews
Mr D J Ring

In attendance: Captain I McNaught – Executive Chairman (EC)
Mr A Damen – Director of Business Services (DBS)
Mr R Copeman - National Audit Office (NAO) [Items 1-9]
Mr T Le Mare – Head of Internal Audit (GIAA)
Mrs R Roberts – Audit & Performance Manager (APM)
Mr T Arculus – Legal & Risk Manager & Secretary (LRM)
Mr B Nunn – Financial Controller (FC)

1. Apologies

None.

2. Declarations of Interest

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

3. Minutes of Meeting – 29 March 2017

Approved and signed.

4. Matters Arising

4.1 Arising from item 4.1, the Committee agreed that LRM would circulate the Annual Report and Accounts to the Board for approval and would procure the EC's signature before 20 July. **[Action: LRM]**

4.2 The Committee noted that all actions arising from the previous meeting had been completed.

4.3 Arising from item 15, the Committee noted that the Internal Audit Charter had been signed.

4.4 The Committee agreed that in future the minutes should include a log of actions. **[Action: LRM]**

5. Management System Annual Review

LRM presented his overview report of the TH Management System as the Management Representative. The report was submitted to the Committee as it formed part of TH's overall assurance framework. The reporting period for the Management Review was aligned to the financial year (01 April 2016 to 31 March 2017). TH had successfully maintained all its external certifications during the year.

A key piece of work in 2016/17 was the gap analysis of the TH Management System against the requirements of the ISO 9001:2015 and ISO 14001:2015 standards and the delivery of subsequent action plans. A readiness review carried out in February 2017 by external auditors identified further work required to get TH into a strong position to transition to the 2015 standards at the renewal/transition audit in January 2018.

Surveillance audits against the ISO 9001; ISO 14001 and OHSAS 18001 standards were carried out in October 2016 in Swansea and in February 2017 in Harwich, London and Lowestoft. One minor non-conformity was raised in relation to COSHH risk

assessments not being available for proprietary domestic chemical products, corrective action has been agreed with the auditors and is being taken.

No documented non-conformities nor documented observations were raised in respect of the ISM Code Document of Compliance 4th Annual Verification Audit which took place in Harwich in April 2016. One non-conformity was raised in relation to enclosed space entry drills at the Renewal Audit of THV Alert's ISM Code Safety Management, ISPS and MLC Certifications which took place in September 2016. This non-conformity has since been closed out.

The overall conclusion of the Annual Management Review meeting of the Executive Directors and Senior Managers was that the TH Management System continues to be suitable, adequate and effective and aligned to the strategic direction of the organisation. The Committee noted the report.

6. HIA Annual Opinion

Mr Le Mare presented his Annual Report and Opinion for 2016/17. It was based on the internal audit programme of work, the results thereof and action taken by Management to address issues arising. It also took into account TH's governance and risk management frameworks, other assurance processes and relevant information brought to the attention of Internal Audit.

The programme had been completed. Six audits had been completed by the GIAA. The workforce planning audit and the Tri-GLA fleet review project initiation document reviews both received management letters so no opinion was provided. Of the remaining four, two had received substantial ratings and two had received moderate ratings. To note, the Tri-GLA helicopter contract, which received a moderate rating, was attributed to NLB as the contract lead. All the findings made had been either low or medium priority.

Mr Le Mare had concluded based on the audit findings and other work in the wider context that he was able to give substantial assurance that the framework of governance, risk management and control in TH were adequate and effective.

7. GIAA Audit Reports

- **Internal Communications Audit Report (*Moderate*)**

The key finding of this audit was that the TH Vision was not perfectly understood by all staff. Interestingly, the individuals contacted felt that they themselves understood the vision but felt that their colleagues may not have. The report also included minor recommendations on other areas such as improvements to the internal communications plan.

The Committee discussed the possibility of benchmarking TH's performance against other organisations and how this might be done. The GIAA will consider this and make recommendations. **[Action: Mr Le Mare]**

The Chair recommended that, in order to monitor any improvements in the future, it would be beneficial to audit internal communications on a biennial basis. **[Action: A&PM / Mr Le Mare]**

- **Tri-GLA Helicopter Review Audit Report (*Moderate*)**

The Tri-GLA Helicopter Contract Audit had been executed pre-dominantly at NLB as the main contract lead. The audit awarded a moderate opinion with one

medium priority finding relating to the lack of benefits realisation monitoring that had been performed on the contract, and four low priority actions. The only one of these findings relating to TH related to direct communications with the helicopter service provider. The Committee noted that the subject of this audit was not based on TH's performance but that further work based on the audit report would allow TH to see how it was performing against its responsibilities in respect of the contract. The Committee discussed accountability, GIAA had recommended that the benefits realisation study should be the responsibility of NLB. The report is therefore a tool to use in discussions with NLB to work towards benefits realisation. NLB is committed to undertaking the benefits realisation task and will be supported by TH and IL. A follow up audit of the benefits realisation process and on year end accruals is accounted for on the 2017/18 audit plan.

- **Workforce Planning Management Letter**

This is a management letter so no opinion is given. The letter identifies areas which TH might wish to consider as best practice. Mr Le Mare reported that generally TH's workforce planning did not give rise to concern.

The Committee discussed skill sets and the importance of planning how to obtain and retain these and the importance of investing in further training and professional development.

A discussion followed on how the induction process for new recruits could be an opportunity to give a strong message about TH's corporate identity.

Also performance related pay and how TH deals with it is a very important area in terms of motivation and workforce planning.

The Committee noted that these subjects were outside the scope of the management letter but that they would receive discussion at the Board Strategy Day on 20 July. **[Action: Lighthouse Board]**

8. Draft Annual Report and Accounts 2016/17.

Mr Nunn presented for consideration the draft Annual Report and Accounts for 2016/17. The Committee noted that the TH Annual Report and Accounts do not have an audit certificate because that is awarded to the GLF Accounts. Subject to some minor editorial amendments from Members, and the LRM, the Committee agreed to recommend the Annual Report and Accounts to the Board for approval. **[Action: DBS/FC/LRM]**

9. NAO Audit Report

Mr Copeman presented the NAO's Audit Completion Report on the 2016/17 Financial Statement Audit Accounting Records of the GLF. The report must be submitted to the Committee before the audit work can be finalised and the accounts certified. NAO will issue a separate management report of its findings for 2016/17 and progress on prior year recommendations to a subsequent Committee meeting. The report is formally to the GLF but is provided to the individual GLAs for information. NAO have done a deep dive audit and have found very little of concern and will be recommending a clean audit opinion.

The Report identifies the significant financial statement risks as being (i) management override of controls and (ii) risk of fraud in revenue recognition. These subjects were investigated and the GLF was found to have satisfactory controls in place. The NAO also considered other matters which it considered had a direct impact on the financial statements but did not represent significant risks to the financial statements in the Audit Planning Report. These risk factors related to (i) property, plant and equipment and (ii)

impairment and provisions. The NAO was content with the way in which these were being treated.

Appendix 3 of the Report contains findings relating to TH. NAO found that the way TH does payroll would benefit from simplification but on the whole NAO were impressed with the robust processes followed by TH. The Committee was particularly pleased to note that the NAO's opinion that the way Operations are run is done in a good way and ties in with the way the Finances are managed.

NAO recommends TH should prepare an accounting paper regarding accounting treatment for ToTo. **[Action:DBS]**

Separate from the Report Mr Copeman recommended that TH should look at the way it handles settlement payments and follow-up to ensure that it follows the Cabinet Office's approval process. **[Action:DBS]**

10. Fraud/ Whistle-Blowing/Bribery Return

LRM reported that there had been no reported cases of fraud, whistle blowing or bribery in 2016/17.

11. Internal Audit Plan 2017/18 – Progress Report

APM reported that work on the 2017/18 Internal Audit Plan was underway and further progress had been made since submission of the report. The fieldwork for the waste management audit is now complete and a draft report has been produced for discussion at the closing meeting next week. The fieldwork for the management of freight containers commenced on 29 June 2017 as stated. The final report for the Tri-GLA R&RNAV audit was received yesterday from GIAA and provided a moderate rating. This report will be tabled at the September ARAC meeting. Final terms of reference for the PR audit by GIAA have been received and the fieldwork is due to commence on 19 July. The GIAA Tri-GLA Light Dues Audit and GIAA Superintendence and Management of the AtoN process audits are due to take place in quarter 2 (July to September) with scoping meetings on 19 July 2017. The Tri-GLA Helicopter Contract Benefits Realisation (GIAA) audit may need to be postponed to quarter 3.

The Committee agreed that the internal audit of the travel and subsistence process could be postponed to next year to allow changes which have recently been made to the process to bed-in. Elements of it are to be included in the current year's core financial controls audit scheduled to take place in October 2017 (audit scope to be agreed). **[Action: APM]**

The Committee noted the report and agreed that a GIAA facilitated internal audit planning workshop should be held at the end of the year to develop a refreshed 3 year internal audit strategy and plan. The workshop will be facilitated by the GIAA.

[Action: APM / Mr Le Mare]

Professor Matthews suggested that the Environmental Working Group (EWG) should be asked to consider how TH can make a positive statement about the good it does in terms of the environment. In particular, the EWG should consider marine plastics and other waste generated by the ships. **[Action: LRM]**

12. Report on Outstanding Audit Recommendations

APM reported that of the low priority findings still open from the IT Resilience, User and Rights Management audit, for key issue 2, an overview of the new reserve power solution was provided by the Engineers to IT staff on 19 June 2017 with draft documentation provided. In due course, the documentation will be finalised. For key

issue 3, action 2, strengthening works are complete and monitoring equipment will be installed week commencing 26 June 2017. This installation work will complete this action. Finally, for key issue 4, action 2, work still continues on documenting the procedure notes for CMCS. This work has been delayed due to the service update project which has resulted in the existing system administration methods having to be updated to suit the new hardware and other improvements introduced. The target date has been pushed back again to September 2017.

The Fleet Review Project Working Group has addressed all of the good practice principles identified in the Tri-GLA Fleet Review PID Part 2 Management Letter which has been shared with the Engineering Department for consideration of any lessons learnt for future PIDs.

The Schedule of open non-conformances and overdue potential improvement notes contains several actions with July completion dates for the Marine Operations Manager who is actively addressing them.

Two non-conformities and one observation were raised during the ISM Code Document of Compliance renewal audit. A new certificate was issued for the five year period which will be subject to annual verification audits.

Two non-conformities were raised during the ISM Code Safety Management Code renewal audit of THV Patricia and a third item was raised under the Maritime Labour Convention however this was addressed at the time of the audit. New certificates will be issued for the five year period but these will be subject to an intermediate verification audit between the second and third anniversary dates of the certificates.

The Committee noted the report accordingly and noted the amended target date for the CMCS procedure notes to be completed in respect of the IT Resilience, User and Rights Management audit findings.

13. Review of Risk Registers

LRM reported on the outcome of the latest review of the Corporate Risk Register (CRR) and the Organisational Risk Register (ORR) beneath it. The risk of an adverse outcome to the Fleet Review remained the most significant risk but was stable. The SVS recruitment and retention risk had stabilised due to settlement of the Pay Remit. In accordance with Board direction the Cyber Security risk had been escalated from the ORR to the CRR. This risk and the controls in place to reduce the threat will continue to be reviewed and strengthened. All other risk on the CRR remain significant matters and are mitigated so far as practicable. The CRR was agreed for submission to the Board. **[Action: LRM]**

The Chair asked the LRM to confirm the process for evaluating the point at which risks get escalated to the CRR from the ORR. **[Action: LRM]**

14. Proposed Meeting Dates - 2018

Approved.

[Action: LRM]

15. Review of ARAC Terms of Reference

The Terms of Reference of the Committee were reviewed. The Committee requested that the names of individual committee members should be replaced with their titles (e.g. DfT recommended NED). Subject to this change the Terms of Reference were approved. **[Action: LRM]**

16. Any Other Business

None.

17. Date of Next Meeting

The next meeting would be held in Trinity House London on 27 September commencing at 1000.