

THE NATIONAL LOTTERY COMMUNITY FUND

MINUTES

AUDIT AND RISK COMMITTEE

June 12th 2024

11:00-15:30

NLCF London Office/ Teams

PRESENT

Richard Collier- Keywood	Audit and Risk Committee Chair
Emma Boggis	Member
Charlotte Moar	External Member
Simone Lowthe- Thomas	Member

IN ATTENDANCE

INTERNAL

David Knott - CEO
 Stuart Fisher - Finance Director
 Fiona Morley - Head of Internal Audit
 Emma Kavanagh - Deputy Director, Finance
 Austin Ruane - Head of Risk (*Items 7-9*)
 Sarah Rossiter- Head of Controls Assurance (*Item 8*)
 Craig Taylor - Deputy Director, Technology (*Item 9*)
 Patrick George - Senior Governance Officer (*Minutes*)
 Catherine Roberts - Head of Governance (*Minutes*)

EXTERNAL

Andrew Brittain - EY
 Ntombifuthi Mhlongo - EY
 Sajid Rafiq - NAO
 Gurpreet Dulay - BDO
 Robert Bailey - NAO
 Ismail Pandor - DCMS

APOLOGIES

The meeting was preceded with a closed session.

1. INTRODUCTORY REMARKS

1.1 Richard Collier-Keywood welcomed all Committee members and attendees to the meeting.

1.2 There were no apologies.

Declarations of Interest

1.3 There were no declarations of interest.

Approval of March 2024 ARC Minutes

1.4 Some amendments were suggested to the minutes and subsequent action log, and these were accepted.

ACTION: Governance**Action Log**

1.5 The action log was taken as read.

2. **CHIEF EXECUTIVE HEADLINES & HORIZON SCANNING**

2.1 The CEO reflected on the successful launch of the corporate plan and the subsequent actions within the Fund. Key Performance Indicator (KPI) data was being developed, and a new reporting cycle would commence in the autumn. Due to the General Election, a period of sensitivity had been entered into, which led to changes in some announcements and communication, and other operational activities. The recruitment for a Chief of Staff and a Director of People and Culture was progressing well, and there was strong engagement with the Colleague Council, which was helping to develop a broader funding policy..

2.2 The Committee members thanked the CEO for the update and inquired about the progress of the Management Framework. The CEO confirmed that they were still waiting on ministerial approval. The committee acknowledged that the situation was less than ideal but was assured that everything possible was being done and we were still in effect operating under the previous agreement. They also highlighted the risk of the process being restarted.

3. **INTERNAL AUDIT**

ARC Annual Report to Board

3.1 Fiona Morley presented the paper to the committee. This was a very collaborative piece of work. She confirmed that some sections had been written based on work undertaken by the previous Head of Internal Audit, and approval was being sought for the overall opinion section before the report was submitted to the Board.

3.2 The Committee members thanked Fiona for the report and requested some amendments be made to sections recording membership attendance and for the progress made on Fraud investigation backlogs to be reflected more broadly in the paper. Fiona Morley agreed to amend the paper accordingly and distribute this to Committee members.

ACTION: Fiona Morley

3.3 Subject to the changes being made the Committee members **AGREED** to:

- i the contents of the report
- ii the assurance opinion
- iii the report being submitted to the Board for consideration.

Audit Progress Report

- 3.4** Fiona Morley shared the key highlights reported in the paper, she advised that the Audit Plan had been approved in April, following from changes requested at the March Committee meeting. At the March Audit & Risk Committee meeting, it was noted that the level of audits scheduled for 2025/26 could have caused a large workload, Fiona confirmed this had been amended but would still be subject to annual review to ensure their relevance. It was noted that Performance data was not included, however all Key Performance Indicators had been met and this would be added to the next Audit Progress Report and would continue to be monitored. A cyclical audit for Key Financial Controls had been agreed and was on track. Skills and succession mapping scoping meetings had also been agreed with the aim of bringing all three back to a future Audit and Risk Committee meeting.

ACTION: Fiona Morley

- 3.5** When Key financial controls were discussed, the Committee asked about management's connection to the new operator and how updated forecasts would be developed internally. Stuart Fisher confirmed that these forecasts are made on a quarterly basis using the provided information, and this is a well-established process. It was agreed that more detailed explanations would be provided in future Board meetings to facilitate monitoring of this key area.

ACTION: Emma Kavanagh

- 3.6** Fiona updated the Committee on the status of audit recommendations. She reported that six recommendations were due and in progress, while five were in progress but had missed deadlines. After discussing the associated risks, the Committee agreed that the Fraud Management Risk Group should have closer oversight of the audit recommendations related to fraud. Any necessary actions from this Group would be escalated to the Senior Management Team (SMT).

ACTION: Fiona Morley and Sarah Rossiter

- 3.7** There was also a request for the audit recommendation table headings to be updated to show clearer status updates.

ACTION: Fiona Morley

- 3.8** Fiona moved on to discuss the recent Complaints and FOI audit, the Design Opinion had been rated limited and Design Effectiveness as moderate. Fiona advised the committee that reported areas of concern were the Fund not having an electronic platform for recording and categorising Stage One complaints, furthermore, The Fund's quarantine email filters were blocking some FOI requests from 'WhatDoTheyKnow' resulting in those not being received or responded too. Members discussed the benefits of correctly capturing and categorising all complaints received to enable a development of best practice and highlighting key themes and trends. Fiona Morley advised that the development of the Fund's new website would enable improvements in the areas raised, assurance was also

provided to the Committee that regular checking of quarantined emails had already commenced. It was agreed that a formal process would be developed to reflect this.

ACTION: Fiona Morley and Craig Taylor

- 3.9** The Governance structures and responsibilities surrounding Complaints and FOIs was also discussed, with reassurance provided via the CEO that this was currently being reviewed and the recruitment of a new Chief of Staff would assist with this.

Annual Assurance Statement

- 3.10** Fiona Morley introduced the Annual Assurance statement, it was noted that the opinion was based on observations taken between January and March 2024, following on from the previous Internal Head of Audit's interim rating of moderate. Fiona confirmed the rating as moderate. Fiona highlighted two key areas of focus for the Committee, the Funding risk framework and the delivery of key projects.

- 3.11** The Committee noted that some amendments were required to the report, Fiona agreed to these and would circulate an amended document following the meeting.

ACTION: Fiona Morley

- 3.12** Members wanted clarification on whether there was a list of key projects and who oversaw them. Stuart confirmed that these were managed through the Policy & Practice and Performance & Programmes Sub-Committees, with the Senior Management Team providing overall oversight. This led to a discussion about the risk justification project and how it could provide better guidance on high-risk grant making and support decision making. Simone Lowthe-Thomas and Stuart Fisher agreed to further discuss how non-executive members of the Decision Panel and Committee could be supported in understanding how high-risk grants fit within wider portfolios

ACTION: Stuart Fisher

4. EXTERNAL AUDIT

- 4.1** Andrew Brittain provided the Committee with a summary and an overview of the risks highlighted in the audit plan. Apart from some differences in narrative and disclosure, there were no significant findings. An observation was made about the impact of the General Election that this would potentially delay the certification process. The committee also noted that there was a national issue surrounding the pension disclosures in the annual report.
- 4.2** After the Committee members raised questions, Sajid Rafiq from the National Audit Office confirmed that there was a shadow certification process in place to

expedite the formal sign-off. He stated that once the Board approved the Annual reports and accounts, the normal approval and certification process would be completed as much as possible to enable them to be presented to Parliament after the General Election. Following these assurances, the Committee agreed to recommend to the Board that our annual report and audit opinion should go through the process for certification and pass it to the Board for final sign-off.

5. ANNUAL REPORT

- 5.1 Stuart Fisher presented the annual report and expressed gratitude to everyone involved for their contributions. He confirmed that the external auditors had provided a clean opinion in relation to the financial statements and subject to the earlier comments on pensions, we could now move to finalise and pass to the Board for final approval.
- 5.2 The Committee members thanked the teams for their work and reviewed some of the narrative in the Annual Report and suggested various amendments, including to the Chair's statement and having greater clarity between how we disclose the split between National Lottery income and dormant assets. The Committee moved to **APPROVE** the report, subject to those changes being completed and agreed to recommend them to the Board for final approval

ACTION: Emma Kavanagh and David Knott

The Committee held a lunch break 13.20

6. ARC RECRUITMENT UPDATE

- 6.1 Catherine Roberts updated the Committee on the recruitment for a new non-executive member. A recruitment agency was being used, and it has produced some good candidates. Meetings are being scheduled to complete the shortlisting process, with a final interview panel taking place in July. The goal is to appoint a new member during the summer.
- 6.2 The Committee expressed their gratitude to Catherine for the update and requested an update on the recent Audit & Risk Committee effectiveness review. The Chair and Catherine Roberts agreed to provide an update at the next meeting.

ACTION: Chair and Catherine Roberts

Austin Ruane joined the meeting.

7. RISK

- 7.1** Austin Ruane updated the Committee members on the provided papers, focusing on the Organisational Risk Register. He mentioned that four risks had exceeded agreed tolerance/ appetite levels, while four new risks had been added. One of the new risks related to data and GDPR compliance on core systems, which was linked to the data retention program. Austin stated that efforts were on track to manage this risk effectively. Additionally, ORR 22 was identified as a strategic risk, and ORR 23 was added in response to the recent General Election, acknowledging the potential for evolving risks. Austin also highlighted the plan to develop a control library for sharing with all risk owners, in order to ensure assurance on residual risk scores and hold risk owners accountable for updates.
- 7.2** The Committee members requested additional assurance regarding how risks were rated, and they questioned what the Committee members should be looking for to provide further assurance. They also inquired about how risks were being categorized and the accuracy of the reporting in terms of bringing risks back within tolerance levels. Austin explained that this was part of the ongoing risk justification project, which would provide more data to ensure greater clarity on tolerance levels and enable the Fund to conduct high-risk grant making in a controlled and risk-appropriate manner.
- 7.3** The Committee encouraged Austin to push risk owners for more accurate reporting on the path to green and to provide important updates on key risk themes. They also requested risk owners to update on out-of-tolerance risks and incorporate these updates into the reports being sent to the Board.

ACTION: Austin Ruane

Sarah Rossiter joined the meeting.

8. FRAUD

- 8.1** Sarah Rossiter discussed the key highlights that were listed in the provided papers. She also addressed a previous conversation from the March meeting, clarifying the differences between the Whistleblowing paper and the Fraud reporting. Sarah then informed us about the creation of a new Counter Fraud Manager role, which aimed to promote broader involvement across the organization. Additionally, she mentioned that the investigations caseload had been reduced to five months, which is below the agreed six-month target.
- 8.2** The Committee members congratulated Sarah and her team for reaching the caseload target of six months. The discussion began with a question raised during the Internal Audit update about audit recommendations that could indirectly or

directly relate to fraud. Sarah confirmed that progress had been made in assessing risk from a funding perspective. The CEO also emphasized the need to consider write-offs and political risk, and pointed out that risk is not always about fraud. Potentially one of our greatest risks is that we make grants that do not have any impact.

- 8.3** The Committee questioned Sarah's confidence in the Fund's ability to accurately detect levels of Fraud. Sarah mentioned that the Fraud Action Plan had been shared with DCMS for peer review and was commended for the team's proactivity. It was also noted that the new Counter Fraud Manager would further develop the approach and integrate it across Fund operations.

Sarah Rossiter left the meeting

Craig Taylor joined the meeting.

9. CYBER RISKS DEEP DIVE

- 9.1** Craig Taylor provided an overview of the current cyber threats. He emphasized that cyber attacks are prevalent in all organizations in the current climate. Craig discussed the organization's protective measures, ongoing cybersecurity tasks, and recent investments made by the Fund. He underscored the importance of collaborating with other government agencies and learning from the practices of other organizations in the same field.
- 9.2** After being questioned by committee members, Craig confirmed that ongoing work is focused on examining phishing attacks and staying updated on current market trends. He mentioned that this work will be fully established within the next 3-6 months. Craig also explained that the Fund operates three critical external systems and outlined the process for restoring these critical systems within 24 hours. He also discussed daily backup procedures for these systems. The committee suggested that Craig consider implementing 24-hour monitoring to reduce the risk of out-of-hours system breaches.

ACTION: Craig Taylor

- 9.3** The Committee moved on to discuss external access from own devices and this seemed to be limited to non-executive members and it was suggested that the policy and practicality of this should be investigated further.

ACTION: Craig Taylor

10. UPDATES FOR INFORMATION AND NOTING

- 10.1** The Committee were pleased to see the development of the Policy register and noted that a large number of Policy's were due for review in June 2024 and this should be kept up to date

Craig Talyor left the meeting.

11. ANY OTHER BUSINESS

- 11.1** There was no further business discussed.

THE MEETING CONCLUDED AT 15.20 AND WAS FOLLOWED BY A CLOSED SESSION WITH THE COMMITTEE.

MINUTES AGREED DATE: 5th September 2024

Richard Collier-Keywood

RICHARD COLLIER-KEYWOOD

AUDIT & RISK COMMITTEE CHAIR