

THE NATIONAL LOTTERY COMMUNITY FUND

MINUTES

AUDIT AND RISK COMMITTEE
MARCH 7TH 2023
10:00 - 13:00
TEAMS

PRESENT

Richard Collier- Keywood	Audit and Risk Committee Chair
Ruth Marchington	External Member
Emma Boggis	Member - Chair of the meeting
Charlotte Moar	External Member

IN ATTENDANCE

INTERNAL

David Knott - CEO
Nick Blake - Head of Internal Audit
Stuart Fisher - Finance Director
Neil Harris - Corporate Services Director
Verity Prime - Funding Strategy, Communications and Impact Director
Austin Ruane - Head of Risk (*Items 11 & 12*)
Claire Parkes - Audit & Investigations Manager (*Items 11 & 12*)
Lucy Taylor - Governance Officer (*minutes*)
Catherine Roberts - Head of Governance (*minutes*)

EXTERNAL

Greg Rubins - BDO
Simon Mathers - EY
Paul Holland - NAO
Stephen Butcher - DCMS

APOLOGIES

Rachael Robathan - Member

1. WELCOME

- 1.1 Emma Boggis chaired the meeting on behalf of Richard Collier-Keywood. Emma welcomed all Committee members and attendees.

2. APOLOGIES FOR ABSENCE

- 2.1 Apologies were received from Rachael Robathan.

3. DECLARATIONS OF INTEREST

- 3.1 Ruth Marchington declared a conflict of interest, noting that her son works for Deloitte.

4. APPROVAL OF MINUTES

- 4.1 The minutes were approved as an accurate record.

5. ACTIONS ARISING

- 5.1 The Committee noted the open actions. The Chair of the meeting advised that several actions would be discussed later in the meeting, and noted the following updates.
- i. 31 9.9 Internal Audit - The action around Board members completing their mandatory training has now been completed.
 - ii. 31 6.1 Chief Executive Headlines & Horizon Scanning - The work on the Framework agreement remained ongoing, and was due to conclude imminently.
 - iii. 7 15.4 Cyber Security Deep Dive and 11 17.1 Policy Register - These actions remained open and would be concluded after the Governance review.
 - iv. 46 16.2 Health & Safety Update - The team was progressing with the Health & Safety dashboard, which would be presented at the September ARC meeting.

6. CHIEF EXECUTIVE HEADLINES & HORIZON SCANNING

- 6.1 The CEO began by highlighting that the Cost of Living is a significant contextual backdrop for the organisation. He emphasised the organisation's "we are here for you" approach, which includes variations to existing awards, new awards, and responsive funding, with the latter being the most significant part.
- 6.2 The CEO stated that the organisation's strategy work is on track, and expressed confidence that the strategy would be launched in June, which would also address some risks around the connection to National Lottery players and the future of the National Lottery.
- 6.3 The Board had established three new sub-committees on People, Strategy Renewal and Stakeholder Engagement, which had all met. Richard Collier-Keywood was chairing the Strategy Renewal Board Sub-committee.
- 6.4 The Fund launched its annual employee engagement survey, and first results are expected by the end of the month. Moreover, the People Sub-committee has been discussing the wider People measures in place.
- 6.5 The organisation has appointed Deloitte through a public procurement process in accordance with the Crown Commercial Service Management Consultancy Framework to undertake the Governance review. The CEO advised that the Chair of the Board has re-circulated the Governance Review scope to all Board and Committee members. Members queried if the Governance review would impact the ARC Terms of Reference (ToRs) and Committee roles and were assured that

although the ToRs might be impacted by the overall findings of the review, there were no specific plans for a review. Moreover, Deloitte intend to survey all Board and Committee members and do a cross-section of interviews. The Committee requested that the Governance review be added to the June agenda and it was likely that the ARC would do a supplemental governance review focussed on its specific role

ACTION: Governance

- 6.6 The Committee were informed that DCMS has changed in shape and profile moving alongside a wider governmental change. DCMS's Permanent Secretary has moved to the Levelling Up department, and there are now two interim Director Generals and Permanent Secretaries.
- 6.7 The shape of the Allwyn license has continued to develop. The CEO of Camelot has stepped down, and the interim CEO is managing the transfer to the fourth license process. The acquisition of Camelot by Allwyn will assist the transition between operators. The Fund is doing a lot of work alongside the National Lottery distributors and Gambling Commission around the risks that pertain to them, such as the financial forecasting.
- 6.8 The Committee acknowledged the organisation's Lottery income and emphasised the importance of not under-committing during a time when people need money most. The Committee asked the Executive if they could assist in messaging to the Board, DCMS, and EY regarding extending the Fund's risk appetite. The CEO advised that the organisation would be slightly ahead of its budget this year, which plays into its operational expenses. Still, the Fund needs to be prudent in their spending next year. Stuart Fisher added that the new lottery operator, working in collaboration with the Gambling Commission, would provide a one-year forecast, followed by a five-year forecast later in the year. Stuart reflected that they would be monitoring this closely at an SMT level, and that there are significant reserves in the NLDF. Simon Mathers added that the Fund needs to be able to demonstrate that it remains a going concern for the forthcoming year. Stuart Fisher added that a going concern confirmation would be taken to March 2023 SMT. Stuart also responded to the point made regarding the importance of not under-committing grant spend at a time when it is most needed by confirming that a further £100m was approved for released from the NLDF to be awarded in the forthcoming two years - these plans remain unaltered.

7. INTERNAL AUDIT 2022/2023

- 7.1 Nick Blake presented the Internal Audit Progress report and noted key highlights such as ten of the eleven reviews listed in the Plan being completed. Nick added that BDO had been re-appointed for another three years, and the team is working on appointing a new Audit Manager. Although there were several limited assurance audits this year, Nick acknowledged that the Fund had made many improvements to the control environment, and has been proactive in dealing with many of the issues raised.
- 7.2 Nick pointed out that Review Number 5. Colleague Performance Framework and Appraisals needed more assurance as it was identified that there were high levels

of non-compliance, such as incomplete objectives and inconsistencies with mid-year and end-of-year reviews. Neil Harris reflected that line managers would need further training in this area.

- 7.3** The Committee questioned why only the People team was interviewed and not the customers i.e. managers. The Committee advised that seeking customer feedback would provide insight into the levels of non-compliance. The Committee encouraged more engagement with customers and involving them in the reports. The importance of having the customer's perspective was recognised and it was agreed that this should feature as a standard part of future audits.
- 7.4** Nick added that the Internal Audit Recommendations Tracker contains a total of 29 recommendations from 12 audits completed during 2020/21 (1), 2021/22 (3) and 2022/23 (8). The CEO confirmed that following up of IA recommendations remained a regular topic of discussion with the SMT and the next follow up was due in March.

8. INTERNAL AUDIT 2023-24

- 8.1** Nick presented the proposed Operational Plan for 2023-24, which has been developed in line with IA standards, and had taken into consideration the areas that had been identified with SMT risk owners and previous input from the Committee. There were eight reviews listed in the Plan across seven risks. SMT has reviewed the Plan and provided feedback, which led to broadening the scope of some of the reviews.
- 8.2** Nick advised that the Plan had considered the RACMs and Risk Registers, and the AO and ARC Chair had been kept informed during the planning process. The Plan also considers the Fund's continuing plans for strategic renewal and organisational improvements alongside the findings and recommendations from the 21/22 Independent Culture Inquiry on the Fund, to ensure the internal audit operational and strategic plans remain current and provide assurance. As such, they have reduced the number of reviews that will take place in the forthcoming year.
- 8.3** The indicative plan for 2024-25 and 2025-26 had not yet been developed from the long list items. As with the 2023-2024 plan the aim was to have fewer, but more strategic reviews.

9. EXTERNAL AUDIT

- 9.1** Simon Mathers presented the completed external audit plan, and highlighted key points such as an increased materiality level, and the resolution of the issue on dormant accounts. He advised on several changes that could be found in the report, such as the changes made to the outline plan.
- 9.2** Paul Holland stated that the new auditing standard allowed for better articulation of risks and targeted work where it was needed. Simon then discussed the progress made on interim work, highlighting two potential risks: going concern

and the potential absence of forecast on Lottery income. He emphasised the importance of senior management articulating in the governance statement their views on liquidity and work done on understanding the parameters of going concern.

10. ANNUAL REPORT AND ACCOUNTS

- 10.1 Emma Kavanagh provided an overview of the changes made to the draft Governance Statement for the annual report. Members were encouraged to suggest any additional areas for inclusion before the report is presented in June. The Chair of the meeting highlighted that the NAO had recently published a report on good practice in annual reporting, which could be useful to refer to when preparing the report.
- 10.2 Members acknowledged that the CEO had expressed positivity about the progress made in the last year and suggested that this sentiment be reflected in the annual report.

Simon Mathers left the meeting.

11. RISK

Austin Ruane & Claire Parkes joined the meeting.

- 11.1 Austin Ruane reported that there are currently sixteen open risks on the ORR, with ORR27 proposed to be removed and one risk proposed to be added. The Risk Management Moderation Panel had recently reviewed the risks and deemed none to be out of tolerance on the ORR.
- 11.2 More detail has been added to reflect the risks around income fraud, with caution expressed about some income forecasts for the next financial year which is reflected in the budget proposals. SMT have discussed the UK Portfolio's underperformance against budget, which is being monitored and may be added to the ORR.
- 11.3 The Risk Management Moderation Panel reviewed all risks against the new risk matrix, resulting in the creation of nine risk registers with 44 open risks across the nine risk registers. Six of these risks are residual high-risk. The team plans to concentrate controls in the next quarter to target out of tolerance risks and high-risks.
- 11.4 The Risk team has been exploring ways to address concerns raised at ARC regarding risk and control assurances, leading to the development of a new Key Risk Themes document. This document connects risk appetites with open ORR risks and controls, along with independent first, second, and third line of defence assurances. The revised format was well received by members and will become part of the quarterly risk reporting cycle. The Committee commended Austin's presentation, his continuing work and the new executive summaries provided in

particular. The Committee suggested including a high-level management summary message on the report, which Austin agreed to add.

ACTION: Austin Ruane

- 11.5** The Committee suggested adding indicators for People and Culture. Neil advised that it had been decided at a recent People Sub-committee to draft a dashboard on People metrics for the Board and it was noted that it would be useful to share this with ARC in due course. The Committee also suggested sharing the people related IA reports with the People Committee.

ACTION: Neil Harris

12. FRAUD

- 12.1** Claire presented the Fraud update and pointed out key highlights, such as the number of pending fraud cases having reduced due to more resources being allocated to the Investigations team. Moreover, all the historic funding requests have been investigated and closed, and the caseload only holds business-as-usual funding requests.
- 12.2** The Fraud stats for February 2023 show that 66% of pending fraud is made up of grants that have been referred for deliberate misuse. In regards to proven fraud, 17 out of 21 instances in the month are due to deliberate misuse of grants. Furthermore, the team has undertaken further forecasting work on the proven fraud data on the simple product to predict six-month trends. With these figures, it can be seen that proven levels of fraud fall within tolerance and are forecast to remain at that level until May 2023.
- 12.3** A report was taken to January's FRMG setting out the outcome of a more streamlined and targeted approach that recoveries had been piloting in England on the simple product. The Policy team will be working on a recoveries policy that strikes a balance between protecting public funds, reputational risk, and the cost-benefit of recoveries.
- 12.4** Austin presented the annual review and noted the changes that had been made to the report compared to last year's report. The Committee thanked Claire and Austin for being responsive to ARC's feedback and commended the team's work, particularly on outcome-based metrics.
- 12.5** The Committee requested that the 2023 Plan include every aspect of the team's aspirations and plans for the year. They also requested that the Fraud report progress against the 2023 Plan with the relevant appendices should be presented at future meetings.

Austin Ruane & Claire Parkes left the meeting.

13. GDPR, WRITE-OFFS, SERIOUS INCIDENTS, SPEC. PAYMENT

- 13.1** The Committee queried the write-off reports in Northern Ireland that occurred in 2014. Emma Kavanagh explained that it was a historic write-off that had been

delayed due to a lengthy insolvency process. Emma K added that the Finance, Funding, Legal, and Internal Audit colleagues were made aware and involved throughout the process.

14. COMMITTEE WORKPLAN REVIEW

- 14.1 The Committee reviewed the Workplan and advised that the list of deep dive topics be refreshed outside the meeting.

ACTION: Governance, Richard Collier-Keywood

Richard Collier-Keywood left the meeting.

15. POLICY REGISTER

- 15.1 Catherine Roberts presented an update on the Policy Register, noting that the People policies were labelled green, while several Funding policies remained red. The Committee requested that where possible there be a more specific date in the year field, and responsible owners added for each policy.
- 15.2 Members queried the work being done on Funding policies and suggested prioritising the work on this. Verity Prime advised the strategy renewal work will lead to a better understanding of what needs to be done on Funding policy. Moreover, the Committee suggested a deep dive into Funding policies and how the strategy renewal relates to funding policy, practice, and risk at the next meeting.

16. WHISTLE BLOWING ANNUAL REPORT

- 16.1 Nick presented the annual report on whistleblowing. Nick explained that the revised Whistleblowing Policy was launched in June along with the Fund's use of 'Safe Call'. There have been no reports on whistleblowing through Safe Call or internal mechanisms.
- 16.2 Members queried how staff were made aware of the whistleblowing system. Neil explained that there are signposts to it on the employee intranet, and staff have been encouraged to use it. The Committee suggested monitoring the staff survey question regarding whistle blowing, and tracking other metrics such as complaints and grievances from staff. Neil added that the Fund has refreshed its internal communications, opened up the lines of dialogue for staff to speak up, established staff networks, and launched the Colleague Council, which is a representative group of colleagues to explore ideas and raise concerns.

17. ANY OTHER BUSINESS

- 17.1 The Committee thanked the team for their work and concluded the meeting.

THE MEETING CONCLUDED AT 12:45 AND WAS FOLLOWED BY A CLOSED SESSION WITH THE COMMITTEE.

MINUTES AGREED

DATE: 12TH JUNE 2023

Richard Collier-Keywood

RICHARD COLLIER-KEYWOOD

AUDIT & RISK COMMITTEE CHAIR