

THE NATIONAL LOTTERY
COMMUNITY FUND

MINUTES

AUDIT AND RISK COMMITTEE

5 September 2024

09:30-13:15

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 - Chief Executive
Stuart Fisher - Chief Finance & Resource Officer
Fiona Morley - Head of Internal Audit
Emma Kavanagh - Deputy Director, Finance
Austin Ruane - Head of Risk Management (*Item 5*)
Sarah Rossiter- Head of Controls Assurance (*Item 8*)
Craig Taylor - Deputy Director, Technology (*Items 4 & 5*)
Patrick George - Senior Governance Officer (*Minutes*)
Catherine Roberts - Head of Governance (*Minutes*)

EXTERNAL

Ntombifuthi Mhlongo - EY
Gurpreet Dulay - BDO
Robert Bailey - NAO
Ismail Pandor - DCMS

APOLOGIES

John Mothersole, Board Vice Chair (*Item 3*)

The meeting was preceded by a closed session.

INTRODUCTORY REMARKS

- 1.1 Richard Collier-Keywood welcomed all Committee members and attendees to the meeting. Stuart Fisher provided the Committee with a brief update on the recent recruitment of a new member and the successful process completed with an external recruitment agency.
- 1.2 John Mothersole who was due to update the Committee on item 3 sent his apologies.

Declarations of Interest

- 1.3 There were no declarations of interest.

Approval of June 2024 ARC Minutes

- 1.4 Some amendments were suggested to the minutes, which were accepted. Subject to the changes discussed, the minutes of the ARC meeting held on 12th June 2024 were approved.

ACTION: Governance

Action Log

- 1.5 The Committee completed a review of the Actions and some amendments were suggested. It was agreed that closed actions 79 and 80 would be re-opened until they were fully completed.

ACTION: Governance

2. CHIEF EXECUTIVE HEADLINES & HORIZON SCANNING

- 2.1 The CEO reflected a successful start to the financial year, advising the Committee that £240million had already been committed, and this was ahead of budget. He thanked all involved in the successful submission of the Annual Report and Accounts.
- 2.2 The new England Portfolio was due to be launched in September and an exciting programme was expected. The first set of KPI data from the new Corporate Plan and Strategy would soon be available and SMT were starting to develop business planning that covered a 3-year cycle. He noted that Dormant Assets were likely to continue to be an area of growth.
- 2.3 The Committee members welcomed the update. A point was raised about the delayed growth projections from Allwyn and a request was made for further information on whether the Gambling Commission would add any penalties should the projections not match actual figures. It was agreed that the CEO would provide a further update. An action was taken for further consideration to invite Allwyn or Gambling Commission representatives to the November meeting.

ACTION: David Knott, Governance

3. GOVERNANCE REVIEW UPDATE

- 3.1 The Chair provided the Committee with an update from John Mothersole regarding the Governance Review. The external Board Effectiveness Review had seen progress on the assigned actions, with most now completed.
- 3.2 The previous approach to the involvement of young people at Board level had been discussed at the June Board meeting, and a revised proposal was expected to be presented to the Board at their September meeting. It was suggested that the specific action on the tracker would be closed, and the ongoing actions be moved to regular business for ongoing monitoring.
- 3.3 The Committee thanked the Chair for the update and questions were raised about the status of the Matters Reserved for the Board and Framework Documents. It was advised

that some re-drafting work was being completed on the former and that a version would be reviewed at the September Board meeting with a view to the Board approving the document in December. It was agreed that a version would be shared with the Committee at the November meeting. The Framework document was awaiting final approval from the Department.

ACTION: Governance

4. INTERNAL AUDIT

4.1 Fiona Morley presented the Internal Audit papers noting the current strong position. She thanked BDO and colleagues across the fund for such strong engagements in recent audits, everything was on track for the rest of the year.

4.2 She advised the Committee of the Key Financial Controls audit, which was to be repeated every year and a strong level of assurance could be gained from the findings. The report resulted in design opinion of substantial and a design effectiveness of substantial.

4.3 The Committee expressed concern regarding the audit finding some staff still had access to systems and equipment following their departure from the Fund. Whilst this would not change the outcome of the grading of the audit, it was suggested that the recommendation to come from this finding should be reassessed and potentially uplifted from low to medium. An action was taken to look at the findings further and establish the root cause of this issue as well as where improvements could be made.

ACTION: Fiona Morley, Craig Taylor,
Michelle Everitt

4.4 Fiona advised the Committee that the Skills, Learning and Development audit had been tweaked slightly from the initial plan to encompass skills training and development for levels 3-5. The audit gave a design opinion of substantial and a design effectiveness rating of moderate, with one medium finding and three low.

4.5 The Committee highlighted the recent value-added survey as a good example of the audit giving some real help to the organisation. It was acknowledged that there was scope for better leadership and management practices to encourage and improve staff engagement with Personal Development.

4.6 Following an action at the June Committee, Fiona highlighted the adjusted Audit recommendation categories to make these clearer. The Committee agreed that this amendment has helped to clarify the position of audit recommendations and are supportive of using this moving forward.

4.7 It was noted that, due to heavy annual leave period over the summer, some of the key performance indicators for the past three audits had been missed, however Fiona expressed that despite these all three reports were delivered on time. Fiona will continue to monitor and report this to the committee moving forward.

4.8 The Committee moved onto discuss the Whistle Blowing Policy and concern was expressed regarding the approval process, it was agreed that this should be approved

through a sub-committee of the board not the executive. Questions were also raised about the content of the policy. The Chair invited Charlotte Moar to work with Fiona Morley on updating the policy, which would be brought back to a future meeting.

ACTION: Fiona Morley, Governance

Cyber Security Report

Craig Taylor joined the meeting.

- 4.9 Alex Russell from BDO presented the Audit paper on Cyber security. Alex advised Committee members that the audit had produced a design opinion of substantial and design effectiveness as moderate. The audit found two medium findings, one for incident response testing, the other was vulnerability scanning and one outstanding penetration test item. Overall, Alex commented that the audit provided good assurance levels and a comprehensive security posture.
- 4.10 Craig Taylor advised the Committee that the recommendations from the findings were already in the 2024/25 business planning cycle and were being addressed. Overall, the findings were positive. Craig acknowledged that full protection could not be guaranteed from a cyber perspective because of the nature of the constantly evolving technological landscape. The Committee were invited to ask questions and comment on the findings.
- 4.11 The Committee welcomed the update but had concerns, the discussion initially focussed on the frequency of penetration testing and addressing vulnerabilities. Craig mentioned various activities are undertaken to manage vulnerabilities such as, Cyber Essentials certification, Microsoft Secure Score and National Cyber Security Centre recommendations. Craig agreed to review the frequency of penetration testing following the annual test in November.

ACTION: Craig Taylor

- 4.12 The Committee emphasised the important role of the Senior Management Team in handling cyber threats and the assurance provided by business continuity planning at all levels. The need to monitor starters and leavers for compliance and managing security risks associated with people was also highlighted.

5. RISK MANAGEMENT

Austin Ruane joined the meeting.

- 5.1 Craig Taylor provided the Committee with a brief update on Cyber risk. Since the last meeting, there had been a major global disruption and the Fund's team had put in a rapid response resulting in no disruptions to service continuity or security threats. It was also noted that, following an external evaluation, the Fund's cyber benchmark was significantly higher when compared to similar organisations and no serious concerns had been raised.
- 5.2 Austin Ruane updated the members on the provided papers, focussing on the Organisation Risk Register. There were 20 risks, an increase of 1 regarding the NLDF balance, steps were being taken to bring this back within tolerance. Upon review, four out of tolerance risks had been identified, but a plan back to green had been

established. It was noted that it would be helpful if the actions identified in the path back to green were specific, had owners and were time bound.

- 5.3 Although no risks were closed in the past quarter, these would be reassessed in the next round. The next cycle of risk reporting would involve the update of the Fund's risk appetite before being presented to the Board in December. Committee members were invited to comments on the papers. The committee was asked whether the format of the new Cyber risk assurance annex was acceptable to the Committee - the Chair confirmed it was.

Austin Ruane and Craig Taylor left the meeting.

6. EXTERNAL AUDIT

- 6.1 Emma Kavanagh presented the papers to the Committee and advised of a collaborative process in completing the Annual Report and Accounts. Learning and improvements were being looked into and would be aided by the implementation of a new finance system.
- 6.2 The Committee noted the update and requested an update on the implementation of the new system. Emma advised that an initial contract had been signed in relation to the procurement of the new system and advised the Committee that regular updates would be provided.

7. COMMITTEE EFFECTIVENESS REVIEW

- 7.1 As Sarah Rossiter presenting the Fraud item was delayed, the Chair took the opportunity to report on the progress of the Committee effectiveness review.
- 7.2 The Chair apologised for the lateness of the paper presenting the results of the Effectiveness Review questionnaire circulated earlier in the summer. The results had been anonymised and provided comments from the Chair giving a perspective on which changes the Committee might wish to consider, dovetailing into the wider Board effectiveness review.
- 7.3 The results of the previous questionnaire based on the NAO self-assessment tool would be shared with the Committee shortly after the meeting.

ACTION: Governance

- 7.4 The Committee were broadly content with the actions but were keen to spend more informal time together to look at the Committee's forward plans and priorities. Such sessions would provide a space for more strategic conversations and support the induction of new members.

ACTION: Chair, Governance

- 7.5 The Committee noted that they were yet to see the Scheme of Delegation (Matters Reserved for the Board) which appeared on the workplan and Policy Register.
- 7.6 The induction plan for new members joining in the autumn and next year would be finalised and would include an opportunity for new members to meet existing ones.

7.7 The Committee asked for feedback from the executive. Stuart Fisher reflected that much progress had been made in the relationships and trust between executive and non-executive mirrored in significant improvements in the quality of papers and discussions. He felt that the Committee's input was assisting the executive in the execution of the work.

7.8 Finally, the Chair suggested that the actions from the survey be brought into the forward-looking plan and, in particular, asked for minutes of the meeting to be issued promptly.

ACTION: Governance

8. FRAUD

Sarah Rossiter joined the meeting

8.1 Sarah provided an update on the Fraud Investigation team's progress since June and a forward look into the next few months, highlighting a few key points:

- A new fraud investigation lead had started on a year's secondment supporting the triage and prioritisation of fraud investigations. The investigation caseload remained at 5 months which was an improvement on the 6-month target.
- The Memorandum of Understanding (MOU) with the Public Sector Fraud Authority (PSAF) had been signed. This meant that the Fund is now a pathfinder for the PSFA and working with them to refer cases of fraud for investigation which could potentially help to recover grant money.
- The team had undertaken a full refresh of the Fraud Risk Management Group (FRMG) looking at its purpose and structure, and aligning to counter fraud functional standards.
- The team had also looked at how they report and share information on fraud internally and externally. As part of the Government Functional Standards, a counter fraud action plan had to be completed and updated quarterly. The PSFA had shared useful feedback on the plan and moving forward it was suggested to use that counter fraud action plan as a means of reporting to ARC within the risk report. The section on fraud would include a link to the updated counter fraud action plan, with any specific issues being highlighted separately. The fraud investigation team was working with the Fund's data team on using PowerBi dashboards to report on fraud.

9. The Committee asked for clarification on the comparative levels of fraud between 2023 and 2024 (para 2.1). It was noted that this difference stemmed from a large amount of historic fraud cases being closed and the time to investigate new fraud cases had been reduced, there was also a larger number of standard grant (higher value) and the 2024 data was only half year figures.

9.1 .

9.2 The Committee thanked Sarah for the report and praised the overall improvement in fraud reporting. However, they queried subsuming fraud into the risk reports and preferred to keep fraud as a stand-alone item. Sarah re-assured the Committee that this was only brought as a proposal and the Committee's feedback would be taken into consideration.

9.3 They also asked for the counter fraud update, which was not in the papers, to be included in the future.

ACTION: Sarah Rossiter

9.4 The Committee also queried the timing between reporting and meeting schedules, which meant that some reports had to be updated twice. Moving the meeting cycle to October and January would be considered.

ACTION: Chair, Governance

9.5 The Committee recommended caution when basing progress on Government Counter Fraud Functional Standard (Gov.13) as the organisation's activity implies a high risk of fraud so compliance with the standard should be nuanced accordingly.

9.6 The Committee noticed that the fraud policy documents listed in the Fund's Policy Register showed only the fraud policy reviewed by ARC in November 2023. Sarah explained that the strategy and policy documents were currently under review and further progress on those and the governance structure around each would be reported at the next ARC meeting.

ACTION: Sarah Rossiter

9.7 It was also noted that the simple RACM was in launching phase, the project had been reviewed recently and a comms plan discussed. The launch was likely to take place in October.

9.8 Finally, the Committee raised the importance of better information on risk and fraud to be shared with funding panels and committees to inform their decision-making, with more awareness of the scrutiny process. Sarah agreed that awareness and education are important and although a lot was being done across funding teams, this information should be widened to panels and committees to provide assurance.

ACTION: Sarah Rossiter

Sarah Rossiter left the meeting

10. UPDATES FOR INFORMATION AND NOTING ONLY

10.1 The Chair moved on to standing items provided for information, including write offs, special payments, termination payments and data breaches. Although the items were for noting, the Committee felt they should have assurance that payments, terminations and write offs have been approved in accordance with agreed policies. The Committee suggested that assurance to that effect be provided annually.

ACTION: Emma Kavanagh

- 10.2 Regarding the organisation's Policy Register, it was confirmed that procedures and guidance should be included in the register. This would be clarified with policy owners. The Committee also asked for more clarity on the governance process around approval.
ACTION: Governance
- 10.3 It was noted that the Matters Reserved for the Board document had not received final approval from the Board in June and more work was needed prior to the September Board which a sub-set of the Board was leading on. The updated version would be circulated to the Committee once the work was finalised.
ACTION: Governance
- 10.4 Finally, the Chair commented on the data breaches reported in Annex B and the importance of close monitoring.

11. ANY OTHER BUSINESS

There being no other business the business closed at 12.50.

MINUTES AGREED DATE: 26th November 2024

Richard Collier-Keywood

RICHARD COLLIER-KEYWOOD

AUDIT & RISK COMMITTEE CHAIR