

THE NATIONAL LOTTERY COMMUNITY FUND

MINUTES

AUDIT AND RISK COMMITTEE

NOVEMBER 13TH 2023

10:00 - 13:15

TNLCF London Office/Teams

PRESENT

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

IN ATTENDANCE

INTERNAL

David Knott - CEO
 Stuart Fisher - Finance Director
 Neil Harris - Corporate Services Director
 Nick Blake - Head of Internal Audit
 Emma Kavanagh - Deputy Director, Finance
 Austin Ruane - Head of Risk (*Items 5 & 6*)
 Mark McGann - Deputy Director, Engagement (*Item 7*)
 Jane Edbrooke - Senior Head of Engagement (*Item 7*)
 Craig Taylor - Deputy Director, Technology & Senior Head of Operations (*Item 8 & 9*)
 Zobair Mehmood - Head of Procurement (*Item 10*)
 Lucy Taylor - Governance Officer (*Minutes*)
 Catherine Roberts - Head of Governance (*Minutes*)

EXTERNAL

Philip Lewis - DCMS
 Greg Rubins - BDO
 Andrew Brittain - EY
 Simon Mathers - EY
 Sajid Rafiq - NAO

APOLOGIES

Simone Lowthe-Thomas - Member
 Verity Prime - Funding Strategy, Communications and Impact Director

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 Apologies were received from Simone Lowthe-Thomas and Verity Prime.

Declarations of Interest

- 1.3 The Chair declared an interest as Chair of Fair4All Finance, explaining that it was a recipient of dormant asset funding and therefore he was potentially conflicted in any discussion with the Fund about dormant assets.

- 1.4 Charlotte Moar declared an interest, noting that she recently joined the House of Lords Commission as a Member. The interest had already been submitted to the declaration of interest register.

Approval of September 2023 ARC Minutes

- 1.5 The minutes were approved by the Committee as an accurate record.

Action Log

- 1.6 The action log was reviewed and taken as read.
- 1.7 The Committee discussed Action 29, requesting further clarification on three areas of the Policy Register. The CEO informed the Committee that the People Committee could provide assurance on the whistle blowing policy once its Terms of Reference were agreed by the Board and could approve the policy in the future.

ACTION: Neil Harris

- 1.8 The Risk management policy/strategy needed clarification on approvals, similarly the counter fraud policy/strategy. Stuart Fisher would send a note to Committee.

ACTION: Stuart Fisher

2. CHIEF EXECUTIVE HEADLINES & HORIZON SCANNING

- 2.1 The CEO acknowledged that it was Nick Blake - Head of Internal Audit's - final Committee meeting and expressed gratitude for his dedicated service in the role. Subsequently, the discussion then shifted to translating the strategy into the new corporate plan and aligning it with the associated KPIs. It was highlighted that the funding policy teams are actively engaged in developing their respective portfolios, with additional emphasis on the necessity for further work on the mid-term plans of these portfolios.
- 2.2 The CEO reported that SMT had conducted a thorough review of the KPIs for the current year. Notably, there was a particular focus on enhancing the efficiency of funding delivery, which has, in turn, exerted pressure on the team's overall performance.
- 2.3 Looking ahead, the CEO anticipates that the department will initiate a campaign for the recruitment of a permanent Chair. Additionally, it was mentioned that the framework document is currently under review by the legal team. Both the Chair and the CEO will assess it upon its return, ensuring a comprehensive evaluation of its content and implications. The Committee asked that once the framework was agreed, a clear summary of respective responsibilities be established.

ACTION: Governance

3. INTERNAL AUDIT

Progress Report and Individual Audits

- 3.1 Nick reported on the progress of ongoing individual audits. It was noted that seven reviews were due for completion by the end of October, with only four out of the seven already concluded. Nick also provided a comprehensive update on each report and its current status.
- 3.2 During the discussion, the Committee acknowledged the approved programme schedule. Specifically, there is an expectation from the Committee that Internal Audit reviews due for presentation at the January meeting should be in their final report form before Christmas. Similarly, reports intended for the March committee should be in their final agreed report format by mid-February.
ACTION: SMT sponsors
- 3.3 The Committee engaged in a debate with BDO regarding their report rating, which ARC had previously discussed with BDO in order to promote increased consistency in the ratings. As such, BDO were encouraged to reflect on their ratings in future reports. SMT members are reminded to ensure their satisfaction with report ratings before providing agreement. BDO confirmed they had revisited the report rating for the business planning audit, changing the rating from moderate/limited to moderate/moderate. Their rating of the HR data report however remained unchanged at moderate/limited.
- 3.4 A broader discussion ensued regarding the prioritisation of internal audit reports over the past six years by the executive. The question was raised whether this is a cultural issue. Several members advised that internal audit reports must be treated as a higher priority by the Fund, particularly when analysing why reports were missing their targeted completion times (see more details below).

Outstanding Recommendations

- 3.5 Nick informed the Committee that the team is currently monitoring thirteen open recommendations, with one recommendation missing its implementation deadline. The Committee expressed satisfaction with the progress.
- 3.6 Nick also presented data highlighting a delay in the SMT's responsiveness in terms of agreeing on terms/scoping documents and finalising reviews. Consequently, SMT members were requested to communicate ARC's expectations for improved engagement and heightened responsiveness throughout the entire internal audit review process to their directorate leadership teams. Colleagues were urged to take accountability for meeting specified timelines.
ACTION: SMT sponsors
- 3.7 It was advised that the new HoIA should persist in capturing and reporting data concerning management teams' responsiveness to ARC on a regular basis.
ACTION: Fiona Morley
- 3.8 Furthermore, it was noted that there has been improvement in the implementation of internal audit recommendations.

Interim Head of Internal Audit Opinion

- 3.9 Nick presented the interim audit report, focusing on four key areas that demand SMT's continued attention for the remainder of the year.

ACTION: SMT

- 3.10 Nick expressed confidence in the timely delivery of the plan for the year, noting substantial progress on recommendations. However, some recommendations are inherently complex in nature. Nick emphasised the importance of preventing any additional 'limited assurance' internal audit reports to attain a moderate assurance end-of-year assessment.

- 3.11 Nick addressed risk management and the implementation of funding risks, specifically examining fraud risk management in light of changes with Awards4All. Moreover, four risks were identified with the new programme, some of which scored highly. The Chair acknowledged the high priority of addressing these issues and requested an update on these four topics at the January and March meetings.

ACTION: Stuart Fisher

4. EXTERNAL AUDIT

- 4.1 Sajid Rafiq, responsible for the DCMS portfolio at the NAO, introduced himself to the group and presented the indicative planning report, providing a comprehensive summary. The focus of the upcoming audit plan will continue to centre around dormant assets and grant awards, with a keen eye on potential structural changes. Sajid highlighted that extensive planning remains to be done, particularly in terms of risk management.

- 4.2 The Chair noted that there had been an increase in funding to the Fund from the government. The Chair suggested considering how this aspect will be incorporated into the external audit, and proposed having a separate, in-depth conversation with Sajid Rafiq outside of the meeting to delve into the audit perspective.

ACTION: The Chair, Sajid Rafiq

5. RISK

Austin Ruane joined the meeting.

- 5.1 The Head of Risk Management - Austin Ruane - provided an overview of the ORR and highlighted key points from the Risk Management report.

- 5.2 Members reviewed the list of out of tolerance risks on the directorate risk registers and ORR with supporting resolution date provided by the risk owners. Whilst acknowledging that the Fund would never achieve a fully risk free status, members felt that some of the risk remediation dates of September 2024 were generous as the risks are out of tolerance. Austin agreed, but updated the committee that some of these risks are legacy risks with no short term resolution to mitigation being available. Austin confirmed the mitigation dates would be

reviewed to ensure they are accurate.

- 5.3 The Committee enquired about the rationale behind proposed changes in the Risk Appetite Statement, specifically questioning the low rating for leadership and government. Stuart advised that the Fund is in a transition period, and the forthcoming target operating model should address these challenges that have caused this low rating.
- 5.4 The Committee conveyed the need for a greater level on detail on key risk themes from risk owners, emphasising a more risk-based focus and less general commentary. They also highlighted the importance of better alignment with internal audit and compliance reporting, particularly in capturing limited assurance, proven compliance, or underperformance in the risk management framework.

ACTION: Austin Ruane and SMT Risk Owners

Emma Boggis left the meeting.

- 5.5 Overall, the Committee noted the updates, out-of-tolerance risks, and the path to green. **Furthermore, the Committee APPROVED the Proposed Risk Appetites for 2024 and the Risk Appetite Statement.**

6. FRAUD

Fraud Update (including Action Plan)

- 6.1 The Committee recognised the deviation in the fraud caseload from the target and sought clarification on the Fund's strategies to rectify the situation. Stuart acknowledged the 15-month deviation and expressed a commitment to reduce this to 12 months by the end of the year.
- 6.2 Both the Chair and CEO recommended maintaining the 12-month target, but expressed a willingness to reconsider if necessary. Stuart informed the Committee about Sarah Rossiter - Head of Controls Assurance - attending an upcoming ARC meeting to outline plans and progress. Overall, the Committee emphasised the need for continuous assurance in this matter, prompting Stuart to agree to provide additional information to address their concerns.

ACTION: Sarah Rossiter

- 6.3 The Committee also suggested investing more resources to bring down the fraud caseload, and suggested they should explore this further at the January meeting. Stuart confirmed this would be considered in Sarah's early plans.

Anti-Fraud & Anti-Corruption Strategy

- 6.4 Austin presented the Anti-Fraud & Anti-Corruption Strategy initially intended for noting; however, the Committee agreed they should be approving the strategy and agreed to do so. During the discussion, the Committee raised a question about whether it should be designated as a policy or strategy. Austin clarified

that it serves as both, prompting the Committee to request its labelling as both. Austin agreed to do this.

ACTION: Austin Ruane

- 6.5 Members noted a missing link to the Whistleblowing Policy. Austin assured the Committee that he would include the link. Pending the suggested amendments, the Committee conveyed their approval.

ACTION: Austin Ruane

- 6.6 There was also an action for Governance to follow up and finalise the matters reserved for the Board document.

ACTION: Governance

Fraud and Bribery Risk Assessment

- 6.7 Austin presented the Fraud and Bribery Risk Assessment, for information. Austin highlighted that the findings of the risk assessment would inform the Fund's 2024 counter fraud work plan. The Committee noted and commended the risk assessment and covering report.

Austin Ruane left the meeting.

7. STAKEHOLDER MANAGEMENT DEEP DIVE

Mark McGann and Jane Edbrooke joined the meeting.

- 7.1 Mark McGann provided an update on recent developments in stakeholder management. He noted that internal audit had granted limited assurance on stakeholder work in the past few years. To address the audit's concerns certain changes have been implemented such as a new stakeholder management system, and the formation of the Government Relationship & Stakeholder Engagement (GRSE) Board Sub-committee.
- 7.2 Members observed that the stakeholder management work focused on mostly government relations, identifying a gap in engagement with the third sector. Jane clarified that, during GRSE meetings, the consensus was to prioritise government relations, given existing strong ties to the community and charity sector.
- 7.3 Overall, the Committee expressed satisfaction with the ongoing efforts but noted the absence of certain referenced policies, such as the Stakeholder Policy and Strategy Engagement Policy, on the Policy Register. Governance acknowledged the need for an update to the register to ensure clarity.

ACTION: Governance

Mark McGann and Jane Edbrooke left the meeting.

8. PROPERTY DEEP DIVE

Craig Taylor joined the meeting.

- 8.1 Neil Harris provided an overview of the London office's upcoming move to the NCVO building, noting the cultural dimension and the strategic alignment with the Fund's commercial conscience and cost management. The move is a decisive step reflecting the balance between efficiency and effectiveness, particularly in the context of launching the new strategy and target operating model. Neil acknowledged the ongoing work and commended Craig Taylor and the team for their negotiation efforts.
- 8.2 The Committee praised the progress compared to previous years but expressed a need for a clearer understanding of the associated risks, particularly in the evolving post-pandemic work environment.

9. IT SECURITY ASSURANCE UPDATE

- 9.1 Neil provided a comprehensive update on the Fund's IT Security Assurance, noting substantial progress in recent months. Neil highlighted key initiatives, including the introduction of a monitoring tool, team enhancements, increased reporting frequency, and an overall boost in resources. Additionally, he mentioned the successful transition to cloud-based services, with the Fund nearing the completion of this transformative journey. Craig further explained the strategic shift towards a zero-trust model and the ongoing efforts to elevate services to government standards.
- 9.2 The Committee noted the update, and the Committee discussed how the Fund should remain up to date with latest threats and interrogating latest intel.

Craig Taylor left the meeting.

10. PROCUREMENT ACTIVITY UPDATE

Zobair Mehmood joined the meeting.

- 10.1 Zobair Mehmood reported significant changes in procurement during the last financial year, particularly in compliance, strategy, and commercial areas. He provided a comprehensive summary of these changes, noting key targets set for the procurement team.
- 10.2 Zobair highlighted the importance of climate action within the procurement strategy, aligning with social value objectives. Committee members expressed satisfaction and assurance in the detailed update on procurement activities.

Zobair Mehmood left the meeting.

11. UPDATES FOR INFORMATION AND NOTING

- 11.1 The papers on the following were taken as read, and the Committee were asked to raise any pertinent queries.
- i. GDPR, Write-offs, serious incidents, spec. payment
 - ii. Committee Workplan Review
 - iii. Policy Register

- 11.2 As mentioned earlier in the meeting, the Committee advised the importance of ensuring that the Policy Register was meticulously updated.

12. ANY OTHER BUSINESS

- 12.1 The Committee and the Chair thanked Ruth Marchington for her service as an independent member as she had brought forward the end of her term to 29th February and it was her last in-person meeting.
- 12.2 The Committee also spent some time celebrating Nick's service, achievements, success and commitment over the last 18 years in what was Nick's last ARC meeting.

THE MEETING CONCLUDED AT 13:15 AND WAS FOLLOWED BY A CLOSED SESSION WITH THE COMMITTEE.

MINUTES AGREED DATE: 10th January 2024

Richard Collier-Keywood

RICHARD COLLIER-KEYWOOD

AUDIT & RISK COMMITTEE CHAIR