

**THE NATIONAL LOTTERY COMMUNITY
FUND**
MINUTES
AUDIT AND RISK COMMITTEE

26 November 2024

09:30-13:30

NLCF London Office/ Teams

PRESENT

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

IN ATTENDANCE
INTERNAL

Dame Julia Cleverdon DCVO CBE - TNLCF Board Chair
 David Knott - Chief Executive
 Stuart Fisher - Chief Finance & Resource Officer
 Nic Buckley - Chief of Staff
 Fiona Morley - Head of Internal Audit
 Emma Kavanagh - Deputy Director, Finance
 Austin Ruane - Head of Risk Management
 Sarah Rossiter- Head of Controls Assurance
 Craig Taylor - Deputy Director, Technology
 Karolina Szczepaniak - Executive Assistant, CEO Office (*Minutes*)
 Catherine Roberts - Head of Governance (*Minutes*)

EXTERNAL

Ntombifuthi Mhlongo - EY
 Gurpreet Dulay - BDO
 Max Armstrong - BDO
 Andrew Brittain - EY
 Ismail Pandor - DCMS

The meeting was preceded by a closed session.

INTRODUCTORY REMARKS

- 1.1 Richard Collier-Keywood welcomed all Committee members and attendees to the session. Introductions were made by all present for the benefit of the new member of the Committee, Tracy Staines and the new Chair, Dame Julia Cleverdon.

Declarations of Interest

- 1.2 There were no declarations of interest.

Approval of September 2024 ARC Minutes

- 1.3 The minutes of the ARC meeting held on the 5th of September 2024 were approved as an accurate record.

2. CHIEF EXECUTIVE HEADLINES AND HORIZON SCANNING

- 2.1 The CEO reflected on a successful last few months, including celebrating the 30th anniversary of the National Lottery and the appointment of the new Chair, Dame Julia Cleverdon DCVO MBE.

Further reflections were made on the strong position of the Fund eighteen months into the new corporate strategy and a strong sense of purpose across the Board and Committees reflected at the recent Board and Committee Day. The CEO welcomed new arrivals to the Fund, including the new Chair, new Chief of Staff Nic Buckley and new Director of People & Culture, Liz Church.

- 2.2 The skills and performance framework was mentioned, and it was noted that the new KPIs are in place as part of the Strategy. The CEO thanked the Internal Audit Team for their efforts on undertaking several audits with a particular mention of the upcoming partnership and grant making audits.
- 2.3 It was noted that the National Insurance increase will be considered in the upcoming round of budget setting and business planning.
- 2.4 The CEO discussed the objectives of the new Strategy and the challenges that may arise during implementation. He highlighted that achieving the Strategy would require an increased risk appetite.
- 2.5 The Committee welcomed the update. A point was raised around whether we needed to make savings to cover the National Insurance uplift and the 5% pay award to stay within our costs KPI. Stuart Fisher commented that whilst affordable in the current financial year closer attention will need to be paid to affordability in 25/26 against a backdrop of projections from Allwyn showing flat income growth.

Emma Kavanagh left the meeting.

3. INTERNAL AUDIT

Liz Church joined the meeting.

- 3.1 Fiona Morley noted that 5 out of the 8 commissioned audits had been completed.
- 3.2 The Operational and Strategic Audit Plan was noted.
- 3.3 An update was provided on the recruitment and retention audit, as detailed in the report included in the meeting papers. The Committee welcomed the update and raised exit interviews and the practical aspects of ensuring that as many colleagues as possible complete them. They discussed how the findings from exit interviews are translated into internal actions. Members asked officers whether completion rates for exit interviews were high enough - colleagues from BDO commented that the Fund compared favourably against other similar organisations. It was also noted that sharing thematic, high-level results from the exit interviews along with follow-up internal actions could demonstrate a commitment to learning and improvement, thereby building trust in the process and potentially encouraging more colleagues to participate in exit interviews in the future. Liz Church will explore and review the processes for completing exit interviews and systematically utilising the findings across the Fund.

ACTION: Liz Church

- 3.4 A point was raised regarding the lack of definition as to what constitutes a business-critical role and the importance of not conflating understanding your business critical roles with succession planning.
- 3.5 The Committee asked for an update on the centralisation of complaints processes. Robert Mannall and Catherine Roberts are working on this and will provide an update by correspondence.

ACTION: Catherine Roberts

- 3.6 Regarding the Grant Decision Making Audit and the Funding Partnership Grants Audit, Fiona Morley confirmed that the Terms of Reference have been shared with the Committee in anticipation of a potentially increased number of recommendations from these audits, as they are reviews with wide

scopes. It was felt it is important for the Committee to be aware of the expectations set in the Terms of Reference to better manage those expectations upon the availability of results. Additionally, it was noted that extra time has been allocated for the testing phase to enhance data collection. Due to substantial areas of overlap between the audits, the testing is being conducted collectively to prevent duplication of efforts.

- 3.7 The Committee raised a question on partnership grants. It was explained that strategic and partnership funding is more relevant to the UK portfolio and England, with the audit focusing primarily on England.
- 3.8 The Committee questioned the effectiveness of using Companies House data as part of the Fund's due diligence relative to fraud. This was noted.
- 3.9 The committee also questioned whether unsuccessful applications would also be reviewed as part of the audit to assess whether there is consistency in grant evaluation. It was also commented that learning from unsuccessful grants, and the reasoning behind this will be valuable to the Fund and will help to target appropriate communities and ask appropriate questions as part of the application process to increase applicant success rate. The responsibility lies both with communities to improve their application skills and with the Fund to streamline and simplify the application process where possible. Fiona Morley confirmed that this will form part of the audit testing.
- 3.10 A question was raised around testing the grants against EDI values and why these have been chosen as testing criteria. The CEO explained that the Fund's Strategy sets an objective of equity-based funding, hence the use of EDI values as one of the criteria.
- 3.11 Fiona Morley provided an update on the Whistleblowing Policy, which had been updated with support from the Committee. The revisions included simplifying the policy, emphasising public interest, removing duplication, and placing greater emphasis on confidentiality and improving the overall tone of the policy. The Committee welcomed the update but asked for further revisions on the approach taken the emphasis on false reporting, considering that it would reduce the number of reports. There were also some detailed reports on the document including adding the chair not just the SID; the SID is particularly relevant when the report is regarding the chair. Fiona Morley will review and update the policy and circulated a revised update for approval by correspondence.

ACTION: Fiona Morley

- 3.12 On Board's role in governing audit standards, Fiona Morley noted that this document had been included for information only and was part of the Global Internal Audit Standards.

Liz Church left the meeting.

4. RISK MANAGEMENT

Austin Ruane joined the meeting

- 4.1 Austin Ruane provided an update consistent with the Risk Review and Organisational Risk Register report. Stuart Fisher noted that the past two years had been highly productive, and the risk management at the Fund was currently well-positioned, with consistent reporting effectively fulfilling its purpose. It was now appropriate to consider how the risk management framework could be further developed and enhanced over the next 12-24 months, in alignment with the Fund's strategic plans and objectives.
- 4.2 The Committee discussed ensuring that the Risk Register accurately reflects the concerns shared by colleagues. Stuart Fisher explained that the current process is top-down, but there are plans to also incorporate a bottom-up approach through the implementation risk justification programme. It is important that every Funding Officer understands the risk process, ensuring widespread knowledge across the Fund. Stuart mentioned that the Risk Management team had a good level of engagement across the Fund, enabling them to compile a comprehensive Risk Register.

- 4.3 The Committee raised a concern regarding the GDPR risk, particularly the previous (historic) recommendations to implement the GMS system and the confirmation during procurement that GMS would address any data quality issues. However, members suggested that with confirmation that data needs further attention and cleansing the implementation of GMS had not fully addressed historic data issues, and the risk persists. Stuart Fisher advised that efforts were underway to cleanse the data, but the grant-making process will need to continue simultaneously. At the November meeting of the Performance and Improvement Committee (of SMT) a project to implement a definitive solution was approved, and the service design team will commence work on this imminently.
- 4.4 Stuart Fisher advised that work was needed on the interdependence and inter-relationship of risks which the team were working on - as outlined in the covering report - as not much time had passed between the September and November committees.
- 4.5 Austin Ruane and Craig Taylor brought the following risks to the attention of the Committee for discussion.
- 4.6 Cyber Risk - Craig Taylor presented his report on cyber security at the Fund from May to October 2024 and noted that Committee recommendations were being implemented. Stuart Fisher reported that a phishing spoof email exercise had been conducted with SMT, and the Committee suggested extending this exercise to the Committees and Board.

ACTION: Craig Taylor

- 4.7 The Committee enquired about the Fund's confidence in business continuity should a supplier experience a cyber-attack and who was responsible for ensuring that suppliers maintain adequate business continuity plans. Craig Taylor provided assurances over the Fund's supply chain management including how we procure and contract with third parties. The committee received the report, and noted the assurances included with in it.
- 4.8 Stuart Fisher informed the Committee about the risks associated with Funding. He further elaborated that the Funding risk has been split into two categories: external, pertaining to the handling of grants by grantees post-transfer, and internal, concerning the Fund's systems and structures. Stuart confirmed that SMT had recommended that to enhance grant-making activities in pursuant of the Fund's strategy and associated ambitions, the external funding risk tolerance should be elevated to medium. The Committee approved this recommendation.
- 4.9 He also explained that the internal risk tolerance should remain low to ensure legal compliance within our processes and systems. The Committee agreed with this suggestion; however, a question was raised regarding how to attract more innovative organisations to apply for funding if the Fund's risk tolerance for internal processes (such as eligibility criteria) remains low. Stuart advised that unsuccessful applications would undergo regular review to identify the reasons for their rejection, thereby gaining a deeper understanding of individual barriers to application and devising strategies to address those issues. It was confirmed that the risk appetite proposals for 2025 have passed through ARC with no objections and will be presented to the Board in December.
- 4.10 The CEO reflected that the risk register is only one perspective used in grant making and the Committee further highlighted the importance of balance between risk register and opportunities available to the Fund as there is a risk of losing important opportunities if decisions are driven mostly by risk.
- 4.11 The Committee raised a question on risk tolerance for partnership grants - Stuart Fisher explained that risk analysis on partnership grants is bespoke, citing the Children in Need grant recently approved at UKFC as an example.
- 4.12 On the compliance risk, Austin Ruane suggested lowering the risk tolerance from medium to low to ensure compliance with the law and the Committee approved.

- 4.13 Stuart Fisher emphasized that the current risk framework shows the Fund's competence in the fundamentals of risk management, but it was time to review and update the framework for the next stages of the Fund's development - proposals would feature in a risk plan which is planned for presentation to the March 2025 ARC meeting.

ACTION: Austin Ruane

- 4.14 The Committee reflected that the People and Culture risk seems to pertain to a very narrow perspective. It was noted that this will be reviewed in due course, accepting it was based on data points currently available.
- 4.15 The risk policy and risk appetite statement were presented to ARC as part of the annual renewal process before being presented to the Board. The Committee did not raise any objections to the proposals, and both will now be presented at the next Board meeting.

Craig Taylor and Austin Ruane left the meeting.

5. EXTERNAL AUDIT

- 5.1 It was noted that Emma Kavanagh had left the meeting, so Sajid Rafiq from NAO provided an overview of the external audit paper.
- 5.2 It was noted that the risks have remained broadly the same as last year, with a notable change in the required reporting for climate related risks. There will be further risk management on this and analysis on whether the climate risk is significant for the Fund.
- 5.3 Discussion took place around taking more risks and a question was raised on whether there are any areas for higher risk tolerance for management to consider.
- 5.4 Stuart Fisher informed that the low-level risk associated with the current finance system will continue until a new system is implemented and that there have been some delays in the procurement process. The initial go-live date of April 1, 2025, will not be achieved due to competing priorities in the finance team (support on Third Party programmes). The Committee enquired about the consequences of the delay, and Stuart Fisher assured the Committee that although sub-optimal, the current system operates adequately and remains suitable for financial management, financial reporting and auditing purposes.
- 5.5 A point was raised around a new DCMS forum for Chief Risk Officers and Stuart Fisher confirmed that Austin Ruane is now registered and engaging with the Forum.

6. COUNTER FRAUD

Sarah Rossiter and Austin Ruane joined the meeting.

- 6.1 Sarah Rossiter provided the Committee with updates on the recommendations made during the previous meeting. Concerning guidance and training, a separate sub-group has been established to specifically address understanding of fraud within committees and decision panels. Sarah Rossiter informed that the sub-group is developing a concise document to explain the Fund's approach and the checks undertaken to ensure compliance.
- 6.2 Sarah advised that the Fraud Strategy and Fraud Risk Assessment will come to the March Committee.
- 6.3 As per the request at the last meeting, the counter-fraud update is now included in the agenda as a standing item.
- 6.4 The Committee asked whether other types of wrongdoing such as bribery or abusive practices are covered by the team and Sarah confirmed that these are all included within the teams remit which

is aligned to the Counter Fraud Functional Standard and includes internal and external fraud, bribery, and corruption.

- 6.5 Discussions took place on Governmental Functional Standard GovS 013 compliance. Sarah Rossiter advised that a review of the standard has taken place internally, the review showed that there are areas of improvement but overall, the Fund is on the baseline. Over the next few quarters, the teams focus will be on policy and strategy to ensure baseline compliance.
- 6.6 The Committee advised that it would be useful to carry out an exercise with Funding Officers to test the robustness of internal systems against internal fraud.

ACTION: Sarah Rossiter

Sarah Rossiter left the meeting.

7. FOURTH LICENCE

- 7.1 It was noted that this had been discussed at length during the closed session at the beginning of the meeting.

8. DEEP DIVE - PROJECT MANAGEMENT AND STRATEGIC PLANNING

Katie Harland joined the meeting.

- 8.1 Katie Harland provided information on the function of her team and priority areas of focus for strategic planning.
- 8.2 A question was raised on the classification of projects. The CEO advised that projects are classified as Tier 1 (going to SMT) and Tier 2 (delegated to sub-committees).
- 8.3 The Committee also asked about the top three projects the team is currently focusing on, and Katie Harland advised that these are the Organisational Change Design projects across all Directorates, New Programmes within each of the portfolios and the Digital Commission.
- 8.4 The Committee enquired about the process of tracking lessons learned from projects. and were informed that there is currently no consistent approach in place, but teams are working on implementing one in the future. Katie noted that the team had completed approximately two projects since the current reporting structures had been implemented in Summer 2024 and conducted lessons learned exercises upon their completion. This was due to the nature of the projects and the potential relevance of these lessons for cross-Fund activities. Both Stuart Fisher and Katie Harland highlighted the regular collaboration between the Strategic Planning and Risk teams. It was also suggested that the innovation unit could be an appropriate project for a lesson learned exercise.

Katie Harland left the meeting.

9. UPDATES FOR INFORMATION AND NOTING ONLY

- 9.1 The Chair reviewed the Action Log which will be updated. The Committee asked that the NAO self-assessment outcomes which were outstanding be circulated as soon as possible.

ACTION: Governance

- 9.2 The Chair moved to standing items for information and noting only and these were accepted by the Committee.

- 9.3 On the Policy Register, the Committee suggested that this is reviewed to identify missing policies, and some policies consolidated as there is duplication. This needs to be done comprehensively prior to the next ARC meeting as policies are a vital element of our control framework.

ACTION: Nic Buckley and Catherine Roberts

- 9.3 On the Board and Committee Handbook it was noted that the Matters Reserved for the Board section has to be clearer on the delegation from the Board to Committees in particular, and the Handbook further simplified to act as a succinct, single point of information in relation to all aspects of delegated authority. Catherine Roberts advised that the plan was for the Handbook to be brought to the March Board meeting.

10. ANY OTHER BUSINESS

- 10.1 There being no other business the meeting closed at 13:25.

MINUTES AGREED

DATE: 10th January 2025

Richard Collier-Keywood

RICHARD COLLIER-KEYWOOD

AUDIT & RISK COMMITTEE CHAIR