

AUDIT AND RISK ASSURANCE COMMITTEE
(“the Committee”)
MINUTES

Meeting held on 21 May 2018
2:00 to 5:00pm | One Kemble Street, London WC2B 4AN

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|------------------------------|----------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Present: (Members) | Terry Babbs Marina Gibbs Michael Smyth Catharine Seddon | Chair |
| In attendance: | Neil Buckley Holly Perry Rusere Shoniwa Ian Wilson Ali Morgan Courtney Ip Tat Kuen Zoe Thompson Andy Sayers | Chief Executive and Accounting Officer Head of Corporate Services (minutes) Interim Director of Finance Business Planning Associate National Audit Office (NAO) External Auditor National Audit Office (NAO) External Auditor BDO LLP External Auditor KPMG LLP Internal Auditor |
| Apologies: | John Ward (Adviser), Steph North, Corporate Governance Manager | |
| Observing: | Ed Bowie, Ministry of Justice | |
| Attendance for items: | Steve Brooker, Head of Research and Development (item 13) Karen Naya, interim Policy Manager (item 13) | |

AUDIT AND RISK ASSURANCE COMMITTEE MEETING

Item 1

PRIVATE SESSION

Members met in private session with the internal and external auditors.

Item 2 Welcome and apologies

1. The Chair welcomed everyone to the meeting. Apologies for absence were noted from John Ward and Steph North. John Ward had provided written comments on the papers to the Chair in advance of the meeting, and John’s comments would be reported to the Committee at the appropriate point during discussions.

Item 3 Declarations of interests relevant to the business of the Committee

2. In John Ward’s absence, Holly Perry reminded the Committee of John Ward’s standing declaration in relation to his role at the ICAEW as chairman of the Audit and Assurance Innovation Panel. This was a pro bono role, with the Panel supported by ICAEW staff. The Panel’s role was to take responsibility for leading on the development of assurance activity for members other than the audit. John Ward had made clear to ICAEW that if any matters arose to do with the legal profession, he would recuse himself from discussions.

Item 4 Minutes of the previous meeting

3. The minutes of the previous meetings held on 13 March 2018 were **APPROVED**, subject to the correction of two amendments – Andy Sayers had attended the meeting (rather than Paul Cuttle); and reference to fraud risk and assurance having been reviewed would be added. The Committee Chair would now sign the two sets of minutes as a true record.

Item 5 Action tracker

4. The Committee reviewed and **NOTED** the action tracker. John Ward had met with Ian Wilson soon after the 13 March ARAC to have a more detailed discussion, largely with a view to simplifying some of the output. Discussion with and input from John Ward would be ongoing.

Item 6 Update on Fraud assurance

5. It had been agreed at the 13 March 2018 meeting that fraud assurance should be a standing item at future ARAC meetings – as a minimum, there needed to be oral confirmation that no incidents had occurred. **Action:** Oral updates to ARAC to include widest definition of fraud (including cyber fraud).
6. The Committee **NOTED** that there were no incidents of fraud to report.

Item 7 KPMG internal audit update

7. KPMG had completed three reviews as agreed in the Audit Plan for 2017/18. Each report was considered in detail by the Committee.
8. *Assurance mapping* – The reported was **noted**. Management had accepted the two recommendations, one of which was medium priority, and one of which was low priority;
9. *Staff retention* – The reported was **noted**. Management had accepted the two recommendations, both of which were medium priority. [Redacted]
[Redacted]
 - [Redacted]
[Redacted]
 - [Redacted]
[Redacted][Redacted] **[FOIA exempt s36(2)(b)]**
10. *Strategic planning and performance* - The reported was **noted** and there were no recommendations.

Annual report 2017/18 including Head of Internal Audit Opinion

11. The Head of Internal Audit Opinion was one of ‘significant assurance’. KPMG’s work has confirmed that there is a sound system of internal control which is designed to meet the LSB’s objectives and that controls in place are being consistently applied in all key areas reviewed. KPMG’s overall opinion was that the LSB had an adequate and an effective framework for governance, risk management and control within the areas it had reviewed.

12. Subject to the comments raised in discussion, the Committee **NOTED** the internal audit reports, and KPMG's Internal Audit Annual Report and Opinion 2017/18.

Update on internal audit contract and work plan

13. In relation to the workplan, it was agreed that the internal audits would be brought forward, to take place in the period January to March 2019, and a discussion of the likely areas for review would be considered at the October 2018 ARAC.

Andy Sayers of KPMG left the room for the discussion on the internal audit contract

14. The Committee considered the ongoing engagement of KPMG LLP as the LSB's internal auditors. KPMG had been engaged since 2009 and were now on a rolling annual contract. The executive's view was that KPMG delivered value for money through a good quality service. It was agreed that (a) KPMG's services should be retained for the 2018/19 financial year, and (b) the timing was right to review the LSB's requirements going forward, and to re-tender for the 2019/20 period onwards. It was agreed that annual IA services continued to be required (as opposed to moving to a two-year audit approach).

15. The Committee **APPROVED** the continued appointment of KPMG LLP for 2018/19. The current open ended contract would be rolled on with a fixed day rate agreed for the number of days required.

Action: Draft internal audit workplan for 2018/19 to be presented to 2 October ARAC; and options and recommendations for tendering for internal audit services from 2019/20 would be presented to the 2 October ARAC meeting.

Item 8 NAO external audit reports

16. Zoe Thompson of BDO LLP, introduced the item. The audit work had been completed and it was proposed that an unqualified audit opinion, without modification, would be given by the Comptroller and Auditor General (C&AG). BDO commended the executive for their responsiveness, which had meant the process this year had been speedy.

17. The following points were drawn to the Committee's attention:

- the only area of audit risk reviewed had been management override of controls – no material misstatements had arisen from management override of controls;
- no issues had been identified with regard to pay – all necessary authorisations were in place;
- the level of materiality had decreased from £76k to £69k as a result of the decrease in gross expenditure at year-end – all misstatements above £1,300 had been reported;
- unadjusted misstatements amounted to £43k with the net effect on the balance sheet being nil as the misstatement related to a misclassification between debtor and creditor (arising from a rates rebate from the LSB's landlord) – the Committee agreed that the misstatement did not need to be corrected given it was below the level of materiality and were satisfied with the explanation that had been provided;

- it was confirmed that there were no concerns in relation to fraud risk.
18. The Committee noted two points in discussion:
- the operating lease liability disclosure had been misstated by a non-trivial amount of £1,400 – the executive had corrected this;
 - the fair pay ratio had been calculated based on the actual pay of the highest paid director rather than the mid-point of the band as required by the *Financial Reporting Manual* – the executive had corrected this. It was confirmed that there was no ‘optimal’ fair pay ratio to aim for – the significant point was to ensure figures were presented in such a way to be comparable over time and with other organisations.
19. The Committee **NOTED** the findings of the audit completion report, including the draft letters of representation and audit certificates.
20. The accounts signing date was confirmed as either 29 or 30 May, and the laying date confirmed for w/c 4 June.

Item 9 Final draft LSB Annual Report and Accounts 2017/18

21. The Committee reviewed the final draft Annual Report and Accounts for 2017/18. As confirmed in discussion of the previous item, the provisional signing dates were 29 and 30 May, with w/c 4 June as laying date. A meeting would be arranged with the Justice Minister as soon as practicable to present the Annual Report and Accounts but MoJ had confirmed that the meeting with the Minister did not need to take place ahead of the laying of the Annual Report and Accounts. John Ward had made some written points on the drafting, which had now been reflected, and the Committee proposed some further, minor drafting points on the report.
22. The Chair reminded the Committee that at its meeting on 24 April, the Board had delegated authority to the Interim Chair and CEO as Accounting Officer to sign off the final text of Annual Report and Accounts subject to scrutiny of the final draft by ARAC.
23. The Committee **APPROVED** the draft Annual Report and Accounts 2017/18 on behalf of the Board. **Actions:** Final set of amends to be submitted to the designers ahead of signing by the CEO and C&AG; ARAC Chair to present an oral update at the Board’s 24 May meeting.

Item 10 Annual Report on expenses 2017/18

24. The Committee considered the annual report on expenses for the financial year 2017/18, and welcomed the comparator figures for 2016/17. The paper set out the amounts paid to Board, Consumer Panel, OLC and Senior Leadership Team (SLT) members during 2017/18 as reimbursement of expenses incurred in the course of official business, based on standard class travel.
25. The Committee noted that there had been some shifts in expenditure, particularly for Helen Phillips (on the basis that her time commitment had increased significantly, having taken up the interim Chair role from May 2017 onwards and on the basis that she was based outside London) but that there was no cause for concern.

26. The Committee **NOTED** the annual report on expenses and agreed there were no matters requiring escalation to the Board.

Item 11 Corporate risk register

Corporate risk register

27. Ian Wilson introduced the paper. Since the Committee had met in March 2018, the Corporate risk register had been reviewed and updated a number of times by the Senior Leadership Team (SLT). The Committee reviewed the risk register by scrutinising the risks in turn, noting the changes reported in the cover paper:

- [Redacted]
- [Redacted] [FoIA exempt s36(2)(c)]

Action: Risk register to be updated to reflect the points raised in discussion.

New and emerging risks

28. No new or emerging risks were identified.

Risk appetite

29. [REDACTED]
- [REDACTED]
 - [REDACTED]
 - [REDACTED]

[REDACTED]

30. [REDACTED] [FOIA exempt s36(2)(c)]

31. The Committee **NOTED** the Corporate Risk Register. The Board would undertake its next six monthly review of the register at the 24 May 2018.

Item 12 Deep dive – appointments and recruitment

32. Holly Perry presented the paper, outlining that this was the third ‘deep dive’ review by ARAC. Jemima Coleman as Chair of RNC had been engaged, both ahead of drafting the paper and afterwards. Jemima’s feedback had been as follows:

- [REDACTED]
- [REDACTED]
- [REDACTED]

[REDACTED]

33. [REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

[REDACTED]

[REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

35. The Committee **DISCUSSED** and **NOTED** the deep dive.

[FOIA exempt s36(2)(b)]

36. The Committee **AGREED** that future areas of work should be decided on a risk basis – informed by the corporate risk register. **Action** - it was requested that suggestions from members for areas for review should be submitted to the Chair.

Item 13 Benefits tracking

37. Holly Perry presented the paper which outlined a proposed framework to demonstrate the LSB's impact against its three agreed strategic objectives. [REDACTED]

[REDACTED]

[REDACTED] **[FoIA exempt s36(2)(c)]** Specific areas of feedback to improvement the tracker were set out in the paper.

38. The following points were raised in discussion:

- [REDACTED]
- [REDACTED]

[FoIA exempt s36(2)(c)]

- the Committee noted the interrelationship between outputs and outcomes, and expressed a preference for outcomes;
 - [REDACTED]
- [FoIA exempt s36(2)(c)]**
- The short term and long term differentiation was felt to be generally helpful, on the basis that it assisted the LSB to be clear which objectives were short/long and to be open if they were not being achieved in the intended timescale;
 - It was agreed that the high-level impacts could be collapsed into the main headings which would thereby expand slightly;
 - It was noted that work would be progressed on 'operationalising' the tracker, and ensuring linkage to quarterly reporting. On quarterly reporting, it was agreed that these needed to move to be less detailed and more summary.

39. The Committee **NOTED** the paper and that the next iteration of the tracker would be presented to Board in July. As set out in the paper, the first full update to the Board after the first year of operation would be presented in July 2019.

Item 14 Board Members' secure access to papers

40. Holly Perry presented the paper which contained some options for the Committee's consideration to manage the risks around the current method by which Board Members received LSB papers and emails on non-secure personal devices.

41. The following points were raised in discussion:

- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]

42. [Redacted]

[Redacted]
[Redacted]
[Redacted] [FoIA exempt s43(2)]

The Committee **NOTED** the paper.

Item 15 Freedom of Information Act 2000 – LSB Annual Report 2017

43. Holly Perry presented the paper which contained a more detailed report on the FOIA requests received during 2017. It was explained that from next year, the report would be for the financial year not the calendar year, to align it with the figures reported in the Annual Report and Accounts.

The Committee **NOTED** the paper.

Item 16 Forward look

44. The Committee noted future items for consideration by the Committee. To progress matters, as there was five months until the next meeting, electronic circulation of business out of meetings was encouraged. **Action:** The Committee noted that the next assurance mapping report on strategy and planning would be circulated out of committee by the end of June. Human Resources would be the next area to be mapped, for presentation to the October ARAC meeting.

45. ARAC members would advise the Chair of potential topics for next deep dive, and NAO confirmed that it planned to provide the audit planning report for 2018/19 to October ARAC meeting.

The Committee **NOTED** future items for consideration by the Committee.

Item 17 Any other business

46. There was no further business and so the meeting. The Committee's next meeting would take place on 2 October 2018 at LSB's offices.

Signed as an accurate record of the meeting

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Date

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