

AUDIT AND RISK ASSURANCE COMMITTEE
("the Committee")
MINUTES

Meeting held on **9 May 2017**
10 am to 1 pm | One Kemble Street, London WC2B 4AN

- Present:** Terry Babbs Chair
(Members) Marina Gibbs
Catharine Seddon
Michael Smyth
- (Adviser) John Ward
- In attendance:** Neil Buckley Chief Executive and Accounting Officer
Julie Myers Corporate Director
Edwin Josephs Director of Finance and Services
Courtney
Ip Tat Kuen National Audit Office (NAO) External Auditor
Nick Buxton BDO LLP External Auditor
Andy Sayers KPMG LLP Internal Auditor
Paul Cuttle KPMG LLP Internal Auditor
Toni Whitby Corporate Governance Manager (minutes)
- Apologies:** None
- Attendance for Items:** Jenny Prior, Business Planning Associate

Item 1

PRIVATE SESSION **10.00 am**

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

AUDIT AND RISK ASSURANCE COMMITTEE MEETING **10.15 am**

Item 2 Welcome and apologies

2. The Chairman welcomed Michael Smyth to his first meeting as a Committee member.
3. There were no apologies for absence.

Jenny Prior attended the meeting.

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

4. There were no declarations of interests.

Item 4 Minutes of the previous meeting

5. The minutes of the previous meeting held on 10 March 2017 were **APPROVED**.
6. The minutes of the ARAC budget sub-group meeting held on 10 March 2017 had been **APPROVED** electronically, prior to the meeting.

Item 5 Action tracker

7. The Committee considered the action tracker and noted:

- Letters had been sent out to front line regulators from the CEO. CLOSED.
 - A summary of the responses received from regulators on research spend was circulated by the CEO at the Committee. [REDACTED]
[REDACTED]
[REDACTED] [FoIA exempt s41] CILEX Regulation, ICAEW and MoF had not yet provided a response. An update would be provided at the October meeting.

ACTION: Update on research spending by front line regulators (NB/Oct).

- The three way protocol with MoJ and OLC had been considered and agreed by the Board at its March meeting with authority delegated to the Interim Chair and CEO to conclude negotiations and sign off. The CEO had met recently with MoJ and OLC and a final version had now been agreed. The document would be circulated to the Board for information. ONGOING.
- Options for future of internal audit resourcing: on agenda - see agenda item 7. CLOSED.
- Risk CROO3 had been reviewed by the Executive: on agenda - see agenda item 10. CLOSED.

Item 6 Annual report on expenses 2016/17

8. The Committee considered the annual report on expenses for the financial year 2016/17. The paper set out the amounts paid to Board, Consumer Panel, OLC and Senior Leadership Team (SLT) members during 2016/17 as reimbursement of expenses incurred in the course of official business.

9. The following points were raised in relation to the report:

- Increased engagement by Board members (additional Board Committees and stakeholder meetings) had resulted in a significant increase in the expenses claimed for travel from the previous year.
- “Other” expenses included breakfasts, lunches and accommodation costs.
- Details of expenses are published routinely on the LSB, Consumer Panel and OLC websites.

10. The Committee **NOTED** the annual report on expenses.

Item 7 Internal audit reports – KPMG

11. KPMG had completed three reviews as agreed in the Audit Plan for 2016/17. Each report was considered by the Committee.

7.1 Financial Systems

12. The Committee noted:

- the Report was rated with the highest grading possible- *significant assurance*.

- the Corporate Director would be given access to the Dimensions finance systems to provide resilience and to cover any extended absences.
- The Board's *Financial Regulations* would be updated to show the principal method used for disbursement was *Faster Payment*. The finance policies and guidance are reviewed annually, with the next review scheduled for late 2017. This update would be incorporated at this time.

13. Three low priority recommendations had been made and all had been accepted by the Executive. The Committee **NOTED** the recommendations made in the review of the financial systems.

7.2 Risk Management

14. The Committee noted:

- the Report was rated with the highest grading possible- *significant assurance*.
- when the LSB Risk Management Strategy was next updated (October 2017) the Executive would add more information on training to identify, evaluate and manage risks and the frequency that this should occur.
- the Executive had also agreed to review mitigating actions to make sure that, as far as practicable, these were "SMART" (specific, measurable, achievable, realistic and time-bound).
- the 'Executive Summary' noted "*the LSB is considering implementing some form of assurance mapping to support the risk management process*".

15. There was a discussion on proportionality, cost, focus and value of developing assurance mapping with the LSB's limited resources. The Committee's Adviser, John Ward, was in the process of submitting a technical paper, to the *Institute of Chartered Accountants in England and Wales*, setting out how to put in place a proportionate assurance mapping framework for both large and small organisations. He offered to provide the Committee and the Executive with a copy of this, once it was ready, to help with their deliberations. The Executive confirmed to the Committee that it had already started to consider various approaches to assurance mapping and agreed to investigate whether it would be proportionate to implement assurance mapping and if so how it might be done, alongside the annual review of the Risk Management Strategy for discussion at the October ARAC meeting. The Committee strongly supported some form of assurance mapping.

16. Two low priority recommendations had been made and both had been accepted by the Executive. The Committee **NOTED** the recommendations made in the review of the corporate risk register process.

7.3 Overseeing Regulators

17. The Committee noted:

- the Report was rated with the highest grading possible - *significant assurance*.
- KPMG had benchmarked the LSB's oversight processes with two other bodies, which had a similar role and statutory requirement to the LSB. Andy Sayers confirmed that KPMG had not undertaken specific work for these

bodies, but that the Executive had suggested using them as relevant comparators.

- that the LSB's business plan for 2017/18, as agreed by the Board, included a project for reviewing the IGRs and that this was work that required careful consideration.

18. Four low priority recommendations had been made of which three had been accepted by the Executive. The one not accepted related to transitional performance arrangements. The Executive considered that the second option from the transitional arrangements paper was the most effective and efficient option as it allows the LSB to build on the knowledge and evidence it has collated over recent years and enables it to move away from a disproportionate 'one size fits all' approach.

19. The Committee **NOTED** the recommendations made in the review of the new performance framework for overseeing regulators.

7.4 KPMG's Annual Report including Head of internal Audit Opinion

20. The Head of Internal Audit Opinion was one of 'significant assurance' within the areas of financial systems, risk management and the design in relation to overseeing regulators. 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.

21. 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.

22. All of the recommendations made to the Executive had been rated low priority. None of the recommendations had been changed after discussion with management.

23. The Committee requested that they should be made aware of any change to the level of priority of a recommendation if this was subsequently changed after discussion with management.

24. **The Committee NOTED KPMG's Internal Audit Annual Report and Opinion 2016/17.**

Item 8 NAO Audit Completion Reports (ACR) 2016/17 (including management letter)

25. Nick Buxton, BDO LLP, introduced this 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).

26. An action from the previous year's ACR relating to third party transactions declarations had been actioned and was now closed.

27. Nick Buxton confirmed he had no concerns in relation to fraud risk.

28. **The Committee NOTED the findings of the audit completion report, including the draft letters of representation and audit certificates.**

Item 9 Draft LSB Annual Report and Accounts 2016/17

29. The timetable for laying the Annual Report and Accounts was subject to purdah and the availability of ministers. A meeting would be arranged with the Justice Minister as soon as practicable to present the Annual Report and Accounts so that the Minister could then lay them.
30. The Committee considered the Annual Report and noted that there may need to be amendments to the text which was future looking as at March 2017 as it may have been superseded by the laying date. The Committee also suggested a small number of amendments including clarifications to terms of appointment and some drafting corrections. The Committee also asked that the governance statement be checked to ensure it included a reference to the quality of data relied upon by the Committee.
31. 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.
32. **The Committee NOTED the Annual Report and Accounts 2016/17.**

5 minute break

Item 10 Corporate risk register

10.1 Corporate risk register

33. Since the Committee had met in March 2017, the risk register had been reviewed and updated by the Senior Leadership Team (SLT). The Board would review the risk register at its May meeting.
34. At its meeting in March, the Committee had asked the Executive to [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] **[FOIA exempt s36(2)(c)]**
35. The Committee considered the risk register. A number of questions were asked about how individual risks were described and whether there was sufficient specificity in description of the risks and the mitigating actions. The CEO noted the comments of the Committee regarding the level of detail now requested to be captured on the risk register. He advised that this would entail a considerable amount of work and time commitment, which would mean other work not being undertaken. The Committee considered it may simply be a case of capturing evidential information of mitigation actions that had been undertaken in one place and were not convinced that it was a disproportionate request. The CEO pointed out that both the MoJ and the report from the Auditors considered the LSB to be a low risk organisation.
36. As already explained during the discussion on assurance mapping, the Executive noted that it would reflect on proportionality of this request in parallel with scoping assurance mapping to avoid any risk of duplication or overlap. The Committee's Adviser's offer to provide information on putting in place a proportionate assurance mapping framework for

a small organisation was welcomed. One of the Committee members stated that it had taken three years to implement assurance mapping in a not too dissimilar organisation.

37. The risk management strategy would come to the Committee in October for its annual review alongside a proposal for the introduction of assurance mapping which would also take into account how best to meet the request for additional detail on controls to be on the face of the register.

ACTION: The Executive were asked to review the adequacy and effectiveness of the mitigating controls ensuring they were SMART. (JM/Oct).

ACTION: Executive to scope out the work required to provide assurance mapping, subject to advice and guidance from the Committee's Adviser (JM/Oct).

The Committee NOTED the Corporate Risk Register.

10.2 [REDACTED]
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[REDACTED]

[REDACTED] [FOIA exempt s36(2)(b)(ii)]

10.3 New and emerging risks

44. The Committee noted these.

Item 11 LSB Corporate Policy | Publication Scheme

45. The LSB’s publication scheme had been in place since 2014. Stakeholders appeared to welcome the LSB approach to transparency, especially as it publishes Board minutes and papers on its website shortly after each meeting, redacted only when justified by the Freedom of Information Act (FoI).

46. The paper outlined a small number of suggested process improvements, which would be initiated over the coming months with an update on progress coming to ARAC in October.

47. Although it was noted to be good practice, the Committee did not see the value of reviewing redacted Board minutes or papers going back to 2009/10.

The Committee AGREED:

- **SLT minutes should not form part of the Publication Scheme; and**
- **Approved ARAC and RNC minutes should form part of the Publication Scheme.**

48. The Committee noted that the OLC, as a body subject to FOIA in its own right, has its own Publication Scheme.

49. The Committee would review the Publication Scheme in three years' time, sooner if the Executive noted any trends in relation to FoI requests or changes made by ICO. The Committee asked to see an annual report of FoI requests.

ACTION: Annual report of FoI requests (TW/March).

Item 12 Finance report assurance

50. The Committee considered the finance reporting processes in place provided appropriate assurance and no additional information or improvement was required.

Item 13 Performance report assurance

51. The Committee considered performance reporting process in operation across LSB. Performance reports are currently shared quarterly with the MoJ, after consideration by the Board. The MoJ ALB Governance Team had recently taken over responsibility for the LSB's relationship with MoJ and future process for reporting was currently being discussed. One part of this was making sure that there could be a degree of coordination between LSB and MoJ as to receiving assurance reports from OLC performance. Future meetings may include a joint session with OLC meeting with the MoJ and LSB together.

52. Should the MoJ reporting requirements change, the Executive will revert to ARAC but the current quarterly reports would continue to come to the Board.

53. Work on performance metrics was being considered by the Executive and would come to the Board in July.

54. The Committee noted that Board agenda timing often precluded time for discussion on performance matters. The CEO would discuss with the Interim Chair.

Jenny Prior left the meeting.

Item 14 Forward look

55. The Committee noted future items for consideration by the Committee. ARAC's terms of reference set out a minimum of three meetings to be held in each financial year. Members confirmed that they would be open to additional meetings if required before October. To progress matters, as there was five months until the next meeting, electronic circulation out of meetings to provide updates on actions was encouraged.

Internal auditors and Nick Buxton left the meeting.

Item 15 PRIVATE SESSION | Internal Auditor's effectiveness and performance

56. Members met in private session to consider the internal auditor's effectiveness and performance.

57. The Finance Director recommended that the LSB continue to use KPMG LLP to provide an internal audit function. [REDACTED]

[FoIA exempt s43]

58. The Committee APPROVED the continued appointment of KPMG LLP. [REDACTED]
[REDACTED]
[REDACTED] [FOIA exempt s43]

59. The Committee AGREED to review the internal auditor's effectiveness every 2 years, with the Finance Director directed to annually review performance, day rates and benchmark against the GIAA.

60. There being no further business the meeting closed at 1.14 pm.

61. The Committee would next meet on 2 October 2017 at LSB's offices.

Signed as an accurate record of the meeting

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Date.....