

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

Meeting held on 28 May 2019  
10:30am to 13:30pm | One Kemble Street, London WC2B 4AN

<b>Present:</b> (Members)	Catharine Seddon Catherine Brown Marina Gibbs Michael Smyth John Ward	Chair (by phone until item 16)  (from item 11) Independent Financial Adviser
<b>In attendance:</b>	Neil Buckley Tim Borthwick Steph North Jenny Prior Rusere Shoniwa Melanie Stewart  Michael Asare Bediako David Eagles  Ella Firman Paul Cuttle	Chief Executive and Accounting Officer Policy Associate (minutes) Corporate Governance Manager Corporate Services Manager Interim Director of Finance Head of Finance  BDO LLP External Auditor BDO LLP External Auditor (by phone items 8 and 9) National Audit Office (NAO) External Auditor KPMG LLP Internal Auditor
<b>Observing:</b>	David Winks Sarah Henderson Angela Latta	Ministry of Justice Ministry of Justice Regulatory Policy Principal
<b>Attendance for items:</b>	Steve Violet Toakase Tonga	Regulatory Policy Manager (item 12) Legal Advisor (item 12)

## **AUDIT AND RISK ASSURANCE COMMITTEE MEETING**

### **Item 1 - Private session with auditors**

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

### **Item 2 - Welcome and apologies**

2. The Chair welcomed everyone present to the meeting. The Chair welcomed Catherine Brown to her first Committee meeting.

### **Item 3 - Declarations of interests relevant to the business of the Committee**

3. No interests relevant to the business of the Committee were declared.

### **Item 4 - Minutes of the previous meeting**

4. The minutes of Finance Committee meeting on 12 March 2019 were **APPROVED**.
5. The minutes of the ARAC meeting held on 12 March 2019 were **APPROVED** subject to the Item 9, CR3.3 reference to be updated to LeO, not OLC.

### **Item 5 - Action tracker**

6. The Committee reviewed and **NOTED** the action tracker. Going forward, the Committee requested that all actions from the minutes be recorded in the action tracker as per the order in which they appeared in the minutes, and that any superseded actions included a reference as relevant.

### **Item 6 – Oral update on fraud assurance**

7. Melanie Stewart provided oral confirmation that no incidents of fraud had occurred since the last Committee meeting. The Committee **NOTED** the update.

### **Item 7 - KPMG Internal Audit update**

8. Paul Cuttle presented the internal audit reports. Regarding the IT and office move project, Paul outlined that there was significant assurance in relation to the planning stage, noting that the two projects were ongoing. Regarding data management, Paul outlined that there was partial assurance with improvements required, with two high priority recommendations relating to incident reporting and document retention adherence.
9. The Committee considered the data management report and raised the following points in discussion:
  - Incident reporting: In light of the upcoming IT transformation project, there needed to be a process for reporting physical loss of laptops and a secure password policy should be considered. It was agreed that the IT project would consider this, including whether there was a need for a password storage function. **ACTION:** The executive to incorporate physical loss of devices into incident reporting procedures and consider a two factor password policy.

- Retention adherence: Automatic prompts for record disposal would help. It was outlined that this was being explored as part of the IT project. However, it was agreed that cultural and behavioural change remained the biggest challenge. It was thought that cultural change could in part be driven by the IT project and that colleagues should be provided with ongoing training. One suggestion was that retention adherence could be incorporated into performance management. **ACTION:** The executive to consider the proposals to improve adherence.
- Incomplete new joiners training: There needed to be a set date for completion of induction training e.g. within 7 days of joining. **ACTION:** The executive to set a deadline for completion of induction training.
- It was agreed that the deep dive on data management had been useful to inform the audit. However, it was agreed that not all internal audits needed to be preceded by a deep dive, and that future deep dives related to audit topics could be considered on a case-by-case basis.

10. Regarding the Head of Internal Audit Opinion, Paul outlined that there was 'significant assurance with improvements required' for the following reasons: the financial management, IT and office move projects provided significant assurance; the data management recommendations had been agreed by the executive with timely and appropriate actions planned.

11. The Committee **NOTED** the reports.

#### **Item 8 – NAO external audit reports**

12. Michael Asare Bediako from BDO introduced the financial statement audit report. The following points were drawn to the Committee's attention:
- Management override of controls was a risk and there had been no instances of misstatements or unusual transactions arising from management override.
  - New accounting standards IFRS 9 and IFRS 15 had no impact on the LSB.
  - The materiality threshold had been adjusted from £75,000 to £74,500.
  - There were minor suggestions relating to financial statement disclosures as outlined in the audit completion report.
  - Unadjusted misstatement above the triviality threshold of £2,000 totalled £10,900 but there was no net impact on the financial statements. It was outlined that BDO were content for these transactions to remain unadjusted and to provide unqualified audit opinion subject to the Committee approving these remain unadjusted.
13. Ella Firman from the NAO presented the additional letter of representation that would be signed alongside the accounts following approval.
14. The Committee queried whether the understatement of levy income due to an incorrect levy calculation could occur again or if the error had been addressed permanently. The executive clarified that this type of error was unlikely to be material and that there was an inbuilt opportunity to test levy calculations.
15. The Committee queried whether work had been undertaken to assess the impact of IFRS 16: Leases, and if it could be adopted early. The executive outlined that

analysis had been completed and that it need not be adopted until 2020-21. It was agreed that the executive, NAO and MoJ would assess the advantages and disadvantages of adopting the new standard early. **ACTION:** The executive to assess whether moving to IFRS 16: Leases early was advisable in consultation with the NAO and MoJ.

16. The Committee **NOTED** the completion audit report and agreed that the misstatements could remain unadjusted.

#### **Item 9 – Final draft LSB Annual Report and Accounts 2018/19**

17. Jenny Prior presented the final draft of the Annual Report and Accounts 2018/19. It was outlined that MoJ had suggested a delay by a week of the laying date. It was requested that MoJ check if the laying date could revert to 27 June (*Post meeting note – 27 June now confirmed by MoJ subject to any further developments*).
18. The Committee **APPROVED** the Annual Report and Accounts 2018/19 on behalf of the Board subject to a final proofread by the executive.

#### **Item 10 – Annual report on expenses 2018/19**

19. Melanie Stewart presented the annual report on expenses. The Committee agreed that the expense report should continue to be noted annually, not least because previously other organisations had experienced expense issues that resulted in qualified accounts.
20. The Committee agreed that the annual report on expenses for next year should contain an explanation for large variances between members' expenses, for example, if travel costs variances were due to diverse geographical locations. **ACTION:** The executive to incorporate variance explanations for expenses in future expense reports.
21. The Committee **NOTED** the update.

#### **Item 11 – LSB Corporate Risk Register**

22. Jenny Prior introduced the Corporate Risk Register, outlining that it was last reviewed by the LSB senior leadership team at the beginning of May and that there had been some developments since that date which were not reflected in the version being presented.
23. The Committee discussed whether there were too many risks of moderate risk rating on the register, noting that combining risks might reduce specificity but that too many risks could mean not enough attention to the prioritisation of risks. It was agreed that a balance needed to be struck and that this could be considered as part of the zero base review planned for the early autumn. The Committee also discussed including a comparison to the last risk register in the risk dashboard to enable to enable tracking of improvement in risk mitigation over time. **ACTION:** The executive to add a risk comparison to the risk dashboard for future reports.
24. The Committee scrutinised the risks in turn and raised the following points in discussion:

- CR1.1 - office move: It was noted that the risk had lowered since the register had been compiled due to progress on the project and that temporary office accommodation had been explored in the unlikely event of timeline slippage.
- CR1.2 - IT transformation: **ACTION:** The executive to make the mitigating actions 'SMART', for example, by including the date for the website upgrade.
- CR1.3 - cyber security: **ACTION:** The executive to consider physical security of devices and password policy as part of cyber security activity.
- CR1.4 - budget: Authority to spend had been granted to 30 June 2019 but formal budget approval was outstanding. MoJ agreed to check internally if formal approval could be expedited.
- CR1.6 - staff morale: It was noted that both the stakeholder and colleague panels for the CEO recruitment had been well received and that there had been a lot of colleague engagement on the office move and IT transformation, as well as more planned. **ACTION:** The executive to update this risk to include more specificity on Myers Briggs, and how it was helping to inform the HR strategy.
- CR1.7 - Data management: It was noted that this risk had increased since the data management audit report. The Committee considered ongoing training to be imperative for colleagues.
- CR2.3 - MoJ relationship: It was noted that David Winks would be replacing David Bartlett as the LSB's main point of contact within the ALB sponsorship team at the MoJ, and that all parties were committed to ensuring a constructive working relationship.
- CR2.4 - oversight of OLC: It was queried whether this risk should be higher [REDACTED]. [FoIA exempt s36] It was agreed that CR 2.4 and CR3.3 needed to remain as separate risks but that the wording of CR2.4 should be clarified. **ACTION:** The executive to clarify the root cause of CR2.4. **ACTION:** The executive to place the mitigating action on ADR in CR3.3.
- CR2.5 - CEO recruitment: It was thought that this risk could be removed due to the new CEO having now been appointed. **ACTION:** The executive to remove this risk.
- [REDACTED]. [FoIA exempt s36]
- CR3.3 - LeO performance: The Committee discussed the merits of focusing on current resolutions versus alternative dispute resolutions. It was agreed that alternatives needed to be explored [REDACTED]. [FoIA exempt s36] **ACTION:** The executive to lower the acceptable risk appetite and to review the risk rating with reference to CR2.4 on LeO's performance.
- CR4.1 and CR4.2 - LSB strategy: The Committee noted the oral update that the Strategic Director would be reviewing these risks. **ACTION:** The executive to

consider the Public Accounts Committee inquiry from May 2019 relating to economic regulators responding to criticism of measuring policy outcomes.

#### Item 12 – Contingency planning for regulator failure

25. Steve Violet introduced the paper by outlining that the contingency plan was being reviewed due to recent concerns around potential regulatory failure and regulatory exit.

26. The Committee raised the following points in discussion:

- Having a generalised contingency plan [REDACTED] [FoIA exempt s36] was preferable.
- It was unclear what constituted 'regulatory failure' and who would determine when a regulator had 'failed'.
- The Committee discussed the role of the LSB as an oversight regulator and whether the LSB could impose regulation by a particular body. Continuity for entities and individuals was seen to be a key consideration.
- A public communications response would be important in the event of regulatory failure. It was unclear whether the LSB had sufficient resource to respond to such a crisis. Consideration also needed to be given to the amount of senior executive time that could be taken up in responding to regulatory failure. This would also have a financial impact.
- The contingency plan assumed cooperation from the regulatory body, but this could not be guaranteed.

**ACTION:** Executive to bring to the Board two papers in due course: a general paper on contingency planning for regulator failure that addressed the Committee's points; and [REDACTED] [FoIA exempt s36] a worked example of the arrangements for dealing with regulatory failure.

#### Item 13 – FOI update and review of LSB publication scheme

27. Steph North introduced the FOI update, outlining that in a change from 2018, the annual report on Freedom of Information Act requests would now be presented on a financial year basis, affecting comparison with prior years. It was outlined that FOI requests had significantly increased compared with previous years and that this trend was expected to continue. **ACTION:** The executive to include details on the main FOI exemptions relied on in future years' updates, and to include information on who the requests came from e.g. journalist. The Committee **CONSIDERED** the update.

28. Steph North introduced the publication scheme review paper. Only minor stylistic changes were proposed, along with paragraph numbering throughout. The Committee confirmed that it would like to review the publication scheme annually and **AGREED** the proposed changes, noting that a further review would be undertaken following IT transformation.

#### Item 14 – Update on the IT transformation

29. Melanie Stewart presented the update, outlining that the managed service provider transition remained on track, but that the network bandwidth risk had crystallised as

outlined in the supplementary update paper circulated out of committee on 24 May. This meant that the planned move to the cloud would now need to be delayed until the move to the new office, and a revised project plan would be worked up.

30. The Committee queried whether network providers other than BT could be explored for The Rookery. The executive clarified that this was being examined with the help of Farebrother, who were the external agents, helping to manage the office move.

31. The Committee **NOTED** the update on the IT transformation.

#### **Item 15 – Update on the office move**

32. Jenny Prior presented the office move update, outlining that it had been confirmed that there were no dilapidations costs due, and that approval from Cabinet Office was expected by the end of June, following submission of the final paperwork the previous week.

33. The Committee queried the basis for the 14% contingency and if this was adequate. The executive clarified that an industry benchmarking exercise had been undertaken showing that 5% to 7% was a standard contingency for similar projects. The Committee also questioned if there would be access to sufficient meeting rooms in the new office. The executive confirmed that there would be multiple meeting rooms in the new office, as well as access to the building's suite of meeting rooms and conference facilities at a preferential rate.

34. The Committee **NOTED** the update on the office move.

#### **Item 16 – Paperless approach**

35. Steph North provided an oral update on the use of *VirtualBoardroom*, outlining that the response from Board Members had been positive to date, and sought a steer from the Committee on a recommendation for a paperless approach to Board and Committee papers to the Board. The recommendation was that from July 2019, hard copies of papers would be distributed on request only. A move to go fully paperless would be postponed until the rollout of the new devices, and the completion of the IT transformation.

36. The Committee raised the following points in discussion:

- Some papers were difficult to read on a device, and this would remain the case no matter what device was used. For example, it was thought that if the risk register remained in its current format then it would have to be paper based as it would be too difficult to consider fully on a device.
- There should be additional training in *VirtualBoardroom* for Board Members.
- A review of the paperless approach should take place after six months to consider whether the move to paperless had inhibited Board Members' ability to adequately consider papers.

37. The Committee **AGREED** to recommend the paperless approach as outlined to the Board with a review six months into going paperless.

#### **Item 17 – Paper considered outside of committee**

38. The Committee **NOTED** the papers considered out of committee since the last meeting: Paper (19) 10 (ARAC) Statutory remit assurance map and Paper (19) 11 (ARAC) Assurance map action tracker. The Committee thanked John Ward for agreeing to work with the Executive over the summer to ensure that assurance mapping could be updated on an ongoing basis.

**Item 18 – Forward look**

39. The Committee **NOTED** the forward look agenda. It was noted that the Finance Manual would be reviewed alongside the Governance Manual and that deep dive topics remained open to suggestion and change.

**CLOSE**

40. The Chair thanked Rusere Shoniwa for all his work as interim Director of Finance and Services. His last day at the LSB would be 31 May 2019.

41. The Chair also thanked Neil Buckley for his contribution to the Committee in his last meeting as Accounting Officer. The Chair thanked Paul Cuttle and KPMG for their service to the LSB as this was their last meeting as the LSB’s internal auditors.

42. There was no other business and the meeting ended.

TB, 29 May 2019

Signed as an accurate record of the meeting

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Date

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