

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

Meeting held on 3 March 2020  
10:30 – 13:30 | The Rookery, 2 Dyott Street, London, WC1A 1DE

<b>Present:</b> (Members)	Catharine Seddon Catherine Brown Marina Gibbs Michael Smyth	Chair
<b>In attendance:</b>	Matthew Hill Steph North Holly Perry Tim Borthwick Melanie Stewart	Chief Executive and Accounting Officer Corporate Governance Manager (minutes) Director, Enabling Services Corporate Services Manager Head, Finance and IT
	Michael Asare Bediako Matthew Vosper Ella Firman Richard Evans Bri Luscombe	BDO LLP External Auditor BDO LLP External Auditor National Audit Office (NAO) External Auditor Crowe Internal Auditor Crowe Internal Auditor
<b>Observing:</b>	Paul Nezandonyi David Winks	Head, Communications and Engagement Ministry of Justice

## AUDIT AND RISK ASSURANCE COMMITTEE MEETING

### Item 1 – Private session

1. Members met as a Finance Committee in private to discuss the LSB Budget for 2020/21. There was no firm date from the MoJ on when authority to spend would be received – an interim letter of authority to spend was expected to be received in time for the start of the new financial year<sup>1</sup>.

### Item 2 - Private session with auditors

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

### Item 3 - Welcome and apologies

3. The Chair welcomed everyone present to the meeting, in particular those observing the meeting.
4. No apologies had been received.

### Item 4 - Declarations of interests relevant to the business of the Committee

5. There were no new declarations of interests.
6. The Chair updated attendees about a recent discussion with Crowe in relation to the findings of the Brydon Report. No action would be taken until after such time as a formal government response was issued. Notwithstanding the outcome of that response, several of the proposed recommendations were considered relevant to the LSB and would be considered further following a response by the National Audit Office (NAO).

### Item 5 - Minutes of the previous meeting

7. The minutes of the Finance Committee ARAC meeting held on 1 October 2019 were **APPROVED** as drafted.
8. The minutes of the ARAC meeting held on 1 October 2019 were **APPROVED** subject to the following amendments:
  - Para 22 - wording should be reconsidered so as not to suggest that there was a greater tolerance for strategic versus operational risk (there was a lower tolerance for operational risk);
  - Making clear that the communications and engagement strategy was intended to be part of our overall regulatory effort on behalf of the public as opposed to being focused narrowly on reputation
  - Catherine Brown was a 'qualified management accountant';
  - Correcting a typo at paragraph 10 "IFRS16" rather than "IFS16".

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<sup>1</sup> Letter received on 30 March 2020.

## Item 6 - Noting of items considered out of committee since 1 October:

9. The Committee **NOTED** the following item which had been considered out of committee since the last meeting:
  - Updated LSB Budget for 2020/21
  - LSB compliance with transparency provisions – **Paper (19) 34 ARAC**
10. **Item 7 - Action tracker**
11. The Committee **REVIEWED** the action tracker.

## Item 8 – Crowe internal audit update

12. The internal auditor provided an update on the internal audit reports for the Office for Legal Complaints (OLC) and Practising Certificate Fee Approval (PCF). Reports on Business Planning and Managing Public Money were in progress and, dependent on timing, oral updates would be provided at the June 2020 ARAC meeting.
13. *PCF report* - there was now a category of advisory points around the control environment recommendations. The priority recommendation was in relation to formalising operations. The Committee welcomed the advisory approach which was in line with the LSB's approach. It was noted that work was underway to rebalance consideration of both policy and regulatory factors in the decision-making process and that the LSB had budgeted for a member of staff with financial experience to undertake the PCF work in 2020/21.
14. *OLC* – there was a range of recommendations that related to putting the relationship with the OLC on a more formal footing. While management was able to accept most of the recommendations immediately – for example those in relation to more formal agendas, minutes etc – it was considered that a discussion with the Board would be necessary before changing the strategic approach to the OLC. ARAC agreed with this position and asked the Executive to promote such a discussion at an early opportunity.
15. The Committee noted the asymmetry of assigned Board lead roles both in the context of the Board lead for the OLC and more generally. The imminent arrival of a new OLC Chair would be a good time to reconsider Board member lead responsibilities (action).
16. The Committee **NOTED** the update.

## Item 9 – NAO external audit plan

17. The external auditors presented the draft audit planning report for 2020/21. Key points included:
  - In common with similar organisations, an assumption was made that there would be a risk associated with management override of controls.
  - A risk more specific to the LSB related to the migration of finance data from the old finance system to a new system: if there were errors in this process there would be a high risk of inaccurate financial statements.

- Other areas for audit would include: the new accounting standard IFRS16; classification of transformation costs, and the tax treatment of non-executive director expenses.
- There were no known cases of suspected or alleged fraud.
- The headline materiality was £74k which was in line with previous years.
- The dates for the audit had not yet been finalised.
- The proposed audit fee increase was in part reflective of the extra time needed to complete the finance system audit, and the fact that there had been no rise in fee since 2014. There was no expectation that the fee would be adjusted nor that the cost would decrease for the next financial year in part because NAO were being pushed to seek full cost recovery. Mindful of this, the executive would work with the auditors to consider how to expedite the audit process to reduce costs.

18. The Committee **NOTED** and **ENDORSED** the audit plan.

#### Item 10 – LSB Corporate Risk Register

19. The Corporate Services Manager introduced the item. Since the papers were distributed, an additional risk had been added to the risk register in relation to business continuity – specifically in relation to the outbreak of coronavirus.

20. The Committee considered the risks in turn and the following points were raised in discussion:

- *Communications* – it was queried whether the risk was about ‘delivering the Board’s expectations’ rather than ‘delivering the organisation’s ambitions’? The executive agreed with this assessment, noting that it was nevertheless helpful for risks to focus on organisational impact. There was also a risk of lost opportunities for the organisation due to insufficient resources. It was suggested that the risk be reviewed following the ongoing stakeholder perceptions exercise.
- *Public Appointments* – the OLC Chair appointment recommendation had been agreed by No 10 and a pre-appointment scrutiny hearing in front of the Justice Select Committee was scheduled for 17 March, on track for a 1 April start date.
- *Lack of SMART working* – it would be worth considering the ramifications of not working ‘smart’, particularly with a view to value for money considerations.

[REDACTED]

- *Coronavirus* –The Committee asked what action was being undertaken in relation to risks associated with coronavirus. The executive was considering whether the risk was likely to affect different areas of the business disproportionately. For example, lock down in London or Birmingham might impinge on high level engagement with the OLC. This had been considered under business continuity planning. The regulators would also be asked to confirm their business continuity plans. In the run up to EU exit, significant work was done on assurance in this area. There was a suggestion that all LSB colleagues do a test day at home to

assess the feasibility of all colleagues working remotely simultaneously (action - since superseded as the LSB successfully moved to complete full-time remote working on 17 March 2020).

21. The Committee **NOTED** the update including the revised format of the risk register, and welcomed the addition of implementation dates, as well as risk owners and volatility.

#### **Item 11 – Update on LSB Annual Report and Accounts**

22. The Committee **NOTED** the update on the timetable for the Annual Report and Accounts.

#### **Item 12 – Finance Regulations Review inc Procurement Policy**

23. The Head, Finance and IT introduced the paper which set out the first review of the Finance Regulations for five years. Changes largely reflected guidance published and eliminated duplication whereby policies are already presented in either the Governance manual or the Colleague Handbook. The procurement policy had required a wider refresh and the Policy would now be reviewed on an annual basis.
24. The Committee considered the paper and the following points were raised in discussion:
- It was helpful to include reference to all staff responsibility for ensuring value for money.
  - At para 16.6 – process for reporting suspected fraud, corruption or other financial irregularity - a line should be added that if colleagues listed were involved in the process, the Senior Independent Director should be consulted in addition to the Head, Finance and IT and the Accounting Officer (action: executive to confirm to the Committee that that has been done).
25. The Committee **NOTED** the Finance Regulations Review, including the Procurement Policy.

#### **Item 13 – Update on Value for Money**

26. The Head, Finance and IT introduced the paper on Value for Money which outlined the executive's work in this area, which included delivering improvements to budgetary control to ensure financial performance is in line with budget, and improvements in resource planning. As part of the next stage of the work, the executive would carry out a benchmarking exercise to assess value for money relative to other similar organisations, and value for money was the proposed deep dive for March 2021.
27. The Committee considered the paper and the following points were raised in discussion:
- An oral update on progress in developing value for money should be presented at the October 2020 meeting (action).
  - The biggest cost for the LSB was staffing. Underperformance was poor value for money.
  - Colleagues should be encouraged to think what projects / purchases would cost, and alternatives to deliver the same outcome at lower cost. A culture of challenge

for finite resources and infinite ambition would be desirable, as would a suitable framework in place to be able to consider how best to get services brought in, or what can be done in-house and which was the better use of finite resources.

28. The Committee **NOTED** the update.

#### **Item 14 – Deep dive - ways of working**

29. The HR Manager introduced the deep dive on ways of working. The paper outlined four areas of focus: the office move, colleague recruitment, learning and development strategy, and the LSB values project. Colleague feedback on the office move had been largely positive, in particular colleagues reported that they valued the not having a fixed desk and routinely therefore to interact with a range of colleagues. The Chief Executive similarly did not have a fixed desk this year and colleagues quickly engaged with the 'open door' policy.

30. The Committee welcomed the update and the following points were raised in discussion:

- The LSB values / behaviours would usefully be developed alongside value for money considerations.
- A more dynamic mechanism than an annual staff survey could be used to illustrate delivery in terms of outputs and value for money e.g. pulse survey. (Action: oral update to be presented to October 2020 ARAC meeting).
- Career coaching and mentoring should be encouraged. It was important to invest in LSB colleagues' capability – realistically, the LSB being of a relatively small size was not in a position to offer a lifelong career – it was similarly important to articulate the LSB's value proposition.
- Further to a change in format, Board Members were no longer required to attend Colleague Forum sessions, but would be welcome to if they wished. Action: Corporate Governance Manager to circulate a note to Board members with an open invitation for them to attend Colleague Forum without set expectations [post-meeting note: complete].

31. The Committee **NOTED** the deep dive.

#### **Item 15 – Data management follow up exercise**

32. The Corporate Governance Manager introduced the paper which set out the findings of the follow-up exercise following the 2019 internal audit into data management. The paper outlined areas of improvement since that audit, actions outstanding and a proposed action plan for the Committee's consideration.

33. The Committee considered the update and the following points were raised in discussion:

- The ease with which colleagues across the organisation could engage effectively with retention periods was to a large extent dependent on their area of work – typically, HR, finance and governance timeframes were much clearer cut than discretionary retention periods for policy documents.
- Overall, and relative to other organisations, it was considered that the LSB at the better end of adherence – and the steps outlined will help to continue to improve processes.
- It was key to continue to remind colleagues of their responsibilities in relation to data management, with regular updates with the effect of a cultural change and

retention and disposal being mainstreamed as part of normal operating procedures, rather than an afterthought.

- The possibility of tying adherence to performance management was mooted but on balance it was agreed that this would be difficult to measure. More useful to achieve desired outcomes was the suggestion of dedicated time set aside each month for data management activity (although ideally this would be done on an ongoing basis by all colleagues rather than as a one off). On a related matter, the Committee would receive an oral update at the October meeting on the status of deleting the LSB Archive post-IT transformation (action).

34. The Committee **NOTED** the update and **AGREED** to receive annual updates on data management across the LSB.

#### **Item 15 – Draft annual report of ARAC**

35. The Corporate Governance Manager introduced the paper, which was a draft report on the Committee's work over the past year. The report would be presented to the LSB Board, and help to inform the Annual Report and Accounts for the LSB.

36. Committee members considered the paper, and made the following comments in discussion:

- Catherine Brown was a *Chartered Management Accountant*
- The Committee's meeting in private session was *a matter of course* rather than *as required*
- On an overview of work each year, the review of the Finance Manual and counter fraud update could be added, as well as resource dedicated to OLC oversight.
- The Committee required a financially qualified member or a financially qualified adviser to the Committee.
- The ARAC Chair or delegated member of the Committee should present the annual report of the Committee to the Board.
- The Annual Report should be signed off by the Chair on behalf of ARAC.

37. The Committee **NOTED** the forward look and **ENDORSED** the paper to the Board at its March meeting, subject to the points raised.

#### **Item 16 – Oral update on cyber security and counter fraud**

38. The Head, Finance and IT confirmed that there were no cases of counter fraud to declare. In relation to cyber security, Cyber Essentials certification had been received in February 2020. Essentials Plus certification would be considered one year after completion of the IT transformation (action: October 2020), with an annual renewal thereafter from February 2021. Since the last meeting, there had been an increase in the number of malicious calls and emails. The IT service provider had reviewed the firewall settings and training had been very recently provided to all staff by Crowe. In addition, annual refresher training on 'staying safe online' had now been completed by two thirds of the organisation – with the rest to follow further to technical issues being resolved.

39. The Committee **NOTED** the cyber security and counter fraud update.

**Item 17 – Papers out of committee**

40. The Committee **NOTED** the papers that had been circulated since the last meeting:
- Updated LSB Budget for 2020/21
  - Paper (19) 34 LSB compliance with transparency provisions

**Item 18 – Forward look**

41. The Committee **NOTED** the forward look agenda. Members were invited to submit ideas for future deep dives to the Chair.

**Item 19 - AOB**

42. *ARAC member training*– tailored and specific training for members was proposed to coincide with times members would already be at the LSB for meetings. Areas such as cyber security, internal audit updates, and assurance mapping were agreed to be useful areas for such training. Crowe offered to provide cyber security training for ARAC members alongside the next ARAC meeting (action – subject to diary availability). In addition, it was suggested that the NAO’s checklist for audit committees would provide a useful annual effectiveness review – did the Committee address all the steps outlined. (action) If any gaps were identified, they would usefully inform future training opportunities. Committee members were invited to suggest any further ideas for training to the Chair.
43. *Update of the meeting to LSB Board* - it was noted that, in the absence of the ARAC Chair, Marina Gibbs would deliver the oral update of the meeting to the 26 March Board meeting.
44. There was no other business and the meeting ended.

SN, 11 March 2020

Signed as an accurate record of the meeting

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Date

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