

<b>To:</b>	Legal Services Board	
<b>Date of Meeting:</b>	27 May 2015	<b>Item:</b> Paper (15) 27

<b>Title:</b>	Annual Report of the ARAC 2014/15 with regard to the Terms of Reference	
<b>Author / Introduced by:</b>	Terry Babbs, Chair Audit and Risk Assurance Committee	
<b>Status:</b>	Official	

<b>Summary:</b>
<p>The Terms of Reference (<b>ToR</b>) for the Audit and Risk Assurance Committee (ARAC) provide that:</p> <p><i>the Chairman of the Committee will present to the Accounting Officer and the meeting of the Board that is scheduled to consider and to agree the LSB's Annual Report and Accounts for the preceding financial year a written report about the activity of the committee relevant to that financial year.</i></p> <p>This paper presents a report about the activities of the ARAC for the period 1 April 2014 to 31 March 2015. This report informs, and its content is reflected in, the LSB's Annual Report and Accounts 2014/15 – in particular by supporting the <i>Governance Statement</i> – and it represents governance best practice.</p> <p>The Committee is required to provide a statement as to how it considers it has performed during 2014/15. This report concludes that the Committee's activities during the year under report, including rigorous challenge of the Executive, and provision of sound advice to the Accounting Officer, were sufficient to provide assurance to the Board that there were effective arrangements in place in relation to audit and risk.</p> <p>The Committee also confirms to the Board that the Terms of Reference remain current.</p>

<b>Risks and mitigations</b>	
<b>Financial:</b>	N/A.
<b>FoIA:</b>	N/A.
<b>Legal:</b>	N/A.
<b>Reputational:</b>	N/A.
<b>Resource:</b>	N/A.

Consultation	Yes	No	Who / why?
<b>Board Members:</b>		✓	
<b>Consumer Panel:</b>		✓	

<b>Others:</b>	
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<b>Recommendation(s):</b>
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The Board is invited to endorse the report about the activities of the Audit and Risk Assurance Committee during 2014/15.
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## LEGAL SERVICES BOARD

<b>To:</b>	Legal Services Board	
<b>Date of Meeting:</b>	27 May 2015	<b>Item:</b> Paper (15) 27

### Audit and Risk Assurance Committee – annual report 2014/15

#### Purpose

1. The Terms of Reference (**ToR**) for the Audit and Risk Assurance Committee provide that:

*the Chairman of the Committee will present to the Accounting Officer and the meeting of the Board that is scheduled to consider and to agree the LSB's Annual Report and Accounts for the preceding financial year a written report about the activity of the committee relevant to that financial year.*

#### Recommendation

2. The Board is invited to endorse the report about the activities of the Audit and Risk Assurance Committee during 2014/15.

#### Overview

3. The principal responsibilities of the Audit and Risk Assurance Committee (**the Committee**) are to review and to offer its views about such matters as may be referred to it by the Board or the Accounting Officer, or such other relevant matters as the Committee may determine, in accordance with its agreed ToR (**Annex A**).
4. In accordance with the ToR, this paper presents a written report about the activities of the Committee in the period 1 April 2014 to 31 March 2015, for the information of the Board and the Accounting Officer. The contents of the paper have been agreed by the Committee.
5. This paper is intended to inform the production of LSB's Annual Report and Accounts 2014/15 – in particular by supporting the Governance Statement – and represents good governance practice, as recommended by the 'Audit and Risk Assurance Committee Handbook'<sup>1</sup>, 'The Audit Committee Self-Assessment Checklist'<sup>2</sup>, 'The UK Corporate Governance Code'<sup>3</sup>, 'Corporate governance in central government departments: Code of good practice'<sup>4</sup> and 'Managing Public Money'<sup>5</sup>.
6. The Code of good practice, in particular requires Boards to ensure that effective arrangements are in place to provide assurance on risk management,

<sup>1</sup> 'Audit Committee Handbook' (HM Treasury, April 2013).

<sup>2</sup> 'The Audit Committee Self-Assessment Checklist' (National Audit Office, January 2012).

<sup>3</sup> 'The UK Corporate Governance Code' (Financial Reporting Council, September 2014)

<sup>4</sup> 'Corporate governance in central government departments: Code of good practice' (HM Treasury, July 2011).

<sup>5</sup> 'Managing Public Money' (HM Treasury, July 2013).

governance and internal control. In this respect, Boards are required to be advised independently by an Audit Committee and an internal audit service.

7. The principal responsibilities of the Committee are set out in agreed ToR, which are published on the LSB's website. These responsibilities include, as appropriate, receiving and considering reports from both independent internal and external auditors, respectively KPMG LLP (**the Internal Auditor**) and National Audit Office (**NAO**).

### **Membership and attendees**

8. The Chairman and other members of the Committee are appointed by the Board, in accordance with the Legal Services Act 2007 and the Committee's ToR. The quorum for a meeting of the Committee is three members, attending in person or, in exceptional circumstances, by other means.
9. The Members of the Committee in 2014/15 were:
  - Terry Babbs (Chairman) (Lay)
  - Marina Gibbs (Lay)
  - Anneliese Day QC (non- Lay) (covering the period from March to May 2014)
  - David Eveleigh (non-Lay)
  - Sir Michael Pitt (Board Chairman) (co-opted onto the Committee for the meeting on 13 May 2014)
10. As none of the Committee members have financial qualifications, the Committee was supported in its work by an external adviser, Philip Lindsell, a chartered accountant, who is appointed under contract. The Committee has agreed that Mr Lindsell's term of appointment will run until May 2015, and steps are being taken to appoint his successor in advance of the October 2015 meeting in the absence of a suitably qualified Board Member.
11. The Internal Auditor and NAO were represented, as appropriate, at meetings of the Committee. Regular attendees also included:
  - Chris Kenny (Board Member, Chief Executive and Accounting Officer until November 2014)
  - Richard Moriarty (Board Member, Chief Executive and Accounting Officer from February 2015)
  - Julie Myers (Corporate Director and Acting Accounting Officer November 2014 – February 2015)
  - Edwin Josephs (Director of Finance and Services)
12. The Secretary to the Committee was the Corporate Governance Manager. Other LSB colleagues attended as necessary, notably the Business Planning Associate who has responsibility for maintaining the corporate risk register.

## **Compliance with Terms of Reference**

13. The ToR require the Committee to meet at least three times a year. During 2014/15, the Committee met on the following dates:
  - 13 May 2014
  - 5 November 2014
  - 10 March 2015
14. A register of attendance at meetings is attached (**Annex B**).
15. In accordance with its ToR, the Committee monitors its own effectiveness in discharging its functions. At its meeting in March 2015, the Committee received and endorsed a fresh approach to assessing its effectiveness, based on the processes it undertook and the outcomes achieved. On the basis of the evidence put forward, the Committee was able to confirm that it had discharged the majority of its responsibilities in 2014/15, including in relation to governance, financial management and risk and controls. An action plan has been developed on the basis of 'The Audit Committee Self-Assessment Checklist' (National Audit Office, January 2012) to address areas for further development.
16. The Committee operated in a manner considered to be fully compliant with its ToR. Although the Committee was not quorate for its meeting in March 2015, as a result of the unavoidable absence of one of its members, that member provided written comments on all the papers on the agenda in advance of the meeting, and these were taken into account in the course of the Committee's discussions. All members subsequently endorsed in writing the decisions that were made at that meeting.
17. The Committee confirms to the Board that the ToR attached at **Annex A** remain current and that no changes are necessary at this time.

## **Main activities**

18. The Committee's activities in 2014/15 included:
  - full scrutiny and review of the LSB's Annual Report and Accounts 2013/14
  - review of the activities of the external auditors
  - review of the Internal Auditor's activities
  - risk management and controls, including annual review of the LSB Risk Management Strategy
  - review of the LSB Governance Manual
  - oversight of the Committee's business programme, ToR and its effectiveness/performance.
19. Members also met in private sessions with the external adviser, Internal Auditor and the NAO as required.

## **Audit services**

20. Internal and external audit services were provided, respectively, by KPMG LLP and NAO. During the year, the NAO subcontracted elements of its audit work in

respect of the LSB to BDO LLP. The NAO has contractual arrangements and safeguards in place to ensure that framework partners are independent, competent and objective.

21. The auditors were represented, as appropriate, at all meetings of the Committee.

#### *Internal Auditor*

22. The Committee approved resources for an Internal Audit Annual Plan, covering the relevant period, at its meeting on 5 November 2014. This was developed by the Internal Auditor, in consultation with Members and the Executive.

23. Internal audit work carried out in 2014/15 was as follows:

- **Payroll** – this report reviewed the LSB’s practices for processing payroll data, and included sample testing of exception reports. The review was graded as providing significant assurance. One low priority recommendation was made relating to the need for overt reconciliation between the general ledger and payroll. This recommendation was accepted.
- **Approval of practising certificate fees** – this report considered the extent to which the provisions of section 51 of the Legal Services Act are reflected within the LSB’s Practising Certificate Fee Rules, and applied in practice. The review found, following sample testing, that the LSB ensured that approved regulators provide the required information, and that appropriate records are maintained. One low priority recommendation was made in relation to one case where the three week internal target for responding to an application was missed as a result of the Chief Executive’s absence on annual leave. The recommendation was part accepted, in that the application could have been dealt with on time, as the authority to do so had in fact been delegated.

24. The Internal Auditor’s Draft Annual Report and Opinion 2014/15 was presented to the Committee on 10 March 2015. It concluded, in relation to the work undertaken, that the auditors had reasonable assurance as to the adequacy and effectiveness of the LSB’s internal control and governance processes within the areas of core financial systems and governance and risk management.

#### *National Audit Office*

25. The Committee received and considered the NAO’s Audit Completion Report 2014/15 at its meeting on 13 May 2015.

26. A final draft version of the LSB’s Annual Report and Accounts 2014/15 was considered by the Committee at their meeting on 13 May before recommendation to the Board for consideration at this meeting.

27. The Committee noted the contents of the NAO’s Planning Report for 2014/15 at its meeting on 10 March 2015. It noted that the interim audit had already been completed as planned, and no particular risks had been identified in respect of the LSB’s management of controls. The Executive continues to work with NAO and the Ministry of Justice to identify a suitable legislative vehicle for the

necessary amendment to the Legal Services Act 2007 to find a permanent solution to the treatment of the LSB's levy income. This is to confirm the current practice whereby the LSB retains all amounts received through the levy and any prescribed fees, rather than passing these over to the Consolidated Fund and then having the same amounts returned to it by the MoJ.

## **Performance and reporting**

### *Performance*

28. The review of performance and effectiveness is informed by the Committee's assessment of its performance against good governance practice, as recommended by, amongst other things, the 'Audit and Risk Assurance Committee Handbook' and 'The Audit Committee Self-Assessment Checklist'.
29. The Committee's current ToR were reviewed by the Board at their meeting in November 2014, as part of the scheduled annual review of LSB's governance arrangements. No substantive changes were recommended at that stage.

### *Reporting*

30. The written reports of all meetings of the Committee were presented to the subsequent meeting of the Board, supplemented as required by verbal updates from the Chairman of the Committee.
31. In addition, this written report about the activities of the Committee in 2014/15 will be presented to the Board on 27 May 2015.

## **Forward look to 2015/16**

32. The Committee will continue to operate in accordance with its agreed ToR and annual business programme. An updated version of the annual business programme for 2015/16 is attached at **Annex C**.
33. Finally, the Committee will continue with efforts to further improve its own performance, making full use of its new effectiveness self-assessment tool and action plan.

## **Conclusion**

34. The Committee concludes that its activities in 2014/15, including its rigorous challenge of the Executive and the auditors, were sufficient to provide assurance that there were effective arrangements in place to provide assurance on risk management, governance and internal control to the Accounting Officer and to the Board.
35. The Committee is grateful for the support and advice it received in 2014/15 from Philip Lindsell, the Internal Auditor, NAO, Richard Moriarty, Julie Myers, Edwin Josephs, Jenny Hart and other past and present members of the Executive.

## Audit and Risk Assurance Committee

### Terms of Reference

#### Responsibilities

- 1) The Board has established an Audit and Risk Assurance Committee<sup>6</sup> to review and to offer its views about such matters as may be referred to it by the Board or the Accounting Officer or such other relevant matters as the Committee may determine, in accordance with these Terms of Reference<sup>7</sup>.
- 2) These matters may include, but are not limited to:
  - a) risk management, financial and other controls, governance and the Statement on Internal Control;
  - b) the annual budget of LSB;
  - c) the accounting policies, the accounts and the annual report of LSB, including the process for reviewing the accounts prior to submission for audit, levels of error identified and management's letter of representation to the external auditor;
  - d) proposals for tendering for internal audit services or for the purchase of non-audit services from contractors who provide audit services;
  - e) the planned activity and results of both internal and external audit;
  - f) the adequacy of management's response to issues identified by audit activity, including the external auditor's management letter;
  - g) assurances offered by the Executive relating to the corporate governance requirements for LSB;
  - h) an annual review of Board Members and senior colleagues' expenses;
  - i) anti-fraud policies, whistle-blowing processes and arrangements for special investigations; and
  - j) the outcomes of its periodic reviews of its own effectiveness and these terms of reference.

#### Authorities

- 3) The Committee is authorised by the Board:
  - a) to investigate any activity or topic covered by these Terms of Reference;
  - b) to demand any information it requires from LSB colleagues, all of whom are directed to co-operate with any request for such information; and
  - c) to procure at the expense of LSB external financial, legal or other independent professional advice or training, subject to budgets agreed by the Board.

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<sup>6</sup> Legal Services Act 2007, Schedule 1, para. 20(1).

<sup>7</sup> *Ibid.*, para. 21.



## **Membership**

- 4) The Committee and its Chair will be appointed by the Board from amongst its ordinary, non-executive Members<sup>8</sup>.
- 5) A majority of the Committee's Members will be lay persons<sup>9</sup>.

## **Access**

- 6) The internal and external auditors will have free and confidential access to the Chairman of the Committee.

## **Meetings**

- 7) The Committee will meet at least three times a year.
- 8) The quorum for a meeting of the Committee will be three Members<sup>10</sup>, attending in person or, in exceptional circumstances, by telephone or video-conferencing facility and decisions may also be made or ratified following a suitable exchange of correspondence, either electronically or in hard copy. A lay majority is required for all decisions. Where a meeting is not quorate it will nevertheless go ahead, with decisions to be ratified at the next meeting of the Committee or the full Board as appropriate.
- 9) The Accounting Officer, the Director of Finance and Services and normally not more than two representatives of each of the internal and external auditors will attend meetings of the Committee. The Chairman of the Board and other Board Members will have a standing invitation to attend meetings of the Committee. Other LSB colleagues will attend meetings at the invitation or direction of the Committee or the Accounting Officer.
- 10) The Committee will have the right to direct those attending a meeting to withdraw to facilitate the open and frank discussion of particular matters. In particular, the Committee may direct all LSB colleagues to withdraw during private discussions with either or both the internal and external auditors.
- 11) A Board Member or the internal and external auditors may request the Chairman of the Committee to convene an additional meeting of the Committee.
- 12) The Corporate Governance Manager, in the capacity of Board Secretary, will be secretary to the Committee.

## **Reporting**

- 13) Draft minutes of each meeting will be circulated by the Corporate Governance Manager within five working days of each meeting.
- 14) The minutes and papers of each meeting of the Committee will be circulated to the Board.

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<sup>8</sup> *Ibid.*, para. 20(3), restricts the membership of the Committee only to Board Members.

<sup>9</sup> *Ibid.*, para. 20(4).

<sup>10</sup> *Ibid.*, para. 21(2).

- 15) The Chairman of the Committee will present a written report about each meeting of the Committee to the next available meeting of the Board.
- 16) The Chairman of the Committee will present to the Accounting Officer and the meeting of the Board that is scheduled to consider and to agree the LSB's Annual Report and Accounts for the preceding financial year a written report about the activity of the committee relevant to that financial year.

Approved by the Board on 26 November 2014

## Register of attendance at meetings of the Committee

	13 May 2014	5 Nov 2014	10 Mar 2015
<b>Members</b>			
Terry Babbs	✓	✓	✓
Anneliese Day QC	✓		
Marina Gibbs		✓	✓
David Eveleigh		✓	X
Sir Michael Pitt*	✓		
<b>Advisors</b>			
Philip Lindsell	✓	✓	✓
Internal Auditor	✓	✓	✓
NAO	✓	✓	✓
<b>Attendees</b>			
Chris Kenny	✓	✓	
Richard Moriarty			✓
Julie Myers	X	✓	✓
Edwin Josephs	✓	✓	✓

- ✓ Present
- X Apologies submitted
- \* co-opted

**Audit and Risk Assurance Committee  
Annual Business Programme**

<b>Meeting</b>	<b>Specific items of business</b>	<b>General items of business *</b>
October 2015	<ul style="list-style-type: none"> <li>• Consider and endorse budget / Business Plan proposals for consultation for the year commencing 1 April 2016</li> <li>• Consider the lessons learned from the annual reporting process 2014/15</li> <li>• Review LSB Governance Manual</li> <li>• Continuous review of the Committee's effectiveness</li> </ul>	<ul style="list-style-type: none"> <li>• Consider internal audit reports (as per the Internal Audit Plan)</li> <li>• Review Corporate Risk Register and test the adequacy of a random sample of mitigation actions</li> <li>• Review one or more corporate policies (as per the Register of Corporate Policies)</li> </ul>
March 2016	<ul style="list-style-type: none"> <li>• Consider and endorse the budget for the year commencing 1 April 2016</li> <li>• Consider and agree the Internal Audit Plan for the year commencing 1 April 2016</li> <li>• Annual review of the Committee's effectiveness and its Terms of Reference</li> </ul>	
May 2016	<ul style="list-style-type: none"> <li>• Consider and endorse the Annual Report and Accounts for the year ending 31 March 2016</li> <li>• Consider the external auditor's report and management letter</li> <li>• Receive the final Head of Internal Audit Opinion</li> </ul>	

\* General items of business will be presented on a case-by-case basis, subject to the directions of the Committee, the programme agreed with the internal auditor, and the capacity of the Executive.