

To:	Legal Services Board	
Date of Meeting:	26 May 2016	Item: Paper (16) 37

Title:	Annual Report of the ARAC 2015/16	
Author / Introduced by:	Terry Babbs, Chair, Audit and Risk Assurance Committee (ARAC)	
Status:	Official	

Summary:
<p>The Terms of Reference (ToR) for the Audit and Risk Assurance Committee (ARAC) provide that:</p> <p style="text-align: center;"><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 the Committee's report about its activities for the period 1 April 2015 to 31 March 2016. The content of this report is reflected in the LSB's Annual Report and Accounts 2015/16 – in particular the <i>Governance Statement</i> – and it represents governance best practice. Timing did not permit this report to be presented to the Board at the same time as the Board considered its Annual Report and Accounts as required by the ToR.</p> <p>The Committee is required to provide a statement as to how it considers it has performed during 2015/16. 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>

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

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

Others:	
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Recommendation(s):

The Board is invited to note the report about the activities of the Audit and Risk Assurance Committee during 2015/16.
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LEGAL SERVICES BOARD

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Audit and Risk Assurance Committee – annual report 2015/16

Purpose

1. The Terms of Reference (**ToR**) for the Audit and Risk Assurance Committee (ARAC) 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 ARAC during 2015/16.

Overview

3. The principal responsibilities of ARAC (**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 2015 to 31 March 2016, for the information of the Board and the Accounting Officer. The contents of the paper have been agreed by the Committee.
5. The content of this paper supports the LSB's Annual Report and Accounts 2015/16 – in particular the Governance Statement – and represents good governance practice, as recommended by the 'Audit and Risk Assurance Committee Handbook'¹, 'The Audit Committee Self-Assessment Checklist'², 'The UK Corporate Governance Code'³, 'Corporate governance in central government departments: Code of good practice'⁴ and 'Managing Public Money'⁵.
6. The Code of good practice, in particular requires Boards to ensure that effective arrangements are in place to provide assurance on risk management,

¹ 'Audit Committee Handbook' (HM Treasury, April 2013).

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

³ 'The UK Corporate Governance Code' (Financial Reporting Council, September 2014)

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

⁵ '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 the 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 2015/16 were:
 - Terry Babbs (Chairman) (Lay)
 - Marina Gibbs (Lay)
 - David Eveleigh (non-Lay)
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, supported the Committee at their meetings in May and October 2015. In line with good practice the Committee changed its adviser and from November 2015 John Ward, also a chartered accountant, took on the role of external adviser to the Committee.
11. The Internal Auditor and NAO were represented, as appropriate, at meetings of the Committee. Regular attendees also included:
 - Richard Moriarty (Board Member, Chief Executive and Accounting Officer (until January 2016))
 - Neil Buckley (Board Member, Chief Executive and Accounting Officer (from January 2016))
 - Julie Myers (Corporate Director)
 - 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 Jenny Hart (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 2015/16, the Committee met on the following dates:
 - 13 May 2015
 - 13 October 2015

- 10 March 2016.

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. The Committee receives an update, at each meeting, on its progress in meeting the duties set out in its ToR. An action plan has also 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, and was quorate for all meetings.
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 2015/16 included:
 - full scrutiny and review of the LSB's Annual Report and Accounts 2014/15
 - 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, and oversight of the adoption of inherent scoring
 - review of the LSB Governance Manual, including the recommendation to include the LSB's whistleblowing policies within the Manual
 - review of the LSB's information governance policies
 - 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 used a *framework partner* BDO LLP to undertake the detailed work to support the C&AG's opinion. 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 noted the Internal Audit Annual Plan, covering the relevant period, at its meeting on 13 October 2015, and recommended that the Plan be reviewed by the incoming Chief Executive following his arrival in January 2016.
23. Internal audit work carried out in 2015/16 was as follows:

- **Research procurement** – the aim of this review was to assess whether the LSB have appropriate overarching processes in place to ensure that research is being procured appropriately and in line with the LSB’s procurement framework. The internal auditors reported a rating of *significant assurance* with no recommendations for process improvement- the highest assurance rating available.
- **Business continuity (BC)** – the objective of this review was to assess the LSB’s business continuity arrangements, both from an operational and IT perspective. It aimed to assess governance arrangements to ensure commitment and leadership in implementing the arrangements across the organisation, processes for developing and maintaining the plans, and the training and communication provided to support the written plans. The auditors reported a rating of *significant assurance with minor improvement opportunities*. In total, two medium recommendations (one about formal training and the other about a formal schedule of testing) and three low priority recommendations were made. The three minor priority recommendations were including business continuity responsibilities in job descriptions, separating the BC strategy document and clearly marking version control on the face of the documents.

24. The Internal Auditor’s Draft Annual Report and Opinion 2015/16 was sent to the Accounting Officer out of Committee and presented to the Committee on 12 May 2016. 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 business continuity and research procurement.

National Audit Office

25. The Committee received and considered the NAO’s Audit Completion Report 2015/16 at its meeting on 12 May 2016.
26. A final draft version of the LSB’s Annual Report and Accounts 2015/16 was considered and scrutinised by the Committee at their meeting on 12 May. It is proposed that the Report be laid before Parliament during the week of 23 May, although it is likely that this will be postponed as a result of the EU referendum.
27. The Committee noted the contents of the NAO’s Planning Report for 2015/16 at its meeting on 12 March 2016. It noted that the interim audit had 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 income.

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 2015, as part of the scheduled annual review of LSB's governance arrangements. No major 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 Chair of the Committee.
31. In addition, this written report about the activities of the Committee in 2015/16 will be presented to the Board on 26 May 2016.

Forward look to 2016/17

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 2016/17 is attached at **Annex C**.
33. Finally, the Committee will continue with efforts to further improve its own performance, making full use of its effectiveness self-assessment tool and action plan.

Conclusion

34. The Committee concludes that its activities in 2015/16, 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 2015/16 initially from Philip Lindsell, and then John Ward, the Internal Auditor, NAO, Richard Moriarty, Neil Buckley, 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 Committee⁶ 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 Reference⁷.
- 2) These matters may include, but are not limited to:
 - a) risk management, financial and other controls, and the Governance Statement;
 - 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;

⁶ Legal Services Act 2007, Schedule 1, para. 20(1).

⁷ *Ibid.*, para. 21.

- 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; and
- d) to appoint, remove and approve the terms and conditions of appointment of professional advisers to the Committee.

Membership

- 4) The Committee and its Chair will be appointed by the Board from amongst its ordinary, non-executive Members⁸.
- 5) A majority of the Committee's Members will be lay persons⁹.

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 Members¹⁰, 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.

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

⁹ *Ibid.*, para. 20(4).

¹⁰ *Ibid.*, para. 21(2).

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.
- 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 2015

Register of attendance at meetings of the Committee

	13 May 2015	13 Oct 2015	10 Mar 2016
Members			
Terry Babbs	✓	✓	✓
Marina Gibbs	✓	✓	✓
David Eveleigh	✓	✓	✓
Advisors			
Philip Lindsell	✓		
John Ward			✓
Internal Auditor	✓	✓	✓
NAO	✓	✓	✓
Attendees			
Richard Moriarty	✓	✓	
Neil Buckley			✓
Julie Myers	X	✓	✓
Edwin Josephs	✓	✓	X

- ✓ Present
- X Apologies submitted

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

Meeting	Specific items of business	General items of business *
October 2016	<ul style="list-style-type: none"> • Consider and endorse budget / Business Plan proposals for consultation for the year commencing 1 April 2017 • Consider the lessons learned from the annual reporting process 2015/16 • Review LSB Governance Manual • Continuous review of the Committee's effectiveness 	<ul style="list-style-type: none"> • Consider internal audit reports (as per the Internal Audit Plan) • Review Corporate Risk Register and test the adequacy of a random sample of mitigation actions • Review one or more corporate policies (as per the Register of Corporate Policies)
March 2017	<ul style="list-style-type: none"> • Consider and endorse the budget for the year commencing 1 April 2017 • Consider the Internal Audit Plan for the year commencing 1 April 2017 • Annual review of the Committee's effectiveness and its Terms of Reference 	
May 2017	<ul style="list-style-type: none"> • Consider and endorse the Annual Report and Accounts for the year ending 31 March 2017 • Consider the external auditor's report and management letter • Receive the final Head of Internal Audit Opinion 	

* 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.