

To:	LSB Board	Agenda item no: 18
Date of Meeting:	28 April 2017	Item: Paper (17) 33

Title:	Annual Report of the work of the ARAC 2016/17
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Status:	Official

Summary:
<p>This paper presents a report of the activities of the Audit and Risk Assurance Committee (ARAC) for the period 1 April 2016 to 31 March 2017, for noting by the Board at its meeting on 28 April 2017.</p> <p>This report is intended to inform the LSB's Annual Report and Accounts 2016/17 – in particular by supporting the Governance Statement – and represents governance best practice.</p> <p>The Committee is required to provide a statement as to how it considers it has performed during 2016/17. The report concludes that the Committee's activities during the year, including rigorous challenge of the Executive, and provision of 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 assurance matters.</p>

Recommendation(s):
The Board is invited to NOTE the work undertaken by ARAC over the year.

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:			

LEGAL SERVICES BOARD

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Annual Report of the work of the ARAC 2016/17

Recommendation

1. The Board is invited to **NOTE** the work undertaken by the ARAC over the year.

Background

2. 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.
3. In accordance with the Terms of Reference (ToR), this paper presents a written report about the activities of the Committee in the period 1 April 2016 to 31 March 2017, for the information of the Board and the Accounting Officer.
4. The content of this paper supports the LSB's Annual Report and Accounts 2016/17 – 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.
5. The Code of good practice, in particular requires Boards to ensure that effective arrangements are in place to provide assurance on risk management, governance and internal control. In this respect, Boards are required to be advised independently by an Audit Committee and an internal audit service.
6. The principal responsibilities of the Committee are set out in their ToR, which are published on the LSB's website. These responsibilities include, as appropriate, receiving and considering reports from both internal and external auditors, respectively KPMG LLP (**the Internal Auditor**) and the National Audit Office (**NAO**).

Membership and attendees

7. The Chairman, a non-executive Board member, 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 Chair of the Board does not sit on ARAC. The quorum for a meeting of the Committee is three members, attending in person or, in exceptional circumstances, by other means.

¹ 'Audit Committee Handbook' (HM Treasury, published May 2013, updated 4 April 2016).

² 'The Audit Committee Self-Assessment Checklist' (National Audit Office, 2nd edition 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 with annexes revised as at August 2015).

8. The Members of the Committee in 2016/17 were:
 - Terry Babbs (Chairman) (Lay)
 - Marina Gibbs (Lay)
 - David Eveleigh (non-Lay)
 - Catharine Seddon (Lay) *from 1 January 2017*
9. As none of the Committee members have financial qualifications, the Committee was supported in its work throughout the year by an external adviser, John Ward, a chartered accountant.
10. The Internal Auditor and NAO were represented, as appropriate, at meetings of the Committee. Regular attendees were:
 - Neil Buckley (Board Member, Chief Executive and Accounting Officer)
 - Julie Myers (Corporate Director)
 - Edwin Josephs (Director of Finance and Services)
11. The Secretary to the Committee was the Corporate Governance Manager. Other LSB colleagues attended as necessary, notably Jenny Prior (Business Planning Associate) who has responsibility for ensuring risk owners update and maintain the corporate risk register.

Compliance with Terms of Reference

12. The ToR require the Committee to meet at least three times a year. During the year, the Committee met on the following dates:
 - 12 May 2016
 - 5 October 2016
 - 10 March 2017
13. A register of attendance at meetings is attached (**Annex B**).
14. 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.
15. The Committee operated in a manner considered to be fully compliant with its ToR, and was quorate for all meetings.
16. 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

17. The Committee's activities in 2016/17 included:
 - full scrutiny and review of the LSB's Annual Report and Accounts 2015/16
 - review of the activities of the external auditors

- review of the internal auditor's activities
- scrutiny of the process of 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
- scrutiny of the Grant Thornton report into OLC governance to identify any areas of learning for LSB
- oversight of the Committee's business programme, review of its ToR and its effectiveness/performance.

18. Members also met in private sessions with the external adviser, internal and external auditors as required.

Audit services

19. 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.

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

Internal Audit

21. The Committee reviewed the *Internal Audit Annual Plan*, covering the relevant period, at its meeting on 10 March 2017.

22. The Internal audit work programme covered:

- Risk management
- Finance systems
- LSB's approach to the oversight of regulator performance

National Audit Office

23. The Committee reviewed the Audit Planning Report for 2016/17 at its March meeting and would receive and consider the NAO's Audit Completion Report for 2016/17 at its meeting in May 2017.

24. A final version of the LSB's Annual Report and Accounts 2016/17 would be considered by the Committee at their meeting in May 2017. The Report would then be laid before Parliament and this was expected to be before the end of May 2017. As in the previous years, the Board would provide approval of the Report, out of Committee, following any further amendments as a result of final scrutiny by the Committee.

25. The Committee noted the contents of the NAO's Audit Completion Report for the 2015/16 year at its meeting on 12 May 2016:

- a. An issue had been raised about the accounting treatment of a refund of legal costs incurred in prior years, but that issue had been successfully resolved
- b. The NAO recommended that the LSB prepare a more comprehensive return for *related party transactions*, which asks Board members to declare all external interests (e.g. company directorships)

- c. The NAO noted that the Executive continued 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 (the Act) to find a permanent solution to the treatment of the LSB's income.
26. At its March 2017 meeting, the Committee were disappointed to learn that that there had been no progress from MoJ on finding a suitable legislative vehicle to make the necessary amendment to the Act regarding treatment of LSB income, and that there was no expectation of this being resolved at any time soon. The Committee sought assurances from the NAO that this would not invalidate the position they had taken to date on the issue in point c) of the previous paragraph

Performance and reporting

Performance

27. 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'.
28. The Committee's current ToR was reviewed by the Board at their meeting in November 2016, as part of the scheduled annual review of LSB's governance arrangements. The Committee did not recommended any changes.

Reporting

29. 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.

Forward look to 2017/18

30. The Committee will continue to operate in accordance with its agreed ToR and annual business programme and plan to set aside additional time to allow a 'deep dive' on specific performance or financial matters to provide additional assurance to the Board. A work programme for 2017/18 is attached at **Annex C**.
31. Finally, the Committee will continue with efforts to further improve its own performance, consider future training needs and making full use of its effectiveness self-assessment tool and action plan.

Conclusion

32. The Committee concluded that its activities in 2016/17, 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.
33. The Committee was grateful for the support and advice it received from John Ward, KPMG, NAO, Neil Buckley, Julie Myers, Edwin Josephs and Jenny Prior.

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) considering and scrutinising a draft of 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;
 - 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

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

⁷ *Ibid.*, para. 21.

- 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 Corporate Director, 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 Board Chair shall attend no more than one ARAC meeting in each year, thus strengthening the independence of the Committee. Board Members will have a standing invitation to attend meetings of the Committee, and will receive a full set of Committee papers prior to each meeting. 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. 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.

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).

- 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 appropriate 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 October 2016

Annex B | Register of attendance at meetings of the Committee

1=Present

0=Apologies submitted

ARAC Member		12 May 2016	5 October 2016	10 March 2017
Terry Babbs	Chair of ARAC	1	1	1
David Eveleigh		0	1	1
Marina Gibbs		1	1	1
Catharine Seddon	Appointed 1 January 2017 First meeting 10 March 2017			1
<i>[Michael Smyth – as observer only]</i>	<i>Will be a member from 1 April 2017</i>			<i>1 [as observer]</i>
Neil Buckley	CEO/Executive	1	1	1
Julie Myers		1	1	1
Edwin Josephs		1	1	1
John Ward	Advisor	1	1	1
NAO	External auditor	1	1	1
KPMG LLP	Internal auditor	1	1	1
BDO (LLP) UK	NAO framework partner BDO LLP	1	1	1

LSB AUDIT AND RISK ASSURANCE COMMITTEE (“ARAC”)

SCHEDULE OF WORK FOR 2017/18

Meeting Date	Tuesday 9 May 2017	Monday 2 October 2017	March 2018	May 2018
<i>Pre-Agenda Chair Meeting</i>	Tuesday 18 April 2017	Friday 22 September 2017 New Chair	[date tbc]	[date tbc]
<i>Papers Sent out to Members</i>	Tuesday 2 May 2017	Monday 25 September 2017	[date tbc]	[date tbc]
Finance	N/A	Finance Report [<i>Inc. bringing to ARAC’s attention to any changes to policies and guidance, Accounting Officer Letters, Treasury Publications etc.</i>] Review prior to Board [EJ]	Finance Report [<i>Inc. bringing to ARAC’s attention to any changes to policies and guidance, Accounting Officer Letters, Treasury Publications etc.</i>] Review prior to Board [EJ]	N/A
Performance Process (assurance)	Performance Process: Review and Assurance Review [NB]	Performance Process: Review and Assurance Review [NB]	Performance Process: Review and Assurance Review [NB]	Performance Process: Review and Assurance Review [NB]
Annual Report and Accounts Lay 3rd week in May (subject to external auditor NAO)	Annual Report and Accounts ARAC: to scrutinise before AO signs [EJ/JM/NB]	N/A	Draft LSB Annual Report and Accounts <i>Project Plan and Early Drafts of Annual Report for coming year</i> Review prior to Board [EJ/JM/NB]	Annual Report and Accounts ARAC: to scrutinise before AO signs [EJ/JM/NB]
Business Planning Budget Setting	N/A	BUDGET SUB-GROUP: Business Plan and Budget for coming year Draft Indicative Budget proposal with supporting information for coming year Review [EJ/JM/NB]	BUDGET SUB-GROUP: Business Plan and Budget for coming year <i>Second Review following any changes as a result of stakeholder consultation, then Endorse and Recommend to the Board at their March meeting</i> Review, Endorse and Recommend to the Board [EJ]	N/A
Internal Auditor: KPMG LLP	Internal Audit Annual Report and Opinion and any reports issued since the last meeting [Internal Auditor] Review [EJ]	Internal Audit Plan for coming financial year, if already agreed with AO ARAC: provide advice to AO [NB]	Internal Audit Any updates on audits in progress or reports issued since the last meeting Review [Internal Auditor]	Internal Audit Annual Report and Opinion and any reports issued since the last meeting [Internal Auditor] Review [EJ]
External Auditor: NAO BDO LLP	External Audit Completion report for 2016/17 financial year and management letter [Formal requirement] [External Auditor]	Lessons learnt from audit of last ARA Forward look at possible reporting changes for next financial year	External Audit Audit Planning Report Review [External Auditor]	External Audit Completion report for 2017/18 financial year and management letter [Formal requirement] [External Auditor]
Corporate Risk <i>[Executive own risk register; ARAC review; Board 6 monthly review May & Nov]</i>	Corporate Risk Register incl. Emerging Risks [<i>eg people; information breaches, etc</i>] Review prior to Board [JP/JM]	Corporate Risk Register incl. Emerging Risks [<i>eg people; information breaches, etc</i>] Risk Management Strategy Review, Endorse and Recommend to the Board [JP/JM]	Corporate Risk Register incl. Emerging Risks [<i>eg people; information breaches, etc</i>] Review [JP/JM]	Corporate Risk Register incl. Emerging Risks [<i>eg people; information breaches, etc</i>] Review prior to Board [JP/JM]
Internal Governance	Annual Review of Expenses as they relate to Board, OLC, Consumer Panel and SLT Review [EJ] Corporate Policy : <i>Publication Scheme</i> Review [TW/JM]	Governance Manual Annual Review [<i>captures majority of LSB corporate policies</i>] Review, Endorse and Recommend to the Board [TW/JM]	ARAC’s Annual Review of Effectiveness and ARAC’s Annual Report Review, Endorse and Recommend to Board Agree updated framework [TW/JM]	Annual Review of Expenses as they relate to Board, OLC, Consumer Panel & SLT Expenses Review [EJ]