

<b>To:</b>	Legal Services Board	
<b>Date of Meeting:</b>	26 March 2019	<b>Item:</b> Paper (19) 17 (ii)

<b>Title:</b>	Annual Report of ARAC 2018/19	
<b>Author / Introduced by:</b>	Terry Babbs, Chair of ARAC	
<b>Status:</b>	Official	

**Summary:**

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

*‘The Chair 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’*

This paper presents the report of the activities of the ARAC for the period 1 April 2018 to 31 March 2019, for consideration by the Board at its meeting on 26 March 2019.

The content of this report is reflected in the LSB’s Annual Report and Accounts 2018/19 – in particular the *Governance Statement*, which is part of the *Accountability section* – and it represents governance best practice.

The Committee is required to provide a statement as to how it considers it has performed during 2018/19. The report concludes that the Committee’s activities during the year under report included rigorous challenge of the Executive, and provision of sound advice to the Accounting Officer, which were sufficient to provide assurance to the Board that there were effective arrangements in place in relation to audit and risk matters.

The Committee also confirms to the Board that its Terms of Reference, attached at Annex A, remain current. These were last reviewed as part of the 2018 Governance Manual Review – agreed by the Board on 29 November 2018.

**Recommendation:**

The Board is invited to **note** the work undertaken by ARAC over the year and its contribution to the LSB’s Annual Report and Accounts for 2018/19.

<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.

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

## LEGAL SERVICES BOARD

<b>To:</b>	Legal Services Board	
<b>Date of Meeting:</b>	26 March 2019	<b>Item:</b> Paper (19) 17 (ii)

### Audit and Risk Assurance Committee – annual report 2018/19

#### Executive Summary

#### Recommendation

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

*‘The Chair 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’*

2. The Board is invited to note the report about the activities of the Audit and Risk Assurance Committee during 2018/19, which was approved by ARAC at its meeting on 12 March 2019 meeting.

#### DRAFT REPORT FOR 2018/19

#### 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 2018 to 31 March 2019, for the information of the Board and the Accounting Officer.
5. The content of this paper supports the LSB’s Annual Report and Accounts 2018/19 – in particular 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, published May 2013, updated 4 April 2016).

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

<sup>3</sup> ‘The UK Corporate Governance Code’ (Financial Reporting Council, July 2018)

<sup>4</sup> ‘Corporate governance in central government departments: Code of good practice’ (HM Treasury, 2017).

<sup>5</sup> ‘Managing Public Money’ (HM Treasury, July 2013 with annexes revised as at August 2015).

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 Chair 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 2018/19 were:
  - Terry Babbs (Chairman) (Lay)
  - Marina Gibbs (Lay)
  - Catharine Seddon (Lay)
  - Michael Smyth (non-Lay)
10. As none of the Committee members have financial qualifications, the Committee was supported in its work by an external adviser. John Ward, a chartered accountant, at their meetings throughout 2018/19.
11. The Internal Auditor and NAO were represented, as appropriate, at meetings of the Committee. Regular attendees also included:
  - Neil Buckley (Board Member, Chief Executive and Accounting Officer)
  - Holly Perry (Head of Corporate Services) (from March 2018)
  - Rusere Shoniwa (interim 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 particular responsibility for ensuring risk owners update and maintain the corporate risk register.

### **Compliance with Terms of Reference**

13. The ToR require the Committee to meet at least three times a year. During 2018/19, the Committee met on the following dates:
  - 21 May 2018
  - 2 October 2018
  - 8 November 2018 (this was an extraordinary meeting)
  - 12 March 2019
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 a regular update on its progress in meeting the duties set out in its ToR.
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 ongoing activities in 2018/19 included:
  - full scrutiny and review of the LSB's Annual Report and Accounts 2017/18;
  - review of the activities of the external auditors;
  - review of the internal auditor's activities;
  - risk management and controls, including the annual review of the LSB Risk Management Strategy, and oversight of the adoption of a board portal system;
  - review of the LSB Governance Manual; and
  - oversight of the Committee's business programme, ToR and its effectiveness/performance.
19. Specific activities and matters considered in 2018/19 included:
  - a deep dive in relation to LSB relations with the MoJ;
  - the introduction of assurance mapping into the LSB;
  - an update on the LSB's IT contract tender process and planned IT transformation;
  - an update on the LSB's planned office move;
  - a deep dive in relation to LSB data management practices;
  - a review of FoI requests received by the LSB in 2017/18; and
  - a deep dive in relation to appointments and recruitment
20. Members also met in private sessions with the external adviser, internal and external auditors as required.

### **Audit services**

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

### *Internal Auditor*

23. The Committee noted the *Internal Audit Annual Plan*, covering the relevant period, at its meeting on 12 March 2019, having considered it out of committee in December 2018.

24. The Internal audit work programme covered:

- Data management;
- Financial management; and
- IT transformation and office move

#### *National Audit Office*

25. The Committee is due to receive and consider the NAO's Audit Completion Report 2018/19 at its meeting on 21 May 2018.

26. A final version of the LSB's Annual Report and Accounts 2018/19 is to be considered by the Committee at its meeting on 28 May 2019. The Report will then be laid before Parliament before the summer recess, with the Board approving the Report, out of Committee, following any further amendments as a result of final scrutiny by the Committee.

27. The Committee noted the contents of the NAO's Audit Completion Report for the previous year 2017/18 at its meeting on 21 May 2018, at which it was reported that:

- the audit work had been completed and an unqualified audit opinion, without modification, would be given by the Comptroller and Auditor General (C&AG).
- an action from the previous year's audit completion report concerning to related party transactions declarations had been actioned and was now closed;
- there were no concerns in relation to fraud risk.

## **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 was reviewed by the Board at their meeting on 29 November 2018, as part of the scheduled annual review of LSB's governance arrangements. Some very minor changes were agreed.

### *Reporting*

30. Written reports of all meetings of the Committee were presented to the subsequent meeting of the Board, supplemented as required by oral updates from the Chair of the Committee.

31. In addition, this written report about the activities of the Committee in 2018/19 will be presented to the Board at its 26 March 2019 meeting.

## **Forward look to 2019/20**

32. The Committee will continue to operate in accordance with its agreed ToR and annual business programme. A work programme for 2019/20 is attached at **Annex C**. In addition, the Committee will gain a new Chair following the departure of Terry Babbs at the end of March 2019.

33. Finally, the Committee will continue with efforts to further improve its own performance, making use of its effectiveness self-assessment tool and action plan.

### **Conclusion**

34. The Committee concluded that its activities in 2018/19, 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 wishes to thank Terry Babbs for his term as Chair of ARAC, on his retirement from the Board at the end of March 2019. The Committee is indebted to Terry for his focus, rigour and scrutiny over his years in the role, and wishes him well for the future.

## Terms of Reference<sup>i</sup>

### Audit and Risk Assurance Committee (ARAC)

#### Responsibilities

- 1) The Board has established an Audit and Risk Assurance Committee<sup>ii</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>iii</sup>.
- 2) These matters may include, but are not limited to:
  - risk management, financial and other controls, and the Governance Statement;
  - considering and scrutinising a draft of the annual budget of the LSB;
  - the accounting policies, the accounts and the annual report of the 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;
  - proposals for tendering for internal audit services or for the purchase of non-audit services from contractors who provide audit services;
  - the planned activity and results of both internal and external audit;
  - the adequacy of management's response to issues identified by audit activity, including the external auditor's management letter;
  - assurances offered by the Executive relating to the corporate governance requirements for the LSB;
  - an annual review of Board Members' and senior colleagues' expenses;
  - anti-fraud policies, whistle-blowing processes and arrangements for special investigations; and



- the outcomes of its periodic reviews of its own effectiveness and these terms of reference.

### **Authorities**

- 3) The Committee is authorised by the Board to:
  - investigate any activity or topic covered by these Terms of Reference;
  - request any information it requires from the colleagues, all of whom are directed to co-operate with any request for such information;
  - obtain at the expense of the LSB, external financial, legal or other independent professional advice or training, subject to budgets agreed by the Board; and
  - 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 Members<sup>iv</sup> and the period of appointment to the Committee shall be agreed by the Chair of the Board.
- 5) A majority of the Committee's Members will be lay persons<sup>v</sup>.
- 6) The Chair of the Board may not be a member of the Committee.
- 7) The Chair of the Committee may not also be the Chair of the Remuneration and Nomination Committee.

### **Access**

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

### **Meetings**

- 9) The Committee will meet at least three times a year.
- 10) The quorum for a meeting of the Committee will be three Members<sup>vi</sup>, attending in person or, in exceptional circumstances, by telephone or video-conferencing facility and decisions may be made or ratified following a suitable exchange of correspondence, either electronically or in hard copy.
- 11) A lay majority is required for all decisions. Where a meeting is not quorate it will nevertheless go ahead, with decisions to be ratified via correspondence, at the next meeting of the Committee or the full Board as appropriate.

- 12) Where necessary, in order to make sure that Committee members are aware of the nuance of a particular debate, a resolution may be circulated to all Committee members after a meeting and a decision taken by email. A decision might be delayed to a subsequent meeting where there is any doubt as to the decision taken.
- 13) The Accounting Officer, Head of Corporate Services, 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 as an observer, 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 colleagues will attend meetings at the invitation or direction of the Committee or the Accounting Officer.
- 14) 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 colleagues to withdraw during private discussions with either or both the internal and external auditors.
- 15) A Board Member or the internal and external auditors may request the Chair of the Committee to convene an additional meeting of the Committee.
- 16) The Corporate Governance Manager, in the capacity of Board Secretary, will be secretary to the Committee. Draft minutes of each meeting will be circulated by the Corporate Governance Manager within five working days of each meeting.

### **Reporting to the Board**

- 17) The minutes and papers of each meeting of the Committee will be circulated to the Board.
- 18) The Chair of the Committee will present a written or oral report about each meeting of the Committee to the next appropriate meeting of the Board.
- 19) The Chair of the Committee will produce and present to the Board on an annual basis a report summarising the activities of the Committee and the outcomes of its work. This report will be presented to the meeting of the Board that is scheduled to consider and agree the LSB's Annual Report and Accounts for the preceding financial year.

### **Annual review of remit and performance**

- 20) The Committee will assess its effectiveness, and will also review these Terms of Reference, annually. It will submit recommendations for any proposed changes to the Board for approval. The Committee's duties and activities shall be disclosed in the LSB's Annual Report and Accounts.

## Annex

<b>AUDIT AND RISK ASSURANCE COMMITTEE ANNUAL CYCLE OF AGENDA ITEMS</b>			
<b>Standing items</b>	<b>May</b>	<b>Oct</b>	<b>Mar</b>
Approval of previous minutes	√	√	√
Matters arising and outstanding action points	√	√	√
Any other business	√	√	√
<b>Agenda items</b>			
Corporate risk register	√	√	√
Budget proposal for the next financial year		√	
Budget update for the next financial year			√
LSB annual report and accounts for the previous financial year - draft	√		
LSB annual report and accounts for the current financial year - update			√
LSB annual report on expenses for the previous financial year	√		
Internal audit report for the previous financial year	√		
Internal audit plan for the current financial year		√	
Internal audit update			√
NAO external audit report: completion report for the previous financial year and management letter	√		
NAO external audit update: lessons learnt from the previous years' audit and changes to guidance and issues that may affect the LSB for the current financial year audit		√	
NAO external audit planning report for current financial year			√
LSB Governance Manual annual review		√	
LSB risk management strategy annual review		√	
Assurance mapping		√	
ARAC annual report - draft	√		
Review of the effectiveness of ARAC			√

## ANNEX B

## Register of attendance at meetings of the Committee

1=Present

0=Apologies submitted

ARAC Member	Role	21 May 2018	12 Oct 2018	8 Nov 2018	12 Mar 2019
Terry Babbs	Chair of ARAC	1	1	1	1
Michael Smyth		1	1	1	1
Marina Gibbs		1	1	1	1
Catharine Seddon		1	1	1	1
<b>ARAC Attendees</b>					
Neil Buckley	Chief Executive	1	1	1	1
Rusere Shoniwa	Interim Director of Finance & Services	1	1	1	1
Holly Perry	Head of Corporate Services	1	1	0	1
John Ward	Advisor	0	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

**Audit and Risk Assurance Committee  
Work Programme 2019/20**

Meeting Date	28 May 2019	1 October 2019	March 2020
Finance	Finance Report <i>[Inc. bringing to ARAC's attention changes to policies and guidance]</i>	Finance Report <i>[Inc. bringing to ARAC's attention changes to policies and guidance]</i>	Finance Report <i>[Inc. bringing to ARAC's attention changes to policies and guidance]</i>
Performance	Performance Reports, Management Review and Assurance  Business Plan Alignment Assurance	Performance Reports, Management Review and Assurance  Business Plan Alignment Assurance	Performance Reports, Management Review and Assurance  Business Plan Alignment Assurance
Annual Report and Accounts: Previous Year	Annual Report and Accounts 2018/19		Annual Report and Accounts Project Plan 2018/19 and update on Annual Report for 2018/19
Business Planning   Budget Setting		Draft Indicative Budget proposal for 2020/21 with supporting information for coming year	Budget for 2020/21
Internal Auditor: <b>KPMG   National Audit Office (NAO)</b>	Internal Audit Annual Report and opinion for financial year 2018/19 Reports issued	Internal Audit Plan for 2019/20, once agreed with Accounting Officer	Internal Audit  Draft Head of Internal Audit Opinion  Reports issued

Meeting Date	28 May 2019	1 October 2019	March 2020
	Internal Auditor's Effectiveness and Internal Audit Charter and Performance of Internal Auditor		
External Auditor: <b>BDO</b>	External Audit Completion report for 2018/19 financial year and management letter	Lessons learnt from audit of last Annual Report and Accounts  Forward look at possible reporting changes for next financial year	External Audit Audit Planning Report
Risk <i>[Executive own risk register; ARAC review; Board 6 monthly review May &amp; Nov]</i>	Corporate Risk Register to include new and emerging risks  Assurance mapping update  Deep dive (TBC)	Corporate Risk Register to include new and emerging risks  Risk Management Strategy  Assurance mapping update  Deep dive (TBC)	Corporate Risk Register to include new and emerging risks  Assurance mapping update  Deep dive (TBC)
Governance	ARAC's Effectiveness   Terms of Annual Review of Corporate Policy as it relates to Board, OLC, Consumer Panel & SLT Expenses	Governance Manual review and proposed updates	ARAC's Effectiveness Annual Review  Draft of ARAC's Report 2019/20 for inclusion in Annual Report

\* 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.

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<sup>i</sup> *Ibid.*, Schedule 1, para. 21.

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

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

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

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

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