

To:	Legal Services Board	
Date of Meeting:	23 May 2013	Item: Paper (13) 34

Title:	Annual Report of the ARC 2012/13 and review of the Terms of Reference
Author / Introduced by:	Steve Green, Chair
Status:	Unclassified
Summary:	<p>The Terms of Reference (ToR) for the Audit and Risk Committee (the Committee) 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 a report about the activities of the Committee for the period 1 April 2012 to 31 March 2013 and is intended to inform the LSB's Annual Report and Accounts 2012/13 – in particular by supporting the <i>Governance Statement</i> – and represents governance best practice.</p> <p>The report, which was approved for onward submission to the Board at the Committee meeting on 13 May 2013, concludes that the Committee's activities during the year under report, including the rigorous challenge of the Executive, 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:		✓	N/A
Consumer Panel:		✓	N/A.
Others:			

Recommendation(s):
The Board is invited to agree the report about the activities of the Audit and Risk Committee during 2012/13.

LEGAL SERVICES BOARD

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Audit and Risk Committee – annual report 2012/13

Executive Summary

Recommendation(s)

1. The Board is invited to note and to comment on the written report about the activities of Committee during 2012/13.

Overview

2. The principal responsibilities of 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**).
3. In accordance with the ToR, this paper presents a written report about the activities of the Committee in the period 1 April 2012 to 31 March 2013, for the information of the Board and the Accounting Officer. The paper has been agreed by the Committee.
4. This paper is intended to inform the production of LSB's Annual Report and Accounts 2012/13 – in particular by supporting the *Governance Statement* – and represents good governance practice, as recommended by the *Audit Committee Handbook*¹, *The Audit Committee Self-Assessment Checklist*², *The UK Corporate Governance Code (The Code)*³, *Corporate governance in central government departments: Code of good practice*⁴ and *Managing Public Money*⁵.
5. The Code 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 agreed ToR, which are published on 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**). The Committee do not propose to make any changes to the current ToR.

¹ 'Audit Committee Handbook' (HM Treasury, March 2007).

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

³ 'The UK Corporate Governance Code' (Financial Reporting Council, June 2010)

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

⁵ 'Managing Public Money' (HM Treasury, October 2007).

Membership and attendees

7. The Chairman and other Members of the Committee are appointed by the Board, in accordance with 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.
8. The Members of the Committee in 2012/13 were:
 - Stephen Green (Chairman) (Lay)
 - Barbara Saunders (Lay)
 - Andrew Whittaker (non Lay)
9. The Committee was supported in its work by an external adviser, Philip Lindsell, a chartered accountant, who is appointed under contract. It was agreed at the 11 March 2013 meeting of the Committee that the external advisor's term of appointment would be extended to May 2014, and that succession arrangements would be discussed at the Committee's October 2013 meeting.
10. The Internal Auditor and NAO were represented, as appropriate, at all meetings of the Committee. Attendees also included:
 - Chris Kenny (Board Member, Chief Executive and Accounting Officer)
 - Julie Myers (Corporate Director)
 - Edwin Josephs (Director of Finance and Services)
 - Michelle Jacobs (Business Planning Associate)
11. The Secretary to the Committee was the Corporate Governance Manager. Other LSB colleagues attended as necessary.

Compliance with ToR

12. The ToR require the Committee to meet at least three times a year. The Committee met on the following dates:
 - 17 May 2012
 - 15 October 2012
 - 11 March 2013
13. A register of attendance at meetings is attached (**Annex B**).
14. The Committee operated in a manner considered to be fully compliant with its ToR, for example the Committee met at least three times and all meetings were quorate.
15. The Committee confirms to the Board that the ToR attached at **Annex C** remain current and that no changes are necessary at this time.

Main activities

16. The main activities of the Committee in 2012/13 related to:

- Full scrutiny and review of the LSB's Annual Report and Accounts 2011/12 and initial review of Annual Reports and Accounts for 2012/13
- NAO's activities / services
- the Internal Auditor's activities / services
- risk management and controls
- review of LSB governance policies (including data protection, information retention and disposal, fraud and investigation and internal whistleblowing)
- the Committee's business programme, ToR and effectiveness / performance
- a review of the information presented to the Board and Committee undertaken by the Adviser and Director of Finance and Services, for budget setting and regular reporting, which led to improvements and enhanced transparency from November 2012.

17. The Chairmen of the LSB and Office for Legal Complaints' Audit and Risk Committees held discussions on a number of occasions, to review key performance information.

18. Consistent with good governance practice Members also made provision to meet in private sessions with the external adviser, Internal Auditor and NAO at every meeting; and this provision was taken up at the May 2012 meeting.

Audit services

19. Internal and external audit services were provided, respectively, by KPMG LLP and NAO. As reported in 2011/12 the NAO have subcontracted elements of its audit work in respect of the LSB to PKF (UK) LLP. PKF LLP has now merged with BDO LLP and is now called BDO LLP. 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 Auditor

21. The Committee approved resources for an Internal Audit Annual Plan, covering the relevant period, at its meeting on 17 May 2012. This was developed by the Internal Auditor, in consultation with Members and the Executive.

22. Internal audit work carried out in 2012/13 was as follows:

- **Research and Evaluation** – this report, on the LSB's largest area of discretionary spend, was risk rated 'acceptable' with three Process Improvement Observations (PIO) (all were low priority).
- **Human Resources** – this report was risk rated 'good' with no PIOs
- **Statutory Decision Making Process** – this report was risk rated 'acceptable', with two PIOs (one was low priority and one was medium priority)

23. The Head of Internal Audit's Draft Annual Report and Opinion 2012/13 was presented to the Committee on 11 March 2013. The Internal Auditor confirmed that he was satisfied that he could provide *reasonable assurance* as to the adequacy and effectiveness of the LSB's internal controls and governance processes within the areas of research and evaluation, Human Resources and Statutory Decision Making processes.
24. The Internal Audit Charter was agreed by the Committee on 2 November 2009. An updated Charter was considered by the Committee at its 23 May 2011 meeting. There was no need to review of the Charter during 2012/13.

National Audit Office

25. The Committee received and considered NAO's Audit Completion Report 2011/12 at its meeting on 17 May 2012. The Committee noted, amongst other things:
 - the recommendation that management perform an annual review of non-current asset residual values and useful economical lives to ensure that they remain appropriate
 - the audit findings and recommendation
 - the letter of representation.
26. LSB's Annual Report and Accounts 2011/12 were endorsed and recommended by the Committee on 17 May 2012, and were submitted to the Board for approval at its meeting on 30 May 2012.
27. The Committee approved NAO's Planning Report 2012/13 at its meeting on 11 March 2013. This was developed by NAO, in consultation with the Executive. The Committee noted, amongst other things:
 - That the auditors would, as is usual, adopt a risk-based approach to the audit
 - NAO's assessment of the potential risks of material misstatement to the financial statements
 - the minimal changes to the financial reporting framework.

Performance and reporting

Performance

28. A review of the performance and effectiveness of the Committee considered at its 13 May meeting confirmed that it had discharged the vast majority of its responsibilities during 2012/13, including in relation to governance, financial management and risk and controls. Areas for development are being addressed by way of a *Committee effectiveness action plan* which was developed using *The Audit Committee Self-Assessment Checklist* (National Audit Office, January 2012).
29. 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 Committee Handbook* and *The Audit Committee Self-Assessment Checklist*.

30. The Committee's current ToR were agreed by the Board on 30 May 2012 following consideration of the Committee's last annual report. The ToR were reviewed in November 2012 as part of the scheduled annual review of LSB's governance arrangements. This was informed by the outcomes of the annual Board evaluation and review exercise and no changes were recommended to the ToR.

Reporting

31. The written reports of all meetings of the Committee were presented to the subsequent meeting of the Board, supplemented as required by an oral update from the Chairman of the Committee.

Forward look to 2013/14

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 2013/14 is attached at **Annex C**.
33. Finally, the Committee will endeavour to improve further its own performance, implementing as appropriate the *effectiveness action plan* agreed following its review of its own performance and effectiveness.

Conclusion

34. The Committee concludes that its activities in 2012/13, including the 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 2012/13 from Philip Lindsell, the Internal Auditor, NAO, Edwin Josephs, Holly Perry, Julie Myers, Michelle Jacobs and other members of the Executive.

Audit and Risk Committee

Terms of Reference

Responsibilities

- 1) The Board has established an Audit and Risk 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, 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.

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

⁷ *Ibid.*, para. 21.

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, video-conferencing facility or email.
- 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 Board Secretary will be secretary to the Committee.

Reporting

- 13) The minutes and papers of each meeting of the Committee will be circulated to the Board.
- 14) The Chairman of the Committee will present a written report about each meeting of the Committee to the next available meeting of the Board.
- 15) 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 30 May 2012

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).

Register of attendance at meetings of the Committee

	17 May 2012	15 Oct 2012	11 Mar 2013
Members			
Stephen Green	✓	✓	✓
Barbara Saunders	✓	✓	✓
Andrew Whittaker	✓	✓	✓
Advisors			
Philip Lindsell	✓	✓	✓
Internal Auditor	✓	✓	✓
NAO	✓	✓	✓
Attendees			
Chris Kenny	✓	✓	✓
Julie Myers	✓	✓	✓
Edwin Josephs	✓	✓	✓

- ✓ Present
- * Apologies submitted

**Audit and Risk Committee
Annual Business Programme**

Meeting	Specific items of business	General items of business *
October 2013	<ul style="list-style-type: none"> • Consider and endorse the draft budget / Business Plan for the year commencing 1 April 2014 • Consider the lessons learned from the annual reporting process 2012/13 • Review external audit strategy 	<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 2014	<ul style="list-style-type: none"> • Consider and endorse the budget for the year commencing 1 April 2014 • Consider and agree the Internal Audit Plan for the year commencing 1 April 2014 • Annual review of the Committee's effectiveness and its Terms of Reference • 	
May 2014	<ul style="list-style-type: none"> • Consider and endorse the Annual Report and Accounts for the year ending 31 March • Consider the external auditor's report and management letter 	

* 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.