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| <b>To:</b>              | Legal Services Board |                            |
| <b>Date of Meeting:</b> | 22 May 2014          | <b>Item:</b> Paper (14) 32 |

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| <b>Title:</b>                  | Annual Report of the ARC 2013/14 and review of the Terms of Reference   |
| <b>Author / Introduced by:</b> | Terry Babbs, Chair  |
| <b>Status:</b>                 | Official  |
| <b>Summary:</b>                | <p>The Terms of Reference (<b>ToR</b>) 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 2013 to 31 March 2014 and is intended to inform the LSB's Annual Report and Accounts 2013/14 – 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 2014, 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> |

|                              |      |
|------------------------------|------|
| <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>  |     | ✓  | N/A        |
| <b>Consumer Panel:</b> |     | ✓  | N/A.       |
| <b>Others:</b>         |     |    |            |

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| <b>Recommendation(s):</b>   |
| The Board is invited to agree the report about the activities of the Audit and Risk Committee during 2013/14. |

## LEGAL SERVICES BOARD

|                         |                      |              |               |
|-------------------------|----------------------|--------------|---------------|
| <b>To:</b>              | Legal Services Board |              |               |
| <b>Date of Meeting:</b> | 22 May 2014          | <b>Item:</b> | Paper (14) 32 |

### Audit and Risk Committee – annual report 2013/14

#### Executive Summary

#### Recommendation(s)

1. The Terms of Reference (**ToR**) for the Audit and Risk 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.*

2. The Board is invited to note and to comment on the written report about the activities of the Audit and Risk Committee during 2013/14.

#### Overview

3. The principal responsibilities of the Audit and Risk 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 Terms of Reference (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 2013 to 31 March 2014, for the information of the Board and the Accounting Officer. The paper has been agreed by the Committee.
5. This paper is intended to inform the production of LSB's Annual Report and Accounts 2013/14 – in particular by supporting the Governance Statement – and represents good governance practice, as recommended by the 'Audit 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 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.
7. The principal responsibilities of the Committee are set out in agreed ToR, which are published on LSB's website. These responsibilities include, as appropriate,

<sup>1</sup> 'Audit Committee Handbook' (HM Treasury, March 2007).

<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, June 2010)

<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, October 2007).

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 2013/14 were:
  - Stephen Green (Chairman) (Lay)
  - Barbara Saunders (Lay)
  - Andrew Whittaker (non Lay)
  - Terry Babbs (Lay)
  - Anneliese Day QC (non Lay)
10. 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 13 March 2014 meeting of the Committee that the external advisor's term of appointment would be extended to May 2015, and that his successor would be identified in advance of that date.
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)
  - 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 Michelle Jacobs who has responsibility for compiling the corporate risk register.

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

13. The Terms of Reference require the Committee to meet at least three times a year. The Committee met on the following dates:
  - 13 May 2013
  - 23 October 2013
  - 13 March 2014
14. A register of attendance at meetings is attached (**Annex B**).
15. A review of the performance and effectiveness of the Committee confirmed that it discharged all of its responsibilities in 2013/14, including in relation to governance, financial management and risk and controls. Areas for development have been addressed by way of a regular review of its effectiveness, and an

action plan developed on the basis of 'The Audit Committee Self-Assessment Checklist' (National Audit Office, January 2012).

16. The Committee operated in a manner considered to be fully compliant with its Terms of Reference, for example the Committee met at least three times and all meetings were quorate.

17. The Committee confirms to the Board that the Terms of Reference attached at **Annex A** remain current and that no changes are necessary at this time.

### **Main activities**

18. The main activities of the Committee in 2013/14 related to:

- full scrutiny and review of the LSB's Annual Report and Accounts 2012/13
- review of the activities of the external auditors
- the Internal Auditor's activities
- risk management and controls, including annual review of the LSB Risk Management Strategy,
- fundamental review of the corporate risk register, including the adoption of a new approach to the way risks are reported
- review of LSB governance policies (including the LSB Governance Manual, policies on information security, internet, email, computer and telecommunications, fraud and investigation and internal whistleblowing)
- the Committee's business programme, Terms of Reference and effectiveness / performance.

19. Members also met in private sessions with the external adviser, Internal Auditor and 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 23 October 2013. This was developed by the Internal Auditor, in consultation with Members and the Executive.

23. Internal audit work carried out in 2013/14 was as follows:

- **Core Financial Systems Review** – this report reviewed the processes, policies and controls in place to manage key financial systems and processes, and included sample testing of accounting systems, budgetary control,

accounts payable, banking and expenses. The overall rating following this assessment was 'good'. One low priority Process Improvement Observation (PIO) relating to the purchasing card policy, and this was accepted.

- **Corporate Governance and risk management** – this report considered the governance framework and risk management system in place at the LSB and assessed them both as 'good'. Four low priority PIOs were made, three of which were accepted by the Executive. The three that were accepted related to the role of the Licensing Authority Committee, risk appetite reviews, and risk register actions. The PIO on risk scoring had not been accepted by the Executive, but following further discussion, it was agreed that consideration would be given to using the inherent scoring system in assessing the causes of and mitigation for red rated risks.

24. The Internal Auditor's Draft Annual Report and Opinion 2013/14 was presented to the Committee on 13 March 2014. 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 is due to receive and consider the NAO's Audit Completion Report 2013/14 at its meeting on 13 May 2014.
26. A draft version of the LSB's Annual Report and Accounts 2013/14 was considered by the Committee at their meeting on 13 March, and a more advanced version is to be considered on 13 May before recommendation to the Board on 22 May.
27. The Committee noted the contents of the NAO's Planning Report for 2013/14 at its meeting on 13 March 2014. The Committee 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. However, the Committee expressed its concern about the indication given that the LSB would be required to pay its levy funding into the Consolidated Fund, which could call into question, in the minds of stakeholders, the LSB's independence of government. The Executive agreed to work with NAO and the Ministry of Justice to achieve a solution. These efforts were successful in relation to the 2014/15 accounts and efforts continue to identify a legislative vehicle to make the necessary amendment to the Legal Services Act 2007 to prevent the issue recurring.

## **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, 'Audit 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 2013, 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 substantive changes were recommended.

### *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 2013/14 will be presented to the Board on 22 May 2014.

### **Forward look to 2014/15**

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 2014/15 is attached at **Annex C**.
33. Finally, the Committee will endeavour to improve further its own performance, refreshing the way that it assesses its effectiveness as a new Chair and at least one new additional member join the Committee.

### **Conclusion**

34. The Committee concludes that its activities in 2013/14, 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 2013/14 from Philip Lindsell, the Internal Auditor, NAO, Chris Kenny, Julie Myers, Edwin Josephs, 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 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) 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.

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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 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 27 November 2013

## Register of attendance at meetings of the Committee

|                  | 13 May 2013 | 23 Oct 2013 | 13 Mar 2014 |
|------------------|-------------|-------------|-------------|
| <b>Members</b>   |             |             |             |
| Stephen Green    | ✓           | ✓           | ✓           |
| Barbara Saunders | ✓           | ✓           | ✓           |
| Andrew Whittaker | ✓           |             |             |
| Terry Babbs      |             | ✓           | ✓           |
| Anneliese Day QC |             | X           | ✓           |
| <b>Advisors</b>  |             |             |             |
| Philip Lindsell  | ✓           | ✓           | ✓           |
| Internal Auditor | ✓           | ✓           | ✓           |
| NAO              | ✓           | ✓           | ✓           |
| <b>Attendees</b> |             |             |             |
| Chris Kenny      | ✓           | ✓           | ✓           |
| Julie Myers      | X           | ✓           | ✓           |
| Edwin Josephs    | ✓           | ✓           | ✓           |

- ✓ Present
- ✗ Apologies submitted

**Audit and Risk Committee  
Annual Business Programme**

| <b>Meeting</b> | <b>Specific items of business</b>  | <b>General items of business *</b>   |
|----------------|--|--|
| October 2014   | <ul style="list-style-type: none"> <li>• Consider and endorse budget / Business Plan proposals for consultation for the year commencing 1 April 2015</li> <li>• Consider the lessons learned from the annual reporting process 2013/14</li> <li>• Review LSB Governance Manual</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 2015     | <ul style="list-style-type: none"> <li>• Consider and endorse the budget for the year commencing 1 April 2015</li> <li>• Consider and agree the Internal Audit Plan for the year commencing 1 April 2015</li> <li>• Annual review of the Committee's effectiveness and its Terms of Reference</li> </ul> |  |
| May 2015       | <ul style="list-style-type: none"> <li>• Consider and endorse the Annual Report and Accounts for the year ending 31 March 2015</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.