

Paper (12) 23 ANNEX A

Minutes of a meeting of Audit and Risk Committee on 29 February 2012

Date: 29 February 2012
Time: 10.00am – 12.30pm

Venue: Victoria House, Southampton Row, London WC1B 4AD

Present: Steve Green Chairman
(Members) Barbara Saunders
Andrew Whittaker
(Adviser) Philip Lindsell (Item 1b onwards)

In attendance: Madeline Dugmore National Audit Office (NAO), (Item 1b onwards)
Tim Drew PKF (UK) LLP, (Item 2 onwards)
Edwin Josephs Director of Finance and Services, LSB
Chris Kenny Chief Executive and Accounting Officer, LSB
Chandra Mantha Director, KPMG LLP
Julie Myers Corporate Director
John Ward Director, KPMG LLP
Holly Perry Corporate Governance Manager (Minutes)

Apologies Sajid Rafiq National Audit Office

Item 1 – Private session

- 1a. The Committee and the Executive met in private session to discuss the role of the external adviser to the Committee. It was agreed that the need for the external adviser remained, as there was currently no financially qualified member on the Committee or on the Board.

The Committee resolved to agree an extension of Philip Lindsell’s appointment up to and including the May 2013 meeting of the Committee, and to consider the recruitment of a successor at the February 2013 meeting. It was agreed that the level of personal indemnity cover would remain at the current rate of £300k but would, in line with the Board’s normal policy, be raised to £1m on the appointment of a new adviser.

- 1b. The Committee considered the proposal by the LSB’s Internal Auditors, KMPG to raise its fixed daily rate by 5% from April 2012 but then to keep the rate fixed for a further two years.

On the basis of the LSB’s size, the Committee agreed that the proposal offered appropriate value for money. The Committee noted that the LSB retained a level of control on overall costs on the basis that this was determined by the number of days of audit work agreed. The Committee also noted that there was a possibility that MoJ would require all internal audit activity to be brought in house for its NDPBs in due course, which might impact on the benefit of the longer-term saving offered by the

proposal. It was equally possible that on the basis of having extended the engagement for a further three years, the LSB would not be in a position to join any MoJ wide solution until 2015/16 at the earliest.

The Committee resolved to agree to continue with KPMG’s internal audit services for a period of a further three years, from 2012/13 to 2014/15, subject to final Board confirmation.

Item 2 – Welcome and apologies

2. The Chairman welcomed those present and in attendance to the meeting. Apologies for absence had been received from Sajid Rafiq (Director, NAO).

Item 3 – Declarations of interests relevant to the business of the Committee

3. There were no declarations of interests.
4. Committee Members were reminded to notify the Corporate Governance Manager about hospitality extended and/or received in the course of their LSB work and to submit expenses claims to the Corporate Governance Manager.

Item 4 – Minutes: 10 October 2011 and matters arising

5. **The Committee resolved to agree the minutes of the meeting held on 10 October 2011 and to submit them for signing as an authorised record.**
6. The Chairman reported for the record that there had been an exchange of email correspondence between the LSB Accounting Officer and the NAO Audit Director in relation to NAO having appointed PKF through a partnership arrangement to deliver the LSB’s audit for the 2011/12 financial reporting period and beyond (item 8, 10 October 2011 minutes refer). The NAO Audit Director had recognised the LSB’s concerns, and were satisfied that there were sufficient safeguards in place to mitigate risks of potential or actual conflict. It was noted that there would be no reference to PKF in the audited accounts, as PKF were merely conducting audit activity on behalf of the NAO; references would only therefore be made to NAO.

Item 5 – Report of action points

6. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Item 6 – Paper (12) 01 (ARC): Budget proposal for 2012/13

7. Julie Myers and Edwin Josephs introduced a paper that set out the budget that had been consulted on as part of the LSB Business Plan 2012/13 consultation. The closing date for the consultation was 9 March and, to date, no responses of substance had been received.
8. The Committee requested assurances that the savings proposed were feasible. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] The Committee encouraged the executive to avoid any further reduction of the budget in 2012/13, on the basis of the level of work anticipated.
9. The Committee sought assurances on the level of contingency reflected in the 2012/13 budget. The Accounting Officer responded that the LSB did not hold a formal contingency allocation. However there were a number of areas of discretionary expenditure within budget lines which would provide for any unforeseen budgetary pressure and a sufficient number of options to allow for the business to deal with a changed environment. In addition, MoJ would guarantee the LSB's solvency, particularly in relation to legal costs; any additional cash requirement would be reclaimed from the levy in future years.
10. The Committee raised two questions in relation to the monthly cashflow forecast for 1 April 2012 to 31 March 2013, and agreed that Philip Lindsell and Edwin Josephs would resolve offline, prior to the final plan returning to the Committee for formal sign off. The Committee wanted to understand:
 - why there is a cash decrease of £251k for the year and
 - what the closing cash balance (before levy receipt) of £899k less £523k totalling £376k represented

Post Meeting Note: The cashflow had been prepared based on information as at the end of September 2011 when it was envisaged that a significant amount of research from 2011/12 spend (£149k) would not be physically paid until April 2012 and the same would be true for other general suppliers (£84k). Both of these assumptions would be updated at the point the final Plan was approved by the Board. The £376k represented an initial estimate of LSB working capital needs as at the end of March. This would also now be updated to reflect latest information.

11. On the basis of the sequencing issues, the Committee requested that the ARC meeting in early 2013 be scheduled to enable the Committee to review a post-consultation version of the budget prior to onward submission to the Board at its March meeting.

The Committee resolved to provide final endorsement of the budget proposal for 2012/13 once the business plan consultation had closed and once

comments had been analysed. This would be done by circulation or telephone conference if the changes were minimal, or by holding a short meeting of the Committee immediately before the Board meeting on 28 March if comments were more substantive. The final budget would be submitted to the 28 March Board meeting for approval.

Item 7 – Paper (12) 02 (ARC) - KPMG internal audit update

12. John Ward and Chandra Mantha presented two reports to the Committee and gave an oral update on a third:

Internal Audit plan coverage against the Internal Audit Charter – this covered the period 2009/10 to 2011/12. The Committee noted that the draft Internal Audit Charter for the period to 2012/13 to 2014/15 would be presented to the Committee's 17 May meeting, subject to the confirmation of continued engagement. The one area of work where there had yet to be any activity was in relation to regulatory interventions; it was anticipated that a larger piece of work than a three-day audit would need to take place in this area towards the end of 2012/13.

Follow up Internal Audit report on the LSB's Corporate Governance and Risk Management Frameworks – there were no significant areas of concern. It was suggested that a schedule of joint meetings of the LSB Board with Approved Regulators' boards be drawn up, so that these meetings could be tracked.

Follow up Internal Audit report for IT systems and Information Assurance – there were no significant areas of concern; one medium point was highlighted concerning the lack of a formal business continuity plan. KPMG expected to be in a position to finalise the report the following week, and thereafter finalise its Annual Report for 2011/12 for submission to the Committee.

The Committee resolved to note:

- **KPMG's matrix of internal audit coverage against the internal audit charter, for the three year period to 31 March 2012**
- **KPMG's internal audit follow up report on the LSB's corporate governance and risk management frameworks**
- **the latest position with KPMG's report on IT systems and information assurance.**

Item 8 – Paper (12) 03 (ARC) – LSB corporate risk register review

13. Julie Myers introduced the latest draft corporate risk register, which had been fully refreshed since the Committee's 10 October 2011 meeting, to reflect the priorities of delivering the new three-year strategy and accompanying 2012/13 business plan. An 'issues' log reflecting crystallised risks had not yet been finalised.
14. The Committee welcomed the thorough approach that had been adopted, noting that:
- it would follow the principle of reviewing all risks with a 'red' risk score
 - guidance on the various likelihood and impact scores would be helpful

- the risk register was not for external publication (it had been shared in high level terms with the Office for Legal Complaints and discussed in high level terms with the Bar Standards Board)

- [Redacted]
- [Redacted]
- [Redacted]
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The Committee commended Julie Myers and Nicholas Baré for their hard work on refreshing the risk register and, subject to the points raised in discussion being reflected, resolved to adopt the corporate risk register and recommend its submission to the 28 March board meeting.

Item 9 – Paper (12) 04 (ARC) – OLC risk update

15. The Committee Chairman presented a verbal update following his meeting with Tony Foster, Acting Chair of OLC’s Audit and Risk Committee, on 30 January 2012 to discuss mutual risks. Data was now available on which constructive discussion and challenge could be based. The Committee noted that discussions were ongoing with OLC on voluntary jurisdictions and the extension of OLC’s complaints handling to Claims Management Companies.

The Committee resolved to note the Chairman’s verbal report.

Item 10 – Paper (12) 05 (ARC) – Policy review – Terms of reference for LSB executive groups and LSB Scheme of Delegations

16. Holly Perry introduced a paper which invited the Committee to review the Terms of Reference for LSB executive groups and proposed revisions to the LSB Scheme of Delegations. A draft timetable for future reviews of LSB policies was also presented for the Committee's consideration, addressing an action from the follow up in internal audit report on governance and risk management.

The Committee resolved to:

- **note the terms of reference for the LSB's executive groups**
- **approve the revised LSB Scheme of Delegations for onward submission to the Board's 28 March meeting, and**
- **agree the timetable for future reviews of LSB policies, subject to some rescheduling of items due for consideration in October 2012 to better balance the spread of policy reviews**

Item 11 – Paper (12) 06 (ARC) – NAO external audit – Planning Report 2011/12

17. The NAO and PKF representatives introduced the NAO planning report for 2011/12 and the draft *Letter of Understanding* which set out the responsibilities of the Accounting Officer and LSB during the audit.

18. The Committee noted that:

- the auditors would adopt a risk-based approach to the audit
- in relation to the requirements for sustainability reporting, the LSB had made MoJ aware that the requirement did not extend to the LSB on the basis that this was mandatory for bodies with over 250 employees or occupying more than 1,000 metres squared
- there was to be some additional disclosure for 2011/12 in relation to remuneration reporting, of which the LSB was aware
- the recommendation was for the Committee to view a version of the Governance Statement at an early stage
- the timetable attached at Annex 1 dovetailed with the LSB's timetable
- it required a confirmed end date from NAO for the completion of the technical review, which was expected to be one week after completion of fieldwork
- it had no points to raise in relation to the *Letter of Understanding*.

The Committee resolved to note the NAO Planning Report 2011/12, subject to the points raised in discussion. The Accounting Officer would now sign the *Letter of Understanding* and return it to NAO.

Item 12 – Paper (12) 07 (ARC) – Annual Report and Accounts 2011/12 – project plan

19. Holly Perry presented the timetable for and outline of the LSB Annual Report and Accounts 2011/12. As for 2010/11, the proposal was for a much slimmed down narrative. Edwin Josephs presented the plans for the *Governance Statement*,

replacing the Statement on Internal Control for the current financial year.

20. The Committee noted that:

- the Committee's review of both the Governance Statement and the financial statements ahead of the review by the full Board needed to be made explicit in the timetable
- the external adviser's input to the review of the financial statements would be important (both in terms of the narrative and the accounts) and the logistics needed to be designed to ensure that this happened at a suitable stage;
- the LSB was in a relatively strong position as regards the Governance Statement, particularly in relation to the requirements around board evaluation. Some work would be required on the LSB's risk policy and profile.

Subject to the points raised, the Committee resolved to note the timetable and agree the outline for the Annual Report and Accounts 2011/12, together with the plan for the *Governance Statement*.

Item 13 – Paper (12) 08 (ARC) – Effectiveness of the Audit and Risk Committee – progress report

21. Holly Perry introduced a progress report about the actions to address identified areas for improvement in the Committee's effectiveness and performance. The Committee confirmed its agreement to close actions 11 and 14, and to roll forward action 9 to the next annual review of the Committee's effectiveness, scheduled for May.

The Committee resolved to note the progress report about the actions to address identified areas for improvement in its effectiveness and performance, and agreed to a new review for the 17 May meeting.

Item 14 – Paper (12) 09 (ARC) – Summary report on the operation of the levy in 2010/11

22. Edwin Josephs introduced a paper on the operation of the levy in 2010/11. It was confirmed that there were no concerns about approved regulators paying the amounts due for 2012 on time.

The Committee resolved to note the paper.

Item 15 – Paper (12) 10 (ARC) HMT internal audit transformation programme

Edwin Josephs introduced a paper on a cross-government initiative on internal audit, in response to variable levels of internal audit services provided to government, agencies and sponsored bodies.

The Committee resolved to note the paper.

Item 16 – Any other business

The Committee noted that the meeting scheduled for 8 October 2012 needed to be rescheduled¹. Members were invited to provide Holly Perry with their availability.

Item 17 – Date of the next meeting

The Committee would next meet on 17 May 2012, 10.00am - 1pm. The venue would be LSB's offices at Victoria House, Southampton Row, London WC1B 4AD.

HP 05.03.12

Signed as an accurate record of the meeting

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Date

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¹ POST MEETING NOTE: The October meeting of the Committee would take place on Monday 15 October 2012, 10.00 – 1.00