

To:	Legal Services Board	
Date of Meeting:	30 May 2012	Item: Paper (12) 38a

Title:	Annual Report of the Audit and Risk Committee 2011/12	
Author / Introduced by:	Steve Green, Chair of the Audit and Risk Committee Holly Perry, Corporate Governance Manager holly.perry@legalservicesboard.org.uk / 020 7271 0070	
Status:	Unclassified	

Summary:
<p>The Terms of Reference (ToR) for the Audit and Risk Committee provide that:</p> <p><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 draft report about the activities of the Audit and Risk Committee for the period 1 April 2011 to 31 March 2012.</p> <p>This report is intended to inform the LSB's Annual Report and Accounts 2011/12 – in particular by supporting the <i>Governance Statement</i> – and represents governance best practice.</p> <p>The report 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> <p>The Board should also confirm to the Terms of Reference remain current. These are attached at Annex A. One minor amendment is suggested to bring into scope the annual review of Board Members and senior colleagues' expenses (transferred from the Remuneration and Nomination Committee) – no other amendments are proposed at this time.</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:	✓		Audit and Risk Committee.
Consumer Panel:		✓	N/A.
Others:	Philip Lindsell, Internal Auditor and NAO.		

Recommendation(s):

The Board is invited to note the report about the activities of the Audit and Risk Committee during 2011/12 and confirm the Terms of Reference.

LEGAL SERVICES BOARD

To:	Board		
Date of Meeting:	30 May 2012	Item:	Paper (12) 38a

Audit and Risk Committee – Annual Report 2011/12

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 2011/12.

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 2011 to 31 March 2012, 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 2011/12 – 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'³, 'Corporate governance in central government departments: Code of good practice'⁴ and 'Managing Public Money'⁵.
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,

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).

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 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 2011/12 were:
 - William Moyes (to 31 August 2011) (Chairman) (Lay)
 - Stephen Green (Chairman from 1 September 2011) (Lay)
 - Barbara Saunders (Lay)
 - Andrew Whittaker (from 1 September 2011) (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 29 February 2012 meeting of the Committee that the external advisor's term of appointment would be extended to May 2013, and that succession arrangements would be discussed at the Committee's October 2012 meeting.
11. The Internal Auditor and NAO were represented, as appropriate, at meetings of the Committee. Attendees included also:
 - 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 Board Secretary to 26 October 2011 and the Corporate Governance Manager from 19 December 2011. Other LSB colleagues attend as necessary.

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:
 - 23 May 2011
 - 10 October 2011
 - 29 February 2012.
 - 28 March 2012 (short meeting to consider the budget 2012/13)
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 the majority of its responsibilities in 2011/12, including in relation to governance, financial management and risk and controls. Areas for development are being addressed by way of an action plan which is being developed on the

basis of elements 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 proposes one minor amendment to its Terms of Reference, to bring into scope the annual review of Board Members and senior colleagues' expenses (transferred from the Remuneration and Nomination Committee) – see paragraph 2 (h) at Annex A. No other amendments are proposed at this time.

Main activities

18. The main activities of the Committee in 2011/12 related to:
 - LSB's Annual Report and Accounts 2011/12
 - 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 purchase of corporate insurance
 - the Committee's business programme, Terms of Reference and effectiveness / performance.
19. Following on from the Committee's considerations in 2010/11 regarding its role in relation to the Office for Legal Complaints (OLC) and specifically the ensuring the management of shared LSB/OLC risks, a meeting of the Chairmen of the LSB and OLC's Audit and Risk Committees was held on 30 January 2012 to review the risk registers for each organisation and consider shared and mutual risks.
20. A meeting of the Chairmen of the LSB and Bar Standards Board's Audit and Risk Committees was held on 28 March, to review shared and mutual risks. A follow up meeting is scheduled for July 2012.
21. Members also met in private sessions with the external adviser, Internal Auditor and NAO.

Audit services

22. 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 PKF. The NAO has contractual arrangements and safeguards in place to ensure that framework partners, such as PKF, are independent, competent and objective.
23. The auditors were represented, as appropriate, at meetings of the Committee.

Internal Auditor

24. The Committee approved an Internal Audit Annual Plan, covering the relevant period, at its meeting on 23 May 2011. This was developed by the Internal Auditor, in consultation with Members and the Executive.
25. Internal audit work carried out in 2011/12 was as follows:
 - Internal audit report of **IT systems security and information assurance** - this report was risk rated 'acceptable', with four Performance Improvement Observations (PIO) (three were low priority and one was medium priority)
 - Follow up internal audit report relating to **Corporate governance and risk management** – this follow up report concluded that five PIOs had been implemented, one had been partially implemented (low priority) and two had not been implemented (low priority)
 - A review of **contingency plans** (in the event of the failure of an approved regulator) - this was an advisory report and the internal auditors made eight recommendations to improve the process
26. The Internal Auditor's Annual Report and Opinion 2011/12 was presented to the Committee on 17 May 2012. It concludes, in relation to the work undertaken, that there are adequate and effective internal controls and governance processes within the areas of corporate governance, contingency plans for Approved Regulators (ARs), IT security and data privacy policies and business continuity planning.
27. 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.

National Audit Office

28. The Committee received and considered NAO's Audit Completion Report 2011/12 at its meeting on 17 May. The Committee noted, amongst other things:
 - the technical accounting adjustments to the financial statements during the course of the audit
 - the audit findings and recommendations
 - the letter of representation.
29. LSB's Annual Report and Accounts 2011/12 were endorsed and recommended by the Committee on 17 May, and are being submitted to the Board in parallel with this report (Paper (12) 39 refers).
30. The Committee approved NAO's Planning Report 2012/13 at its meeting on 29 February 2012. This was developed by NAO, in consultation with the Executive. The Committee, amongst other things:
 - the auditors would adopt a risk-based approach to the audit
 - noted NAO's assessment of the potential risks of material misstatement to the financial statements
 - 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 were additional disclosures for 2011/12 in relation to remuneration reporting

Performance and reporting

Performance

31. A review of the performance and effectiveness of the Committee considered at the Committee's 17 May 2012 meeting confirmed that it discharged the vast majority of its responsibilities during 2011/12, including in relation to governance, financial management and risk and controls. The Committee put a considerable degree of effort into an action plan to improve its effectiveness agreed at the beginning of the financial year – the majority of actions were concluded by the year end (a small number relating to relationships between the internal and external auditors and the Executive are being rolled over into 2012/13).
32. 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'. Areas for focus in 2012/13 will be addressed by way of an action plan currently being finalised.
33. The Committee's current ToR were agreed by the Board on 30 November 2011. The ToR will be re-visited again in November 2012 as part of the scheduled annual review of LSB's governance arrangements, which will in turn be informed by the outcomes of the annual Board evaluation and review exercise.

Reporting

34. The minutes and 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 2012/13

35. 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 2012/13 is attached at **Annex C**.
36. Finally, the Committee will endeavour to improve further its own performance, implementing as appropriate the action plan agreed following its review of its own performance and effectiveness.

Conclusion

37. The Committee concludes that its activities in 2011/12, 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.

38. The Committee is grateful for the support and advice it received in 2011/12 from Philip Lindsell, the Internal Auditor, NAO, Edwin Josephs 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

	23 May 2011	10 Oct 2011	29 Feb 2012	28 Mar 2012
Members				
William Moyes*	✓	N/A	N/A	N/A
Stephen Green**	✓	✓	✓	✓
Barbara Saunders	✓	✓	✓	✓
Andrew Whittaker***	N/A	✓	✓	✓
Advisors				
Philip Lindsell	✓	✓	✓	✓
Internal Auditor	✓	✓	✓	N/A****
NAO	✓	✓	✓	N/A****
Attendees				
Chris Kenny	✓	✓	✓	✓
Julie Myers	✓	✓	✓	✓
Edwin Josephs	✓	✓	✓	✓

*Chairman from 1 April to 31 August 2011

**Chairman from 1 September 2011

*** Appointed a member of ARC from 1 September 2011

**** Extraordinary meeting of the ARC to sign off the 2012/13 budget prior to 28 Mar Board meeting, further to consideration of consultation responses received after the 29 Feb ARC meeting.

✓ Present

× Apologies submitted

**Audit and Risk Committee
Annual Business Programme**

Meeting	Specific items of business	General items of business *
October 2012	<ul style="list-style-type: none"> • Consider and endorse the draft budget / Business Plan for the year commencing 1 April 2013 • Consider the lessons learned from the annual reporting process 2011/12 	<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)
February 2013	<ul style="list-style-type: none"> • Consider and endorse the budget for the year commencing 1 April 2013 • Consider and agree the Internal Audit Plan for the year commencing 1 April 2013 • Annual review of the Committee's effectiveness and its Terms of Reference 	
May 2013	<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.