

**Paper (12) 43 Annex A**

**Minutes of a meeting of Audit and Risk Committee on 17 May 2012**

**Date:** 17 May 2012  
**Time:** 10.00am – 1.15pm

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

**Present:** Steve Green Chairman  
(Members) Barbara Saunders  
Andrew Whittaker  
(Adviser) Philip Lindsell

**In attendance:** Madeline Dugmore National Audit Office (NAO), (except item 1b and item 11 onwards)  
Tim Drew PKF (UK) LLP (except item 1b)  
Edwin Josephs Director of Finance and Services, LSB – by telephone (except item 1)  
Chris Kenny Chief Executive and Accounting Officer, LSB (except item 1a)  
Chandra Mantha Director, KPMG LLP (except item 1b)  
Julie Myers Corporate Director (except item 1)  
John Ward Director, KPMG LLP (except item 1b)  
Michelle Jacobs Business Planning Associate (except item 1)  
Holly Perry Corporate Governance Manager (Minutes) (except item 1)

**Apologies** Sajid Rafiq National Audit Office

**Item 1 – Private session**

- 1a. The Committee and the internal and external auditors met in private session to discuss the internal audit annual report and opinion 2011/12 (Paper (12) 11 refers) and the NAO completion report 2011/12 and management letter (Paper (12) 12 refers).
- 1b. The Committee and Chief Executive met in private session to discuss members' recent training on effective Audit and Risk Committees and the external adviser's paper on transparency in internal financial information (Paper (12) 16 refers).

**Item 2 – Welcome and apologies**

2. The Chairman welcomed those present and in attendance to the meeting, including Michelle Jacobs who was observing 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: 29 February 2012 and 28 March 2012 and item circulated out of committee since the last meeting**

5. **The Committee resolved to agree the minutes of the meetings held on 29 February and 28 March and to submit them for signing as an authorised record.**

**The Committee also noted the IT systems internal audit report, circulated out of committee on 15 March, following assurances provided by the Executive on a number of points of detail. The ICO would conduct an advisory visit to the LSB in June 2012 and the outcomes would feed into further work by the Executive and a follow up internal audit early in 2013/14.**

**Item 5 – Report of action points**

6. The Committee noted the report of action points.

**The Committee resolved to note the report of action points.**

**Item 6 – Paper (12) 11 (ARC): Internal Audit Annual Report and Opinion 2011/12**

7. John Ward introduced KPMG's Internal Audit Annual Report and Opinion 2011/12 for the Committee's consideration.
8. In terms of the areas of the LSB's activity that had been reviewed, the internal auditors were able to provide the Committee with assurance that controls were in good order. There were similarly no issues in relation to financial control.
9. In relation to 'low priority' action points that had not been implemented - including two points from the follow up audit of Corporate Governance and Risk Management - KPMG confirmed that these were not mandatory for implementation in the same way that medium and high priority recommendations were.
10. **The Committee resolved to note KPMG's Internal Audit Annual Report and Opinion 2011/12.**

**Item 7 – Paper (12) 12 (ARC) – NAO completion report 2011/12 and management letter**

11. Madeline Dugmore and Tim Drew presented the completion report on the 2011/12 financial statement audit and final management letter.
12. The Committee noted:
  - NAO anticipated certifying the financial statements with an unqualified audit

opinion without modification and present the audit certificate as attached at Annex B to the report

- one issue had been identified regarding the depreciation and amortisation of non-current assets. This related to revising the useful economic lives of non-current assets from three years to four years, leading to a reversal of some charges, and also compensating adjustments to levy income and deferred income. The Executive had accepted the change, noting however that there was an element of subjectivity in terms of interpretation of standard IAS 16
- no significant issues had been identified in relation to internal controls
- all points raised in the 2010/11 management letter had been actioned appropriately
- on page 6 of the completion report, in relation to the risk that management might override the system of internal control, the Committee noted that the Chief Executive, Corporate Director and Director of Finance reviewed the accounting estimates on an annual basis to confirm that the basis on which they were prepared continued to be reasonable. In-year reviews were also conducted when necessary
- on page 9 of the completion report, NAO confirmed that the wording used ('adequate' in relation to the control environment and 'reasonable' in relation to the Governance Statement) was standard wording and reflected only an element of judgement. NAO would share best practice to help develop further the Governance Statement for 2012/13.

- 13. The Committee resolved to note the NAO's Audit Completion Report 2011/12 including the Management Letter on the 2011/12 financial statements audit and thanked Edwin Josephs for his leadership in compiling the accounts and the external auditors for their work in concluding the audit quickly.**

**Item 8 – Paper (12) 13 (ARC) – Draft LSB Annual Report and Accounts 2011/12**

14. Holly Perry presented the draft LSB Annual Report (Section A and Governance Statement) for the Committee's consideration. Edwin Josephs introduced the draft Accounts for the Committee's approval.
15. The Committee noted:

*On Section A of the report and the narrative elements of the financial statements:*

- the report was subject to a complete proof read, otherwise there were no issues to draw to the attention of the Committee in relation to Section A
- some adjustments would be made to the Chairman's introduction and in the main body of Section A to reflect specific points raised by the Committee
- the Ministry of Justice had proposed a minor adjustment to the wording of the Governance Statement (newly identified risks) which would be reflected
- some text changes would be made to the financial results narrative contained with the LSB members' report, to reflect points raised by the Committee – including reference to the specific figures for the levy, prescribed fees and reasons for, the underspend – as well as comparative figures for 2010/11.

NAO would need to cross-check the figures to ensure these remained consistent with the financial statements audit, but this was not anticipated to cause any significant time delay

- the strength of the Chairman's introduction was welcomed – the Committee requested that thought be given to how these messages were best presented to stakeholders

*On the financial statements:*

- in relation to the 'rent free creditor', the Executive clarified that the figures for rent charged were correct, and that the increase arose as a result of the irregular application of the rent free periods across the term of the lease. The auditors confirmed that the accounting was correct, and was consistent with previous years
- in respect of accruals, the figure represented sums not invoiced at year end - the Director of Finance confirmed that the figure was principally made up of research contracts, the amount of work already completed at the year-end but not yet invoiced. Other elements included internal audit fees and recruitment fees
- in relation to the 'going concern' status of the LSB, reference would be made to the assurances given by the Ministry of Justice to provide Grant in Aid, if necessary, in line with the wording used by the Office for Legal Complaints
- in relation to 'financial instruments', the wording would be expanded to clarify what this means within the LSB context
- further minor drafting changes would be made to reflect the Committee's comments, including in relation to the Chief Executive's pension and the necessity for the *non-current assets plus net current assets* line in the Statement of Financial Position

16. The Committee also noted the next steps, which were as follows:

- once signed, the Annual Report and Accounts and signed Letter of Representation would be sent to PKF, who would perform a series of checks on the document and once content that it was in line with the results of its audit the document would then be submitted to NAO during the first week of June, and it was anticipated that the Comptroller and Auditor General would certify the accounts on either 6 or 7 June
- the report was scheduled to be laid before Parliament on 19 June.

**Subject to incorporation of the points raised in discussion, the Committee resolved to endorse the draft LSB Annual Report and Accounts 2011/12 to the Board, for consideration and final approval at its 30 May meeting. The Committee thanked Edwin Josephs and Holly Perry for their hard work in completing work on the Annual Report and Accounts 2011/12 in good time.**

**Item 9 – Paper (12) 14 (ARC) – Annual report on expenses 2011/12**

17. Julie Myers and Edwin Josephs presented the annual report to the Committee of

Board Members and senior colleagues' expenses, which had formerly been considered by the Remuneration and Nomination Committee.

18. The Committee noted assurances that all claims had been made in accordance with the LSB's expenses policy.
19. **The Committee resolved to note the annual report. There were no novel or contentious aspects to the report, and on this basis it did not require formal submission to the full Board.**

#### **Item 10 – Paper (12) 15 (ARC) – Internal Audit Annual Plan 2012/13**

20. John Ward presented the proposals for internal audit activity during 2012/13. At the Executive's request, KPMG had listed the risks from the LSB's risk register and provided details on where the risks were linked to the internal audit plan.
21. The Committee noted:
  - as noted during earlier discussions (item 4 refers) the ICO would conduct an advisory visit to the LSB in June 2012 and the outcomes would feed into further work by the Executive prior to a follow up internal audit on information assurance controls early in 2013/14 – depending on the outputs of the ICO visit, the work might be brought forward to the end of 2012/13
  - the Executive would discuss further with KPMG the allocation of four days to the HR and Payroll audit planned in 2012/13
  - the work on risk mapping was welcomed and the Committee requested that KPMG and the Executive discuss in more detail and report back to the Committee on whether the intended areas for focus were correct, in the context of the resources available – KPMG confirmed it was content to consider further with the Executive the focus on top level risks
  - the proposed work on regulatory interventions was possibly premature – approved regulators' self assessment was potentially a better target area for focus
  - strategic planning would be looked at again in 2014/15 ahead of the 2015 to 2018 planning cycle
  - NAO and KPMG would continue to work closely on audit activity however NAO was unlikely to increase its reliance on internal audit work.
22. **The Committee resolved to note that the Executive and Internal Audit would meet to discuss the Internal Audit Plan for 2012/13. Once the further discussions had taken place, the Committee would be updated out of committee on the final draft Plan for 2012/13 for sign off.**

#### **Item 11 – Paper (12) 16 (ARC) – Transparency in internal financial information**

23. Philip Lindsell presented the report, which considered the underlying principles guiding the scope and content of financial information presented to the Board and the Committee with the aim of achieving a consistent and appropriate level of transparency. The principles and proposals also linked to business planning activity

and the preparation of the statutory accounts.

24. The Committee noted that:

- a balance needed to be struck, in view of the size of the LSB, between the level of detail provided and giving sufficient information to allow the non executives to constructively challenge the Executive
- the aim was to achieve a useful framework against which to judge papers – key principles were accuracy, clarity, completeness, consistency, technical rigour, placing figures in context, relevant accompanying explanatory material and being sufficiently self-explanatory
- specific proposals included the use of corresponding figures for the prior year, including more information on staff costs (given this accounted for the largest element of expenditure), greater detail on income, and quarterly reporting on cash flow and bank balances
- more information on assumptions (both on planning and reporting, and both before and after the budget had been set) was felt to be necessary
- Members also suggested some detail – at the time of budget setting discussions – on the scale of the budget overall, and the relative impact on the work programme of increasing or decreasing headcount
- the Executive confirmed it was content with the recommendation to take forward the work, and to develop an example of the type of reporting that would meet the Committee's expectations, together with an accompanying narrative for circulation out of committee for consideration ahead of the Committee's October meeting – subject to the ability of the outsourced systems to extract the detail required
- the Board had historically taken seriously its role in budget scrutiny. An element of the work sitting behind the budget related to strategic decision making. The Board would need to be involved in testing assumptions and the limits it was prepared to go to in balancing the resource available and the work programme achievable within the envelope. The September strategic session of the Board was felt to be the appropriate place to do this
- work would be undertaken to timetable the 2013/14 budget setting round, to ensure synchronicity in terms of the Board and Committee's input, and the timelines for consulting on the draft business plan 2013/14

**25. The Committee thanked Philip Lindsell for preparing the report and invited the Executive to present final proposals to the 15 October 2012 meeting of the Committee regarding the future scope and content of internal financial information, to feed into the cycle for budget setting for 2013/14.**

**Item 12 – Paper (12) 17 (ARC) – LSB corporate risk register review**

26. Julie Myers introduced the latest draft corporate risk register, which had been updated by the Gateway Group since the full Board adopted the refreshed risk register at its 28 March meeting. Two new risks, as detailed in the paper, had been added to the register.

27. The Committee noted:

- the heading relating to actions would be amended to 'action planned and update', to allow for some narrative to be included on the latest position
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- [redacted]
- [redacted]
- [redacted]

28. The Committee resolved to adopt the corporate risk register subject to incorporation of the amendments agreed in discussion.

**Item 13 – Paper (12) 18 (ARC) – Review of the effectiveness of the ARC**

29. Holly Perry introduced a paper supporting the requirement of the Committee to review periodically its Terms of Reference and its own effectiveness.

30. The Committee noted:

- in terms of the summary of progress during 2011/12 in addressing the areas identified for improvement in the effectiveness and performance of the Committee at the start of the financial year, the Committee's view was that good progress had been made. A small number of items relating to the relationships between the internal and external auditors and the Executive would be rolled forward to the 2012/13 action plan
- in terms of the assessment of progress against the matrix set out at Annex B to the paper, the Committee requested that thought be given to question 13 on the effectiveness of the Annual Report in communicating effectively to all stakeholders – the strength of the Chairman's introduction and communications activity to accompany publication of the report would help, however clarity was needed as to what the aims of the annual report were and what was intended to be achieved. The question would be adjusted accordingly
- on question 16 of Annex B, it was not felt appropriate or necessary to include an action for 2012/13. However the Committee felt the rating could be increased for 2011/12 from 1 to 2 in light of the discussions about the NAO's contract with PKF held at the 29 February meeting
- on question 31 of Annex B, the Committee felt the rating could be increased to 3 on the basis of the Committee's review and approval of the LSB's policies on whistle blowing at its October 2011 meeting
- in terms of the NAO Audit Committee Self-Assessment Checklist, the Committee considered that a focused approach to the questions was required – members would consider, on an exception basis, those areas it wished to concentrate on and alert the Corporate Governance Manager, who would check any gaps and challenge the Committee as necessary. Areas identified would be added to the action plan for 2012/13
- further work would undertaken on preparing a final draft action plan for 2012/13 for circulation out of committee by the end of June, and those members who were available would meet after the 11 July Board meeting to agree and sign off the plan.

31. **Subject to the points raised in discussion, the Committee resolved to:**

- **note the summary of progress during 2011/12 in addressing the areas identified for improvement in the effectiveness and performance of the Committee at the start of the financial year**
- **note the draft matrix assessing the effectiveness of the Committee in 2011/12 as the basis for a new action plan for 2012/13**
- **use elements of the NAO Audit Committee Self-Assessment Checklist to**



**supplement the action plan for 2012/13**

- **subject to the addition of reference to responsibility for the annual review of expenses, agree the Committee's terms of reference for onward submission to the Board's 30 May meeting**

**Item 14 – Paper (12) 19 (ARC) – Draft Annual Report of the ARC 2011/12 and review of Terms of Reference**

32. Holly Perry presented the draft report on the activities of the Audit and Risk Committee during 2011/12 for the Committee's consideration. Subject to revisions to the drafting to more accurately reflect the level of work the Committee committed during the year to improving its effectiveness, the Committee agreed the report.

**The Committee resolved to approve the report for onward submission to the Board's 30 May meeting.**

**Item 15 – Any other business**

33. There was no other business.

**Item 16 – Date of the next meeting**

34. The Committee would next meet on 15 October, 10.00am - 1pm. The venue would be LSB's offices at Victoria House, Southampton Row, London WC1B 4AD.

HP 18.05.12

Signed as an accurate record of the meeting

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Date

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