

AUDIT AND RISK ASSURANCE COMMITTEE
("the Committee")
MINUTES

Meeting held on 12 March 2019
10:00am to 13:00pm | One Kemble Street, London WC2B 4AN

Present: (Members)	Terry Babbs Marina Gibbs Catharine Seddon Michael Smyth John Ward	Chair Independent Financial Adviser
In attendance:	Neil Buckley Tim Borthwick Holly Perry Jenny Prior Rusere Shoniwa Melanie Stewart Michael Asare Bediako David Eagles Ella Firman Shelagh Dale Andy Sayers	Chief Executive and Accounting Officer Policy Associate (minutes) Head of Corporate Services Corporate Services Manager Interim Director of Finance Head of Finance BDO LLP External Auditor BDO LLP External Auditor National Audit Office (NAO) External Auditor National Audit Office (NAO) External Auditor KPMG LLP Internal Auditor
Apologies:	Paul Cuttle	KPMG LLP Internal Auditor
Observing:	Alison Wedge Ramandeep Bhatti	Ministry of Justice Admin Assistant
Attendance for items:	Danielle Viall	General Counsel (item 15)

AUDIT AND RISK ASSURANCE COMMITTEE MEETING

Item 1 – Private session without auditors – members meeting as a Finance Committee

1. The ARAC met as a Finance Committee to discuss the update to the Budget for 2019/20.

Item 2 - Private session with auditors

2. The Members met in private session with the internal and external auditors.

Item 3 - Welcome and apologies

3. The Chair welcomed everyone to the meeting. No apologies had been received. The Chair extended a warm welcome to Melanie Stewart, who had started in the role of

Head of Finance on 11 March 2019. The Chair also welcomed David Eagles, who had taken over from Zoe Thompson at BDO following Zoe's retirement.

Item 4 - Declarations of interests relevant to the business of the Committee

4. No interests relevant to the business of the Committee were declared.

Item 5 - Minutes of the previous meeting

5. The minutes of Finance Committee meetings on 2 October 2018 and 8 November 2018 were **APPROVED**.
6. The minutes of the ARAC meeting held on 2 October were **APPROVED** subject to an amendment at paragraph 11 – replacing 'external' with 'interim' in the third bullet.

Item 6 - Action tracker

7. The Committee reviewed and **NOTED** the action tracker. The Interim Finance Director confirmed that he had now completed the full impact assessment of the new financial reporting standards.

Item 7 - KPMG Internal Audit update

8. Andy Sayers from KPMG presented the internal audit update, outlining that there were two internal audits remaining in the year and that they would be delivered as agreed in time for the May ARAC meeting. The internal audit of *Financial management: budget setting and monitoring* had provided significant assurance with two low priority recommendations, both of which had been accepted by the executive.
9. Andy reported that he would be retiring from KPMG in April 2019 but that Paul Cuttle, Senior Manager, would remain as the LSB's lead. [REDACTED]
[REDACTED]
[REDACTED] [FoIA exempt S43(2)]
10. The Committee raised the following points in discussion:
 - A budget holder's charter had been successfully implemented at the General Dental Council and that this should be considered in relation to the recommendation that budget holders sign off budgets. **ACTION:** The executive to consider introducing a budget holder's charter.
 - [REDACTED]
[REDACTED] [FoIA exempt S43(2)]
11. The Committee **NOTED** the update.

Item 8 – NAO external audit – planning report 2018/19

12. Michael Asare Bediako from the BDO introduced the audit planning report, which had been circulated out of committee in December 2018.
13. The following points were drawn to the Committee's attention:
 - [REDACTED] [FoIA exempt s36(2)(b)]

- Areas of audit focus, which included the new standards IFRS 9, IFRS 15 and IFRS 16 - the implementation of IFRS 16 was being deferred to 2020/21 and therefore the new standard did not need to be adopted for the 2019 office move.
- The materiality threshold – overall account materiality was £75k (2% of the annual gross expenditure of the LSB), and the error reporting threshold was £2k.
- The timetable, set out at Appendix 1 of the report.

14. The Committee **NOTED** the update.

Item 9 – LSB Corporate Risk Register

15. Holly Perry introduced the Corporate Risk Register, outlining that this was the first time that ARAC had reviewed the register in its new format since it was presented to the Board in November 2018. Changes to risks were detailed in the cover paper.

16. The Committee discussed whether or not the risks were sufficiently high level and if any risks should be grouped. It was agreed that strategic risks needed be on the Corporate Risk Register and that the executive should review all risks to ensure they met the strategic risk threshold, with a view to grouping risks as necessary. **ACTION:** The executive to review all risks in light on the Committee’s discussion.

17. The Committee scrutinised the risks in turn and raised the following points in discussion:

- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] [FoIA exempt s36(2)(b)]

- 18. The Committee agreed that it would be useful for risk dashboard to be moved to the end of the document in place of the template.
- 19. The Committee **agreed** the updated risk register, subject to the amendments raised in discussion being reflected in the version to be considered next by the Board.

Item 10 – Update on LSB Annual Report and Accounts 2018/19

- 20. The Committee considered the timetable for production of the Annual Report and Accounts.
- 21. The Interim Finance Director updated the Committee that the audit close-out meeting listed for 3 May would now take place on 13 May but that this change had no implications on the overall production timetable.
- 22. The NAO confirmed that they were comfortable with the proposed timetable. Alison Wedge from the MoJ requested to be updated if there was any slippage in the timetable and agreed to follow up internally with MoJ to confirm the proposed laying date.
- 23. The Committee **NOTED** the update.

Item 11 – Draft Annual Report of ARAC 2018/19 including review of the effectiveness of ARAC

- 24. The Committee agreed to the report subject to the following updates to be made by the executive. **ACTION:** (post meeting note: all complete).
 - Paragraph 2: The date should be 26 March 2019.
 - Paragraph 5: Reference should be made in future years to the *Management of risk in government: framework* published by the Cabinet Office.
 - Paragraph 25: The report referenced should be the 2018/19 report.
 - The report should reference the service of Terry as outgoing Chair of ARAC.
 - Annex B: This table should include Michael Smyth and remove David Eveleigh.

Item 12 – Deep dive – data management

- 25. Holly Perry presented the deep dive to the Committee. The executive considered this to have been a particularly timely deep dive given the linkage with the IT transformation currently underway. It was acknowledged that there was some weakness in the executive’s use of the electronic document management system Wisdom, and full implementation of the retention and disposal policy. The executive

have a number of planned actions to address the identified weaknesses, some of which are planned to be resolved through the IT transformation.

26. The Committee reviewed the paper in depth and made the following comments:

- The move to a predominantly paperless environment after the office move required a behaviour change on the part of colleagues. It was noted that the HR Manager had conducted meetings with all colleagues and that no colleague had raised concerns as yet. The HR Manager would conduct further rounds of meetings with colleagues prior to the office move and the transition towards a paperless environment would be part of the discussions.
- The inclusion of data management as a standing item for Colleague Forums was praised. The question was raised as to how colleagues working from home or absent receive updates and messages. The Head of Corporate Services explained that a note of each Colleague Forum is distributed to all colleagues and that it is intended that Colleague Forums could be conducted via video link following the IT transformation.
- It was questioned whether there was a corporate policy covering who owned shared mail boxes. The executive was unsure but agreed to check and update the relevant policy as required. **ACTION:** The executive to check ownership of shared mail boxes.
- The Committee agreed that it would like sight of any data losses regardless of the risk rating of the loss by the executive, out of committee at the time. In addition, there would be an annual update to ARAC on data losses. **ACTION:** The executive to circulate timely updates on data losses, as well as an annual update to the Committee.
- The Committee considered the role of the General Counsel in developing the retention and disposal policy. One example of where it would be appropriate for the General Counsel to review is the current difference in retention period for applications and notes related to successful candidates versus the retention period for unsuccessful candidates. The Committee agreed that it was necessary for the General Counsel to approve the retention and disposal policy. **ACTION:** The General Counsel to sign-off on the retention and disposal policy.
- It was agreed that only necessary data should be migrated as part of the IT transformation and that practical considerations were necessary to ensure this work was efficient. It was noted that this work has senior level engagement from the executive.
- It was noted that a clear desk policy would be a necessity once hot desk arrangements were in place in the new office.
- Andy Sayers from KPMG outlined that the general observed practice was that paper records were now being retained electronically but that he could not advise on any legal requirements to maintain hard copy records. **ACTION:** The executive to check on the legal requirement to retain hard copy originals of signed documents.
- The Committee agreed it would be necessary for colleagues to do 'clean-up days' prior to the office move. **ACTION:** The executive to schedule dates for 'clean-up days' prior to the office move.
- The Committee considered that 'secure print' should be the default print option. **ACTION:** The executive to change the default print option to 'secure print' as part of the IT transformation and office move.

27. The Committee reviewed and **ENDORSED** the planned actions of the executive.

Item 13 – Cyber security risk update

28. The Interim Finance Director presented the cyber security risk update by outlining that it should be considered against the backdrop of the IT transformation and the plan to introduce Cyber Essential certification.

29. [Redacted]

- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted] [FoIA exempt s36(2)(b)]

Item 14 – Update on the IT transformation

30. The Interim Finance Director provided the Committee with an oral update on the IT transformation. [Redacted]

[Redacted]

[Redacted] [FoIA exempt s36(2)(b)]

31. The Committee **NOTED** the update and was comfortable with its level of involvement.

Item 15 – Update on the office move

32. Danielle Viall presented the update on the office move, outlining that there was an update on one of the two shortlisted properties since the paper had been dispatched. An issue had arisen with the conferencing facilities at The Rookery that needed to be resolved, as this had a cost impact. Other options, including the third best option, Lambs Conduit, and other floors at The Rookery, were being explored. [FoIA exempt s43(2)]

33. External advice had been sought on the risk of incurring costs related to dilapidations and reinstatement liability. [Redacted] [FoIA exempt s36(2)(b)] It was clarified that the executive was of the view that there was no liability and that this view had been formally communicated to the Office for Rail and Road.

34. The Committee made the following points in discussion:
- The lack of engagement from the Government Property Agency (GPA) was concerning. It was agreed that the LSB needed to be clear with the GPA that it had a cut-off point whereby it would not be able to place us into civil estate. This cut-off would be when the LSB enters the Heads of Terms on commercial properties. In addition, the Committee considered that the LSB needed to be clear that it was incurring costs while searching for commercial estate. **ACTION:** Executive to communicate the cut-off point to the GPA and the costs being incurred. Alison Wedge, MoJ agreed to prompt GPA to engage with the LSB.
 - It was considered that a lease term longer than five years could provide benefit if there were appropriate break clauses. The executive confirmed that the lease term would form part of the contract negotiations. **[FolA exempt s36(2)(b)]**
 - It was stated that the new office would need appropriate security and meeting rooms to accommodate external stakeholders. The executive confirmed that these were part of the office move project team's considerations and were covered in the office move specification.
35. The Committee **NOTED** the update on the office move.

Item 16 – Papers considered out of committee since 2 October 2018

36. The Committee **NOTED** the list of papers that had been considered out of committee. The Committee agreed that papers circulated out of committee should go to the internal auditors, external auditors and the MoJ, just as they would if the papers were being dispatched to an ARAC meeting. It was agreed that this should apply retrospectively, as well as prospectively. **ACTION:** The executive to send out of committee papers to the external attendees.

Item 17 – Forward look

37. The Committee **NOTED** the forward look agenda. It was agreed that the forward look for assurance mapping and the deep dives should be populated for the incoming Chair of ARAC. **ACTION:** Executive to propose options for the forward look in respect of assurance mapping and deep dives (action complete).

Item 18 – Any other business

38. The Interim Finance Director provided oral confirmation that no incidents of fraud had occurred since the last Committee meeting. The Committee asked the external auditors if an oral was sufficient or if a written statement was necessary. The external auditors confirmed that oral was appropriate for a noting item on fraud for the LSB. The Committee **NOTED** the fraud update and requested that an update on fraud assurance be made a standing agenda item for ARAC to note. **ACTION:** Fraud to be made a standing noting item on future ARAC agendas.
39. Catharine Seddon proposed a vote of thanks to Terry Babbs on his retirement from the role of LSB Board Member and Chair of ARAC at the end of March. Terry had provided the Committee with focus, rigour and an appropriate level of scrutiny of the executive, and the Committee was indebted to him for his Chairmanship. The Committee wished Terry well for the future.

TB, 14 March 2019

Signed as an accurate record of the meeting

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Date

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