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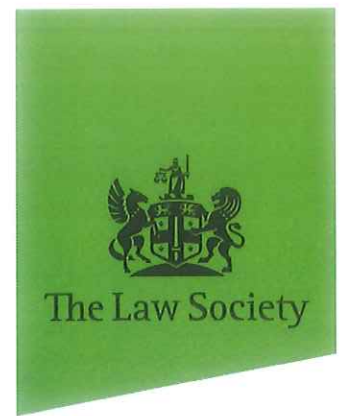
Confidential

Dear Helen

Legal Services Board Investigation

1. On 4 June 2018 the Society and the LSB agreed undertakings to allow the LSB to monitor the progress of steps taken by the Society to address concerns identified in the LSB's investigation report published on 31 May 2018. It was also agreed that the Society would report to the LSB by 30 November 2018 on how its governance arrangements with the SRA have operated over the previous 12 months with a focus on their impact (if any) on the SRA's effectiveness. (You will be aware that the report focused on the period from autumn 2014 until February 2017.)
2. Having carefully reviewed and reflected on the findings made and on the matters of concern identified in the report and in the statement of censure - particularly in relation to the design and management of appointment and reappointment processes for SRA Board members and in relation to proportionality and transparency of oversight and monitoring arrangements between the Society (as approved regulator) and the SRA in the interest of achieving the regulatory objectives - the Society responds as follows with reference to the agreed undertakings. The Society has shared an earlier draft of this document with the LSB and the SRA and is grateful for the constructive comments and suggestions that were received from the LSB on its content.

Appraisal of the Society's 2017 review of its General Regulations in light of the published report, and evidence that the revised role and responsibilities of the Business and Oversight Board, the Audit Committee and the Remuneration Committee have enabled the SRA to work effectively and that the SRA's effectiveness has not been impaired by the requirement to co-operate with the Business and Oversight Board, the Society Council and the Audit Committee or to provide information to them.



3. As the LSB is aware, in October 2017 the Society's Council adopted significant changes to its oversight and governance arrangements with the SRA through amendments made to the Society's General Regulations. This was the culmination of an extensive process of joint working between the Society and the SRA over the course of last year, designed to reflect an appropriate balance between the requirement for regulatory efficiency and independence and the requirement for maintaining agreed arrangements that permit the Society to perform its oversight role as approved regulator.
4. As previously reported to the LSB, the changes in respect of oversight may be summarised as follows.

Business and Oversight Board

5. The new arrangements require the Society's Business and Oversight Board to exercise the Council's approved regulator function of oversight of the SRA Board in accordance with an agreed protocol. The protocol now forms part of the General Regulations and recognises that the SRA Board has delegated responsibility for the Society's regulatory functions and responsibility for the governance of the SRA, including its financial management and control, management and control of internal processes and procedures, management of risk and internal audit, and control and management of information. It equally recognises that the SRA Board discharges these responsibilities as part of the single legal entity that is the Law Society and that, while responsibilities in respect of the Society's regulatory functions are delegated to the SRA Board, ultimate accountability remains with the Council as approved regulator.
6. The protocol provides for reporting requirements and provides that the Business and Oversight Board oversees:
 - a) The governance arrangements for oversight of the SRA Board and the governance arrangements established by that board (for example in relation to its committees) so as to be able to provide assurance to the Society's Council that they are operating effectively and in accordance with best practice; and

- b) Financial management and control within the SRA, so as to assure the Council that this is also operating effectively, in accordance with general Society controls and with propriety.
 - c) The Business and Oversight Board also considers and recommends the SRA budget to the Council, and considers:
 - The SRA Board's draft Net Funding Requirement and its final budget for recommendation to the Council.
 - An annual report from the SRA Board within three months of the end of each financial year which provides information on the SRA Board's oversight and governance of the SRA including how that board has discharged its responsibilities both directly and through its committees; and information on financial performance.
 - Management letters from the Society's external auditors on the audit of the SRA element of the Society's accounts, including those for the Compensation Fund.
 - Reports from the SRA Board in response to any assessment of the SRA's regulatory performance by the LSB.
7. Provision is made for the Business and Oversight Board to report to Council any situation where that board considers:
- a) That there has been a manifest and fundamental failure by the SRA Board to exercise its delegated functions; or that the SRA Board is unable to govern itself or its finances in a sound and robust manner, **and**
 - b) The SRA Board has failed to respond in a manner which resolves the issue to the satisfaction of the Business and Oversight Board.
8. The Business and Oversight Board no longer has functions relating to the pay and performance of SRA executives. Its terms of reference also no longer include a role relating to shared services arrangements, which are now managed jointly by SRA and Society executives.

9. The Business and Oversight Board meets three times a year and reports annually to the Council (in March) on the outcome of its oversight of the SRA Board over the previous financial year. The first reporting cycle will be March 2019.

10. Since January 2017, the appointment brief for members of the Business and Oversight Board explains to candidates that:

"The principle of regulatory independence which governs the relationship between approved regulators and their regulatory boards is enshrined in the Internal Governance Rules made by the Legal Services Board. This means that the representative body must not fetter the independence of the regulatory arm, and it is important that members of the Business and Oversight Board understand this relationship and put it into practice... The role of this Board is to exercise oversight of the arrangements by which the Law Society discharges its approved regulator role in relation to the SRA, taking into account the regulatory objectives in the Act."

11. The skills and personal qualities required for membership of the Business and Oversight Board include the following:

"Demonstrate the ability to determine complex issues objectively, applying independent balanced judgment capable of commanding the respect and confidence of both the Law Society and the SRA; and

Be able to challenge constructively the opinions of others, work to achieve a shared consensus and accept collective responsibility."

Audit Committee

12. In view of the principle of accountability of approved regulators recognised under the Society's legislative framework and of the Society's group structure which requires consolidated accounts, the new approach does not introduce complete independence in respect of the SRA's financial risk and audit arrangements. Since the SRA's concerns related principally to the **scope** of the Audit Committee's functions under the previous arrangements, a review of the committee's terms of reference was undertaken against the LSB's Internal Governance Rules and guidance and against the principles relating to the performance of regulatory functions. For example, the previous terms of reference included a requirement for the committee to receive and consider reports from staff engaged in the

internal audit function of the Society **and** the SRA; to keep under review the arrangements for internal audit, internal control and risk management within the Society **and** the SRA and to report to the Society's Board and to the Council any concerns about resources, independence or any matters affecting the effectiveness of these functions; and to advise the Society's Board and the Council on **all** aspects of audit and financial control.

13. The Society also took account of the SRA's concerns that scrutiny of its internal reports and of the operation of regulatory functions and activities presented a risk of conflict and a risk of undue interference with the discharge of regulatory functions and with the operational management of those functions.
14. To address these concerns, the revised terms of reference for the Audit Committee now make it clear that organisational responsibility for ensuring the operation of effective systems of financial control, risk management and internal audit is separated and delegated to the SRA Board and the Society's Board respectively. The SRA Board and the Society's Board report annually to the Audit Committee to provide assurance on the operation of those systems, including how they operate in respect of shared services and common systems. The SRA Board and Society Board also share responsibility to report to the Audit Committee any matters arising from the systems for financial control, or elsewhere, which are relevant to the Audit Committee's responsibility to provide assurance to the Council on group accounts and financial statements.
15. The Audit Committee continues to review and advise the Council on the Society's group accounts and financial statements and accounting policies (including the SRA) and to provide assurance in respect of accounting standards. It also continues to advise on the appointment of the Society's external auditors and oversees their work. It may seek information relevant to any aspect of its terms of reference from any board or committee member (including the SRA Board) or from any member of the Society's staff or SRA staff. The committee may report any failure to comply with such requests to the Council. The committee also retains the power to direct any member of the Society's staff or SRA staff to attend any of its meetings for the purpose of providing information on any aspect of its terms of reference, and may report any failure to the Society's Chief Executive or the SRA Chief Executive.

16. The composition of the committee has been revised and is now limited to five members. The chair is an independent qualified accountant with appropriate financial experience, appointed by the Council on the recommendation of the Society's Board. There are two additional independent members, also with appropriate financial experience, appointed by the Council on the recommendation of the Board and the Chair of the committee. Since both the Society and the SRA have responsibility to report annually to the Audit Committee and have an ongoing obligation to report any areas of concern, the remaining two members are the Chair of the SRA Board's Finance & Audit Committee and the chair of the Society's Board or another member of the Society's Board. The Society has deliberately chosen a lay member of its Board - an accountant and former member of the Audit Commission - to represent the Society on the committee in view of concerns about the ability of the SRA to openly provide information to the committee and concerns about potential or perceived conflicts of interest that may arise from the presence of a member of the solicitor profession as the Society's representative on the committee.
17. Before they were implemented, these proposals were reviewed by the Society's external auditors who confirmed that in their view the revised terms of reference for the Audit Committee comply with the requirements of the LSB's Internal Governance Rules and that the auditors would be able to satisfy their responsibilities under the new arrangements by having continued access to the internal audit functions in both organisations and their respective boards. While the revised terms of reference for the Audit Committee are not wholly in line with the UK Corporate Governance Code, they recognise and reflect the legal framework in which the Society and the SRA are required to operate - in particular the SRA's freedom to define a strategy for the performance of its regulatory functions and to implement that strategy independent from representative control or undue influence. This includes access to the resources reasonably required to meet its strategy; effective control over the management of those resources; and the freedom to govern its internal processes and procedures.
18. The Society considers that these audit arrangements reflect a proportionate and acceptable corporate governance arrangement; comply with the LSB's Internal Governance Rules; and enable the external auditors to satisfy their responsibilities regarding the group's financial statements.

Remuneration Committee

19. The composition of this committee has also been revised, and now comprises the three external members of the Business and Oversight Board *ex officio*, one of whom is elected by the Business and Oversight Board as chair of the committee. It no longer includes the chair of the Society's Board (previously Management Board) or a member of the SRA Board as non-voting members.
20. The committee's terms of reference no longer include the making of recommendations on the performance management for the SRA Chief Executive or other SRA executives or the senior managers reporting to them, or recommendations on the pay policy, terms and conditions or any incentive arrangements for the SRA's Chief Executive or other SRA executives. The committee is also no longer required to consult with the Society before making recommendations to the Business and Oversight Board on the remuneration and terms and conditions of the Chair or members of the SRA Board.
21. The committee also no longer makes recommendations on the pay policy or the terms and conditions of employment for persons reporting to the Society's Chief Executive or to the SRA's Chief Executive, or for any SRA executive or senior managers, or recommendations on the policy and processes by which the Society and SRA Chief Executives determine any bonuses or incentive payments for senior managers.

The Society's (Previous) Management Board and the Society's Board

22. The Society's revised Regulations introduced a new Board replacing the previous Management Board. Consistent with (1) the objective of reducing complexity; (2) the objective of removing ambiguity and duplication, and (3) the principle that the Business and Oversight Board would be the single mechanism for exercising approved regulator oversight independent from the Society's representative functions, the new Board does not have:
- a) A function of advising the Council on the Society's approved regulator functions.
 - b) A function of advising the Council on the amount which needs to be raised through contributions to the Compensation Fund.

- c) Any residual function of expressing views to the Council on any matter in respect of which it is the responsibility of the SRA Board or the Business and Oversight Board to make recommendations to the Council.

23. As mentioned, the Board approves and monitors the Society's internal audit environment **subject to** the SRA Board's delegated functions in respect of internal audit as set out above.

24. The Board continues to recommend to the Council the amount to be collected through practising fees in order for the Council to set the total amount to be raised and for the Council to set, in relation to the proportion of practising fees to be applied for permitted purposes relating to representative functions, the respective amounts that should be payable by categories of solicitor and firm.

25. The new Board has no ability to oversee the handling of litigation arising from the SRA's functions. The SRA Board has authority to deal with litigation arising from regulatory or disciplinary decisions; any legal challenge to the validity of any exercise of its functions; and any other matter related to the discharge of its functions.

26. In summary, the Society has positively responded to concerns by doing extensive work over the past year to introduce both structural and practical change to its oversight arrangements. The extensive changes made to the General Regulations are designed to address issues and concerns relating to complexity, disproportionate burden and the risk of impairment of regulatory effectiveness and independence whilst ensuring that adequate and appropriate oversight, scrutiny and monitoring arrangements remain in place for the regulator to be held to account. The Society believes that this has been achieved, and that the revised arrangements strike a balance.

27. While the changes were adopted by the Council with an overwhelming majority, the Society has previously stressed that this process (and the progress made) was achieved in good faith and in the expectation that the Society would rely on the LSB for ongoing support and guidance in the implementation of the new arrangements. The Society has also highlighted a concern of the Council, based on past experience, that an effective and sustainable solution

must be found for the Society's discharge of its oversight responsibility as approved regulator. While significant changes have been implemented, there remains a need for greater clarity and definition of oversight and for the LSB to take a proactive role in making it work in practice. The Society hopes that this will be achieved following the LSB's current consultation on the LSB's Internal Governance Rules and oversight guidance, and looks forward to working with the LSB in implementing the outcomes.

28. The Society would also note that a meaningful appraisal of the new arrangements is limited by the fact that they have been in operation for a relatively short period of time. However, we enclose copies of confidential minutes of the meetings of the Business and Oversight Board and Audit Committee held since October 2017. It will be noted that the Business and Oversight Board held a meeting on 12 December 2017 and that the minutes reflect a robust and constructive discussion about the impact and implications of the new arrangements and how the Board's terms of reference would work in practice. The arrangements were effectively implemented at the next meeting held on 27 March 2018 which, consistent with its terms of reference, included a discussion on the SRA Strategic Risk Register, the SRA Board Annual Report and the Management Letter from External Auditors. Again consistent with its terms of reference, the Board's next meeting on 13 June 2018 included a discussion of the LSB's Investigation Report, the SRA Strategic Risk Register and a discussion and recommendation of the SRA's draft Net Funding Requirement. The minutes of the meeting of 20 September 2018 (attended in part by the LSB's chief executive) reflect a full and frank discussion about evolving and forming better relationships, and about collaboration.
29. The first meeting of the newly formed Audit Committee was held on 8 June 2018 and its next meeting was held on 1 October 2018 (approved minutes not yet available).
30. The Society does not consider that any of the minutes of the meetings of these bodies reflect any evidence of or concern about the new oversight arrangements having a negative impact on their effective operation or conduct of business, or having impaired or risked the impairment of the efficiency of the SRA Board in the performance of its regulatory functions or in relation to its reporting requirements.
31. We also enclose observations from the independent chairs of the Business and Oversight Board and Audit Committee with a view to assisting the LSB's objective understanding and

appraisal of how the revised roles and responsibilities of those bodies have enabled the SRA to work effectively and without impairment of its effectiveness by the requirement to co-operate or to provide information.

32. Relevant extracts from minutes of Council meetings are also enclosed, for example in relation to approval of the SRA's budget in October 2017 and approval of the Society Group's Net Funding Request, the practising certificate fee and the Compensation Fund levy jointly presented by the Society and the SRA in July 2018. The Society does not consider the minutes to reflect any inappropriate, burdensome or disproportionate requests for information that may have impaired the SRA's effectiveness or undermined the public interest in effective regulation of legal services.
33. It should be clarified that any potential concerns about information requested from the SRA must, in the context of the investigation, be limited to information requested for the purpose of assurance in performing the Society's function as approved regulator. In its representative capacity, the Society naturally performs functions in regular and robust dialogue with the SRA, particularly in respect of regulatory affairs. Unsurprisingly, in the course of performing those functions the Society requests the SRA to share information for the benefit of members of the profession - for example to clarify points of potential ambiguity or uncertainty within regulatory rules. Information requests made by the Society in this representative role should not be confused with information requests made for the purpose of oversight or assurance as approved regulator, and have no bearing on the SRA's regulatory efficiency or independence.
34. In respect of the administration of the Business and Oversight Board and Audit Committee, the Society acknowledges the problems and concerns identified in the report relating to efficient and competent governance support. Since the period covered by the report, the Society has assigned responsibility for the support of the Business and Oversight Board and Audit Committee to more senior and experienced staff working in the Society's executive office. This has significantly improved the quality and accuracy of minute-taking and the timely circulation of papers for meetings. The Society has also taken account of the constructive comments made in the report in relation to succession planning, and taken steps to ensure that recruitment processes are planned and undertaken in advance of independent vacancies arising on the Business and Oversight Board and on the Audit Committee.

Evidence of how the Law Society's remaining role in rule change applications has worked in practice

35. The Society effectively has no approval role in respect of rule change applications following the changes made to the General Regulations which now set out a clear process for rule change applications made to the LSB. They provide that the SRA Board may exercise its powers *'to make, amend and revoke rules, regulations and codes... relating to regulatory matters'* if it satisfies the Legal Services Act 2007 and the criteria set out in the General Regulations.
36. The Regulations previously required the SRA to notify the Society's President of any proposed rule change application at least 7 days (or such lesser period as the President may allow) in advance of submitting a rule change application to the LSB. This requirement has been removed and the SRA is now required to notify the President of the text of any rule or rule amendment agreed by the SRA Board and to send to the President a copy of any approval application made by the SRA to an external authority when it is submitted to the relevant authority. This means that the SRA Board is now able to make applications for rule changes without any requirement for advance notification to or approval by the Society. The amendments to the General Regulations also removed provisions that previously permitted the Society's Council to issue a direction to the SRA Board requiring that a rule-change proposal not be implemented.
37. Since the introduction of these changes, the following rule change applications have been made by the SRA and notified to the Society:
- a) January 2018 - Application to the LSB for approval of amendments to the SRA's Authorisation of Individuals regulatory arrangements relating to the proposed introduction of a Solicitors Qualifying Examination.
 - b) June 2018 - Application to the LSB for approval of changes to the regulatory arrangements regarding the Insurance Distribution Directive.
 - c) July 2018 - Application to the LSB for approval of changes to SRA regulatory arrangements to introduce the SRA Transparency Rules and the SRA Roll, Registers and Publication Regulations.

- d) August 2018 - Application to the LSB for approval of changes to the SRA's Regulatory Arrangements relating to its Looking to the Future proposals.

38. We enclose details provided by the SRA confirming the implementation of the new rule change arrangements since October 2017 and the notifications made by the SRA to the Society over this period.

Evidence of how the Law Society Council's role in matters related to terms of office, appointment, reappointment and conduct of Board members has worked in practice

39. The changes introduced to the General Regulations in October 2017 also include matters relating to the terms of office, appointment, reappointment and conduct of members of the SRA board. Those matters are now governed independently by the SRA Board under an agreed protocol which forms part of the Regulations. The protocol also reflects the process that was used to appoint the SRA Board Chair in 2014 and to appoint SRA Board members in 2014, 2015 and 2016 through a panel chaired by the Chair of the SRA Board and which included a member of the SRA Board, a representative of the Society and an independent panel member. However, while authority to make these appointments was previously delegated by the Council, it now stems directly from the protocol which reflects the approach and requirements set out in the LSB's Internal Governance Rules.

40. The selection criteria for appointment of SRA Board members are determined by the SRA's People Strategy Committee (a committee of the SRA Board) after receiving recommendations from the Chair who takes into account the views of the Board. The People Strategy Committee also advises the SRA Board Chair on the composition and skill mix of the Board and on matters relating to terms of office and reappointments, and it oversees the process of appointments made to the Board.

41. Long listing and short listing of candidates is carried out by an appointment panel. The protocol recognises the requirement of the LSB Internal Governance Rules for the appointment process to be demonstrably free from undue influence of persons with representative functions and recognises that the panel should be seen to be capable of appointing a qualified and independent Board. Panel members are selected by the Chair of

the Board (who also chairs the panel with a casting vote) and include a member of the Board (who may be a solicitor or a lay member), an independent member, and a member of the Society's Council. In respect of the latter, an invitation is extended to the President to participate but she may choose to nominate the Vice President or Deputy Vice President to be a member of the panel instead.

42. The selection criteria for the appointment of the chair of the SRA Board are designed by the SRA after consultation with the Society. The protocol requires that the Chair must be one of the lay Board members. The process for appointment or reappointment is again delegated to an independent panel appointed by the SRA Board in a process managed by its People Strategy Committee and following consultation with the Society. The panel is chaired by an independent member (with a casting vote) and includes, as a minimum, a member of the Society's Council – usually chosen from among the President, Vice President or Deputy Vice President – and a member of the SRA Board who is not eligible for reappointment.

43. The participation of a Society office holder in the interview panels for appointment of the Chair and members of the SRA Board is not a requirement set by the Society. It reflects an approach agreed between the Society and the SRA Board considered to meet the objective of appointing a suitably qualified and independent regulatory board in the best interests of the profession. It is also consistent with the guidance in the Internal Governance Rules that a representative of the approved regulator should form part of an appointment panel while the regulatory body is responsible for designing competency requirements and managing the appointment process.

44. We enclose details provided by the SRA confirming the implementation of the new arrangements since October 2017 for the recruitment of a new Chair and for the reappointment of four SRA Board members.

45. Consistent with the changes relating to SRA Board appointments, the General Regulations also no longer provide that the removal of membership of the SRA Board may only be imposed by the Society's Council. The Regulations now provide that matters relating to the conduct of members of the SRA Board shall be governed by a protocol or protocols to be agreed by the SRA Board following consultation with the Council.

46. The scope of delegated functions of the SRA Board under the revised Regulations reflects the independence of that Board to conduct its business within the constraints of good practice in respect of corporate governance. For consistency and symmetry, the functions of the SRA Board now mirror the functions that the Society's Board exercises in respect of the Society's business. This includes the SRA Board's responsibility for ensuring an effective financial control environment, including systems for financial management, risk management and internal audit, and ensuring that the internal audit programme supports, as necessary, the work of the external auditors. And consistent with the changes made to the scope of functions of the Business and Oversight Board and Audit Committee, the SRA Board retains adequate and proportionate reporting obligations together with a duty to cooperate with the Business and Oversight Board, Audit Committee and the Council in respect of oversight. It is also required to provide an annual report to the Audit Committee on the operation of the systems of financial control, risk management and internal audit, including on how they operate in respect of shared services and common systems. It also reports to the Audit Committee on any matters arising from the systems for financial control, or elsewhere, which are relevant to the Audit Committee's responsibility to provide assurance to the Council on the Society's accounts and financial statements.

Evidence that a lack of an independent Chair on the Business and Oversight Board has not impaired the SRA's effectiveness or independence

47. While the Society's General Regulations provide that the Chair of the Business and Oversight Board may be selected by its members and do not strictly require that person to be one of the independent members, in view of the Board's role and composition it is in reality highly unlikely that the Chair would not be one of the independent members. The established and customary practice is to select one of the three external members as Chair, and this has continued to be the case over the past year. The Society agrees that maintaining an independent Chair serves to improve and increase the quality of information that is shared, optimise the Board's efficiency and transparency, and mitigate any perceived risk of impairment of the SRA's independence through oversight.

Practices and Behaviours

48. In addition to the governance changes that have been introduced, the Society's appraisal of current arrangements should also address references made in the investigation report to varying personal practices and behaviours over different periods of time, particularly in relation to the Business and Oversight Board.

49. The Society has undertaken significant work over the last eighteen months to design, launch and start to embed a new culture code across the organisation including its governance framework. Four new values were identified over a series of workshops during 2017 and were ratified by the council in October 2017. The four values are:

Clarity - One strategy, one direction, one team

Trust - Equal value, equal voice

Respect - Valuing our heritage, welcoming new insight

Excellence - Harnessing our experience and knowledge

50. The values were launched in November 2017 and two culture advocate groups - one for staff and one for the Council - were established to explore what the values mean in practice and to champion the culture code with staff, committees, boards and the council. The two groups meet every two months and have taken forward several positive initiatives throughout the last year to contribute to embedding the new values.

51. The President, who is also a culture advocate, presented proposals on culture and engagement to the Council in July and September this year, seeking to highlight the importance of positive culture and fostering collaborative relationships built on mutual respect and trust. A series of changes have been adopted by the Council to promote constructive debate, focusing on issues within its remit and of importance to the profession, and highlighting the importance of a positive culture and of fostering collaborative relationships built on mutual respect and trust.

52. The culture code is routinely included with Council, Board and Committee papers. There are also standing agenda items at Board and Committee meetings to receive updates on the ongoing work on culture. There is also culture advocate representation at every Board and Committee meeting.

53. While the focus of culture advocates over the past few months has been to start 'at the top' and to work towards positive change within the council, the next stage of work is to focus on living the culture code in all elements of the business. We will also explore how best to engage with and motivate our appointed and elected committee and board members to role model the culture code and core values in all their dealings and behaviours. This will include the Business and Oversight Board and Audit Committee. The culture code is included as standard practice within council, board and committee papers, and a standing agenda item at board and committee meetings provides for an update on the ongoing work on culture. There is also a culture advocate representative at every board and committee meeting.
54. At the request of our culture advocates, the Society's Scrutiny and Performance Committee has added a standard question to their observation reports that focuses on how members of boards or committees under observation have demonstrated the values in the course of their meeting.
55. We also recognise the importance of incorporating our culture code into recruitment of board and committee members, including the Business and Oversight Board and Audit Committee. The culture code is referenced in all adverts and interview packs, and the Society has introduced a set of interview questions built around our values. We have also ensured that the culture code is referenced in contracts of engagement between the Society and its board or committee members.
56. The culture code is also provided in full to all new board and committee members when they join the Society and there is a dedicated slot in the induction programme to talk through our ongoing work on culture and the importance of living our values.
57. The organisation has made a strong commitment to a positive and collaborative culture at all levels of its business. This also acknowledges accountability at all levels of the organisation for respecting and living our culture, including Board and Committee members. The Society is confident that this initiative is already producing evidence of positive behaviours embedded within and between boards and committees.

58. Alongside the Society's culture code there is also a Code of Conduct, specifically focused on Council members and non-Council members of boards, committees and other working groups at the Society. This is consistent with the culture code and draws on the well-established 'Nolan' principles of public life. While the Society's preference is to approach the issue of appropriate expectations and behaviours positively wherever possible, it has recently also reviewed its processes to investigate and, if necessary, sanction non-compliance when necessary. Proposals are being brought to our Council on 5 December for the creation of a single process to investigate complaints and to impose appropriate sanctions. Also coming to the Council on 5 December is a proposal, already agreed by the Board, for a single 'Governance Manual' that will clearly set out the role and purpose of each component of the Society's governance structure and the expectations of all who participate in it. The complaints process referred to above will also form part of the Governance Manual.

59. The Society has also seen positive relations with the SRA at operational and policy levels. For example, following a recent supervisory visit from the Office for Professional Body Anti-Money Laundering Supervision, concerns were raised with the Society and the SRA about the potential for confusion in the handling of AML-related calls made to our respective telephone helplines (the Society's Practice Advice Service and the SRA's Ethics Helpline). A constructive approach was facilitated at executive level to explore how to address and resolve this concern, leading to collaborative discussion between the relevant SRA and Society senior managers to ensure clear and agreed guidance to potential callers about the scope of advice offered by the Society as professional body and by the SRA as regulator. A further example is the joint initiative to review the group's financial delegation scheme to ensure consistency and alignment with the SRA's delegated functions. This was raised following concerns that were identified in the course of the approval process for the SRA's supplier contract to develop and run the Solicitors Qualifying Examination.

Conclusion

60. As highlighted to the LSB's chief executive by members of the Business and Oversight Board when he attended their meeting on 20 September 2018, it must be recognised that the new governance arrangements, new relationships and the emerging culture change remain a work in progress. The Society also suggests that these complex matters must be viewed and approached with a measure of realism. By its nature, it is an evasive and challenging objective to achieve absolute and complete clarity and agreement on the scope and application of approved regulator oversight under the legislative framework coupled with the LSB's internal governance framework. It involves a wide range of considerations and, inevitably, occasional conflicts of interest. However, in the Society's view that is not to say that the current arrangements are unworkable or inadequate. They are significantly improved and capable of delivering accountable oversight whilst also preserving regulatory effectiveness and independence. In terms of practical delivery, the Society will continue to demonstrate its ongoing commitment to an improved common understanding of its oversight role in the spirit of collaborative and cooperative working.
61. The Society trusts that this information will assist and is of course willing to provide any clarification if necessary. While it is recognised that progress with the implementation of oversight arrangements may remain the subject of ongoing monitoring as indicated in the statement of censure, the Society trusts that the information provided will serve to discharge the undertakings given by it specifically in relation to the operation of the governance arrangements over the past 12 months, and that it will accordingly bring closure to this investigation.

Yours sincerely



Robert Bourns

Board Chair