

**AUDIT AND RISK ASSURANCE COMMITTEE**  
**(“the Committee”)**  
**MINUTES**

Meeting held on 2 October 2018  
10:00 to 13:05 | One Kemble Street, London WC2B 4AN

<b>Present:</b> (Members)	Terry Babbs Marina Gibbs Catharine Seddon Michael Smyth John Ward	Chair    Independent Financial Adviser
<b>In attendance:</b>	Neil Buckley Steph North Holly Perry Rusere Shoniwa  Michael Asare Bediako Ella Firman Andy Sayers	Chief Executive and Accounting Officer Corporate Governance Manager (minutes) Head of Corporate Services Interim Director of Finance  BDO LLP External Auditor National Audit Office (NAO) External Auditor KPMG LLP Internal Auditor
<b>Apologies:</b>	None	
<b>Observing:</b>	David Bartlett Dr Helen Phillips	Ministry of Justice LSB Chair
<b>Attendance for items:</b>	Ian Wilson Tim Borthwick Danielle Viall	Business Planning Associate (items 11 – 12) Regulatory Policy Associate (items 13 – 14) Senior Legal Adviser (item 17)

**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 Budget proposal for 2019/20.

**Item 2 - Private session with auditors**

2. 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. Ella Firman was representing the external auditor, the National Audit Office (NAO) replacing Ali Morgan who had moved to a new position at the NAO.

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

4. John Ward reminded the Committee that up until 2012 he had worked for KPMG, and had helped to set up its internal audit service. His connection with KPMG was a standing declaration – the Chair would decide whether he should recuse himself for item 18 – recommendations for tendering for internal audit services later in the meeting.

**Item 5 - Minutes of the previous meeting**

5. The revised minutes of the previous meeting held on 21 May 2018 and circulated electronically on 27 September 2018 were **APPROVED**. The Committee Chair would now sign the minutes as a true record.

**Item 6 - Noting of items considered out of committee since 21 May 2018**

6. The Committee **NOTED** the update on the LSB assurance mapping pilot which had been circulated out of committee on 27 June 2018. The Committee agreed that it was entirely suitable for papers to be circulated out of Committee if there was business for its consideration outside of scheduled meetings.

**Item 7 - Update on Fraud assurance**

7. The Interim Finance Director provided oral confirmation that no incidents of fraud, including cyber fraud, had occurred since the last meeting. The Committee **NOTED** the update.

**Item 8 - Action tracker**

8. The Committee reviewed and **NOTED** the action tracker. The Committee agreed it would be helpful for a summary update to be provided for actions where external input had been sought e.g. actions following deliberation by the Remuneration and Nomination Committee.

**Item 9 - Draft KPMG internal audit plan 2019/20**

9. KPMG presented a draft internal audit plan for 2019/20. A key area would be GDPR implementation, which would be refined to reflect the limited scope of the LSB's holding of personal data.

10. The plan was **considered** in detail by the Committee and the following points noted:

- The average number of days for internal audit was rising year-on-year. [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED] [FOIA exempt s43(2)]
- The Committee considered that business continuity needed to be given further consideration – [REDACTED]  
[REDACTED]  
[REDACTED]

[Redacted] [FolA exempt s43(2)]

- The Committee noted that it required assurance across GDPR, information management, IT transformation and the upcoming office move and, as these areas were important and linked, the projected increase in days for internal audit might be required.
- **ACTION:** a revised internal audit plan should be presented to the Committee in December 2018, by correspondence, taking account of progress made on the office move and IT transformation project.
- **ACTION:** the auditors should aim to bring forward their report and draft annual opinion to the March 2019 ARAC meeting (from May 2019).

#### Item 10 - NAO external audit update

11. Ella Firman from the National Audit Office (NAO) introduced the item. The following points were drawn to the Committee's attention:
- The NAO and LSB executive had met to plan the audit work for 2019/20
  - The internal risk profile was unchanged from 2018/19
  - It was anticipated that the interim audit would be completed in February 2019, with the final audit in April 2019. There would be an oral update to the March 2019 ARAC meeting on emerging risk. The draft audit plan would be circulated out of committee ahead of the March meeting (**ACTION**)
  - The NAO would consider the new financial reporting standards and any implications for the LSB with the aim of improving communications relating to the impact of any such changes. The Finance Director would also undertake a full impact assessment of the new standards to assess their impact for the LSB (**ACTION**).
12. The Committee **noted** that a new Comptroller and Auditor General (C&AG) was due to take up post in May 2019. This would represent a change after ten years under the current regime, and needed to be factored into annual account sign-off timelines. It was also noted that there had been an increase in feedback and queries on individual accounts from the C&AG's private office. Therefore extra time needed to be built into the schedule for final sign-off by the C&AG on the annual accounts, in the likely event of further questions arising. (**ACTION**).
13. The Committee **NOTED** the audit update.

#### Item 11 - LSB corporate risk update

14. Ian Wilson introduced the paper, which was to consider the latest version of the Corporate Risk Register; new and emerging risks; risk appetite; and the risk management strategy annual review.

*Risk appetite*

15. The Committee first considered the risk appetite proposals, which were a first attempt at identifying acceptable risk at the level of the individual risks on the risk register – including both appetite for risk (what the organisation would like to do irrespective of resourcing) and risk tolerance (what can be coped with). The Committee was broadly content with this more strategic view of the risk register. The executive would consider a broader definition of risk appetite and incorporate it into the next iteration of the risk register ahead of presentation to the full Board in November (**ACTION**).

*Corporate Risk Register*

16. The Committee next considered the risk register, which was last considered by the Committee in May 2018 and had been reviewed on a monthly basis since by the Senior Leadership Team (SLT). The Committee scrutinised the risks in turn, noting the changes reported in the cover paper:

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

17. The Committee **NOTED** the corporate risk register. The Board would undertake its next six monthly review of the register at the 29 November 2018. **Action:** Risk register to be updated to reflect the points raised in discussion (including the date the register was last considered, and ensuring that all mitigating actions were ‘SMART’).

**New and emerging risks**

18. [Redacted]  
[Redacted]  
**[FoIA exempt s36(2)(b)]**

## Risk management strategy

19. The Committee considered the risk management strategy ahead of making a recommendation to the full Board. The following points were raised in discussion:
- Risk appetite should be defined in neutral terms. The NAO had helpful definitions which could usefully be referenced;
  - Not all LSB projects should fall under the same category of risk appetite;
  - [REDACTED]
  - [REDACTED] [FOIA exempt s36(2)(b)]
  - Operational and cyber security risks should be identified separately;
  - It was encouraging to note that 'SMART' definitions had been adopted.
20. The Committee **endorsed** the risk management strategy, subject to the points raised in discussion, and **recommended** the paper to the Board. It was **noted** that the executive would now formulate a new risk register based on the broad categories of risk set out in the strategy, and would circulate the draft to ARAC for consideration out of committee (**ACTION**). If ready in time, the preference would be to present the new risk register to the Board in November.

## Item 12 - Deep dive – MoJ relations

21. Holly Perry presented the paper, which was the fourth 'deep dive' review by ARAC. The paper was to be a starting point for discussion as to level of assurance for sufficiency of the LSB's relationship with the MoJ. The three areas of review were: LSB independence in general terms, resource and financial control, and EU exit (in the context of relations with the MoJ). This had been a difficult paper to draft, and reflections on the process of drafting it had provided the basis for a template for future 'deep dive' papers. (**ACTION** – draft guidance on deep dives to be circulated to the Committee for comment).
22. The Committee reviewed the paper in depth, making the following comments:
- [REDACTED]
  - [REDACTED] [FOIA exempt s36(2)(c)]
  - the MoJ representative explained that the department assigned three levels of risk across 27 arms-length bodies: the LSB was a level one body i.e. the lowest level of risk. If the reporting requirements were felt to be onerous, the executive needed to raise with MoJ officials;
  - it was noted that the MoJ was awaiting the results of the internal audit of its ALB sponsorship role, and the LSB would be updated once this was complete. The results might determine its approach to levels of assurance for 2019/20 onwards;
  - The LSB was subject to some restrictions which were not risk-related, for example MoJ spending controls. The MoJ representative explained that these

rules needed to be reconsidered so that that ALBs could be more agile than the central department and agencies, and that it would be helpful to hear the LSB's perspective on this area on specific matters. On paragraph 35 – spend control approval process – the MoJ representative explained that he could be approached in instances where a business case was required, and that there could be a less onerous way for the MoJ to deal with approval. **ACTION** – follow up discussion to be undertaken at the 10 October LSB / MoJ Business Assurance Meeting [post meeting note - complete]

- [Redacted]
- [Redacted] [FoIA exempt s36(2)(b)]
- On paragraph 52 - [Redacted] [FoIA exempt s36(2)(b)] – it was appropriate for the LSB to act independently of government, but as a link between government and the frontline regulators; the Chief Executive was optimistic that more frequent meetings between senior LSB and MoJ colleagues would be scheduled;
- On paragraph 50 – Exemption Direction to be drafted by executive – Board leads should be consulted on the drafting before an update to the full Board – the final decision was delegated to the Chief Executive (**ACTION**)

23. The Committee **DISCUSSED** and **NOTED** the deep dive. It was agreed that the paper had been helpful in illuminating key points, that pressure should continue to be applied in the key areas of appointments and EU exit, and that there was a willingness from the MoJ to work in partnership with the LSB.

### Item 13 - Board member secure access to papers - update

24. Steph North presented this item, which was an update on the work that had taken place since the May 2018 meeting to provide Board members with secure access to Board and committee papers. The Committee was asked to note the rollout of LSB email accounts to all Board members, steps towards enabling VPN access, and to recommend to the Board the implementation of a long-term portal solution in the 2018/19 financial year.

25. Committee members considered the update, making the following points:
- Independent ARAC and RNC members should be set up with LSB email addresses (**ACTION** – check governance arrangements and whether access to papers should be referenced in the Governance Manual);

- The Committee felt that, on balance, although the LSB had oversight for the Consumer Panel and should be supportive where efficiencies could be made, the Panel needed to make its own decision on whether or not to adopt a portal option for paper distribution – the issue had been raised with the Consumer Panel Manager. Should the Consumer Panel wish to utilise the portal option, apportioning the additional cost would be investigated;
- Given the projected cost of the preferred option, the adoption of a board portal solution did not require a formal procurement process to be run – the point should have been referenced in the paper for clarity;
- The cost of a board portal rollout would be provided for in the current 2018/19 budget; capital funds were available should any Board member require new hardware on which to access a portal;
- Subsequent to the adoption of a board portal, the full Board would take a decision as to whether an entirely paperless approach to Board papers should be adopted (**ACTION**);
- The trial rollout of the VPN access had been unsuccessful – there were issues around device compatibility, and compatibility issues around choice of browser;
- The recommended Board portal would be available on a range of devices, however the Committee asked the executive to carry out a full audit of Board members' preferred devices to ensure compatibility of device, software and browser by the end of October (**ACTION**), keeping in mind that Board members may wish to access the portal via different devices at different times, e.g. on a tablet and via a desktop; the executive would request clarification from the preferred provider in relation to compatibility across different devices, browsers and software;
- On the issue of whether to move straight to adoption of a portal rather than rollout of the VPN, the Committee advised it would make a decision out of committee via email following the meeting – following the results of a thorough audit of Board members' personal devices and sufficient assurance being received from the preferred provider about compatibility across each of those devices (**ACTION**); the option of trialling the portal across different devices ahead of full roll-out to the Board would be investigated (**ACTION**) [post-meeting note: Board members will be able to trial the preferred portal for 7-14 days];
- Dual emailing of Board members (i.e. to LSB and personal email addresses – with the exception of the LSB Chair) would need to continue until such a time as papers could be accessed on a range of devices.

26. The Committee agreed in principle to **recommend** the portal solution to the Board, for endorsement at the Board's October 24 meeting – subject to receiving assurances in relation to compatibility and universality.

#### **Item 14 - LSB Governance Manual - 2018 review**

27. The LSB Governance Manual had last been reviewed by the Committee in October 2017 and commended to the Board for approval at its meeting on 24 January 2018.

28. The Committee noted in particular:

- The appointment of the LSB's Senior Independent Director should be reflected;
- ARAC members would pick up specific drafting comments and queries out of committee by email;
- **ACTION:** after incorporating Committee members' comments, the executive to circulate a revised version of the manual for any final points ahead of circulation to the Board for approval.

29. Subject to drafting comments, the Committee **ENDORSED** the proposed changes to the LSB Governance Manual which would go to the Board for approval on 29 November 2018.

**Item 15 - Update on the IT contract tender process**

30. [Redacted]

31. [Redacted]

- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted] [FOIA exempt s43(2)]

32. The Committee **NOTED** the paper.

**Item 16 - Update on the office move**

33. Danielle Viall presented the paper, which was an update for noting in relation to the office relocation process. [Redacted]  
[Redacted] [FoIA exempt s43(2)] The LSB's lease was in the form of a Memorandum of Occupation with the Office of Road and Rail (ORR) - ORR had not yet been able to share their relocation plans but they had confirmed that the LSB was unlikely to be able to move with them. [Redacted]  
[Redacted] [FoIA exempt s43(2)]

34. [Redacted] [FoIA exempt s36(2)(c)] A cross-office working group had been set up to assist with planning for the office move, and the team had developed the initial case to satisfy the Cabinet Office and Places for Growth criteria – responses to which were expected shortly.

35. The Committee considered the update, raising the following points:
- if the Cabinet Office did not make a decision on the initial case that had been submitted, a full business case would be required for Minister;
  - [Redacted]
  - [Redacted]  
[Redacted]  
[Redacted]
  - [Redacted]  
[Redacted]  
[Redacted]  
[Redacted] [FoIA exempt s36(2)(c)]

36. The Committee **NOTED** the paper.

**Item 17 - Forward look**

37. The Committee **noted** future items for consideration by the Committee. To progress matters, as there was five months until the next meeting, electronic circulation of business out of meetings was encouraged. **ACTION** – Committee members were requested to submit suggestions for the next deep dive to the Chair by the end of October – [Redacted] [FoIA exempt s36(2)(c)]

**PRIVATE SESSION without auditors**

**Item 18 - Recommendations for tendering for internal audit services 2019/20**

38. The Committee considered whether John Ward's precluded him from participating in the discussion and it was unanimously agreed that he did not need to recuse himself.

39. Ruseri Shoniwa presented the paper which set out the suggested process and timeline for tendering for internal audit services from 2019/20. KPMG had been the provider since 2010, on an initial five year contract which had subsequently been rolled over. ARAC had requested that the executive re-tender for internal audit services, in order to ensure the best level and quality of service for the LSB's needs. The 'big four', second tier firms and government internal audit service were all proposed to approach to tender.

40. The Committee considered the paper and made the following points:

- The executive needed to consider the days required and the implications for the budget e.g. an increase of days from 10 to 14.5 for 2018/19 was a substantial increase. The areas for review could be reconsidered in view of being forward-looking vs existing risks;
- the test question was considered to be disproportionate for the level of work on offer and there might be very low take-up;
- the composition of the recruiting panel would be reviewed to ensure it was not too large;
- Government internal audit service was significantly more expensive than other providers – the Committee agreed not to invite GIAS to tender;
- The big four would be unlikely to tender owing to the relatively small amount of work involved. Past experience suggested direct approaches might be most effective. **ACTION:** Finance Director to follow up with John Ward to identify some names to invite to tender.

**Any other business**

41. There was no further business and so the meeting closed. The Committee's next meeting would take place on 12 March 2019 at LSB's offices.

**SN 8 October 2018**

Signed as an accurate record of the meeting

.....

Date

.....