

Meeting: Legal Services Board

Date: 26 March 2020

Item: Paper (20) 16

Title: Annual Report of ARAC 2019/20

Authors / Presenter/ Introduced by:

Catharine Seddon, Chair of ARAC

Status: Official

Introduction: Purpose of the paper

1. This paper presents the report of the activities of the ARAC for the period 1 April 2019 to 31 March 2020, for consideration by the Board. This report is intended to inform the LSB's *Annual Report and Accounts 2019/20* – in particular by supporting the annual governance statement – and represents governance best practice.
2. This report concludes that the Committee's activities during the year under report provide sufficient assurance to the Board that there were effective arrangements in place in relation to audit, assurance and risk at the LSB. As such, the report also reflects on the Committee's effectiveness. The Terms of Reference (**ToR**) for the ARAC provide that:
'The Chair of the Committee will present to the Accounting Officer and the meeting of the Board that is scheduled to consider and to agree the LSB's Annual Report and Accounts for the preceding financial year a written report about the activity of the committee relevant to that financial year'
3. The current ToR are attached at **Annex A**. (Last reviewed as part of the 2019 Governance Manual Review – agreed 26 November 2019).

Recommendation

4. The Board is invited to **note** the report about the activities of the ARAC during 2019/20.

Overview of the Committee and its ToR

5. The principal responsibilities of the ARAC are to review and to offer its views about such matters as may be referred to it by the Board or the Accounting Officer, or such other relevant matters as the Committee may determine, in accordance with its agreed ToR.

6. [The Corporate governance in central government departments: code of good practice¹](#) requires Boards to ensure that effective arrangements are in place to provide assurance on risk management, governance and internal control. In this respect, Boards are required to be advised independently by an Audit Committee and an internal audit service.
7. The principal responsibilities of the Committee are set out in agreed ToR, which are published on the LSB's website. These responsibilities include, as appropriate, receiving and considering reports from both independent internal and external auditors, respectively Crowe LLP (**the Internal Auditor**) and the National Audit Office (**NAO**).

Membership and attendees

8. The Chair and other members of the Committee are appointed by the Board, in accordance with the Legal Services Act 2007 and the Committee's ToR. The quorum for a meeting of the Committee is three members, attending in person or by tele-con.
9. The Members of the Committee in 2019 / 20 were:
 - Catharine Seddon (Chair) (Lay)
 - Marina Gibbs (Lay)
 - Catherine Brown (Lay)
 - Michael Smyth (non-Lay)
10. The Internal Auditor and NAO were represented, as appropriate, at meetings of the Committee. Regular attendees also included:
 - Neil Buckley (Board Member, Chief Executive and Accounting Officer until August 2019)
 - Matthew Hill (Board Member, Chief Executive and Accounting Officer from August 2019)
 - Holly Perry (Head of Corporate Services until December 2019, Director Enabling Services from January 2020)
 - Melanie Stewart (Head, Finance and IT)
11. The Secretary to the Committee was the Corporate Governance Manager. Other LSB colleagues attended as necessary, notably the Corporate Services Manager, who had particular responsibility for ensuring risk owners update and maintain the corporate risk register.
12. The Committee had been advised by an independent financial adviser, John Ward until October 2019 due to the fact that no Committee member had been financially qualified. The position changed following the appointment of Catherine Brown - a qualified management accountant - to the Committee.

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/609903/PU2077_code_of_practice_2017.pdf

Compliance with Terms of Reference

13. The ToR require the Committee to meet at least three times a year. During 2019/20, the Committee met on the following dates:
 - 28 May 2019
 - 1 October 2019
 - 3 March 2020
14. A register of attendance at meetings is attached (**Annex C**).
15. In accordance with its ToR, the Committee monitors its own effectiveness in discharging its functions.
16. The Committee operated in a manner considered to be compliant with its ToR, and was quorate for all meetings.
17. The Committee confirms to the Board that the ToR attached at **Annex A** remain current and that no changes are necessary at this time.

Main activities

18. The Committee's ongoing activities in 2019/20 included:
 - sitting as a Finance Committee, scrutinising the LSB budget;
 - full scrutiny and review of the LSB's Annual Report and Accounts 2018/19;
 - review of the activities of the external auditors;
 - review of the Internal auditor's activities;
 - scrutiny of risk management and controls, including the annual review of the LSB Risk Management Statement and adoption of a revised approach to risk;
 - review of the LSB Governance Manual;
 - review of the Finance Manual;
 - oversight of the Committee's business programme, ToR and its effectiveness/performance;
 - oversight of the Office for Legal Complaints; and
 - scrutiny of any counter-fraud incidents.
19. Specific activities and matters considered in 2019/20 included:
 - the conclusion of the first round of assurance mapping across the LSB;
 - oversight of the office move project
 - oversight of the move to a new IT provider and the IT transformation project;
 - a deep dive in relation to statutory decisions;
 - a follow-up exercise to the deep dive and internal audit into LSB data management practices;
 - a review of FoI requests received by the LSB in 2018/19; and
 - a deep dive in relation to LSB ways of working.
19. Members also met in private sessions with the internal and external auditors as a matter of course.

Audit services

20. Internal and external audit services were provided, respectively, by Crowe LLP and NAO. During the year, the NAO used a *framework partner* BDO LLP to undertake the detailed work to support the C&AG's opinion. The NAO has contractual arrangements and safeguards in place to ensure that framework partners are independent, competent and objective.
21. The auditors were represented, as appropriate, at all meetings of the Committee.

Internal Auditor

22. The Committee noted the *Internal Audit Planning Report*, covering the relevant period, at its meeting on 3 March 2020, having received it out of committee in February 2020.
23. The internal audit work programme covered:
 - LSB's practicing certificate fee (PCF) approval process;
 - Business planning / performance management;
 - Managing Public Money and the Office for Legal Complaints (OLC).

National Audit Office

24. The Committee is due to receive and consider the NAO's Audit Completion Report 2019/20 at its meeting on 2 June 2020.
25. A final version of the LSB's Annual Report and Accounts 2019/20 is to be considered by the Committee at its meeting on 3 June 2020. The Report will then be laid before Parliament before the summer recess, with the Board approving the Report, out of Committee, following any further amendments as a result of final scrutiny by the Committee.
26. The Committee noted the contents of the NAO's Audit Completion Report for the previous year 2018/19 at its meeting on 28 May 2019, at which it was reported that:
 - the audit work had been completed and an unqualified audit opinion, without modification, would be given by the Comptroller and Auditor General (C&AG).
 - there were no concerns in relation to fraud risk.

Performance and reporting

Performance

27. The review of performance and effectiveness is informed by the Committee's assessment of its performance against good governance practice, as recommended by, amongst other things, the 'Audit and Risk Assurance Committee Handbook'² and 'The Audit Committee Self-Assessment Checklist'³.
28. The Committee's current ToR were agreed by the Board at their meeting on 26 November 2019, as part of the scheduled annual review of the LSB's

² Audit Committee Handbook' (HM Treasury, published May 2013, updated 4 April 2016).

³ The Audit Committee Self-Assessment Checklist' (National Audit Office, 2nd edition January 2012).

governance arrangements. Some minor changes were agreed: the cycle of agenda items was updated to include fraud assurance as a standing agenda item; position titles were updated; and a new requirement for there to be a financially qualified member of the Committee or a financially qualified adviser to the Committee was included.

Reporting

29. Written reports of all meetings of the Committee were presented to the subsequent meeting of the Board, supplemented as required by oral updates from the Chair of the Committee or a delegated Committee member.
30. In addition, this written report about the activities of the Committee in 2019/20 will be presented to the Board at its 26 March 2020 meeting.

Forward look to 2020/21

31. The Committee will continue to operate in accordance with its agreed ToR and annual business programme (**at Annex B**). A work programme for 2020/21 is attached at **Annex D**.
32. Finally, the Committee will continue with efforts to further improve its own performance, including the introduction of periodic training.

Conclusion

33. The Committee concluded that its activities in 2019/20, including its rigorous challenge of the executive and the auditors, were sufficient to provide assurance that there were effective arrangements in place to provide assurance on risk management, governance and internal control to the Accounting Officer and to the Board.

Terms of Referenceⁱ

Audit and Risk Assurance Committee (ARAC)

Responsibilities

- 1) The Board has established an Audit and Risk Assurance Committeeⁱⁱ to review and to offer its views about such matters as may be referred to it by the Board or the Accounting Officer or such other relevant matters as the Committee may determine, in accordance with these Terms of Referenceⁱⁱⁱ.
- 2) These matters may include, but are not limited to:
 - risk management, financial and other controls, and the Governance Statement;
 - considering and scrutinising a draft of the annual budget of the LSB;
 - the accounting policies, the accounts and the annual report of the LSB, including the process for reviewing the accounts prior to submission for audit, levels of error identified and management's letter of representation to the external auditor;
 - proposals for tendering for internal audit services or for the purchase of non-audit services from contractors who provide audit services;
 - the planned activity and results of both internal and external audit activity, including the annual plans;
 - the adequacy of management's response to issues identified by audit activity, including the external auditor's management letter;
 - assurances offered by the Executive relating to the corporate governance requirements for the LSB;
 - an annual review of Board Members' and senior colleagues' expenses;
 - anti-fraud policies, whistle-blowing processes and arrangements for special investigations; and
 - the outcomes of its periodic reviews of its own effectiveness and these terms of reference.

Authorities

- 3) The Committee is authorised by the Board to:
- investigate any activity or topic covered by these Terms of Reference;
 - request any information it requires from the colleagues, all of whom are directed to co-operate with any request for such information;
 - obtain at the expense of the LSB, external financial, legal or other independent professional advice or training, subject to budgets agreed by the Board; and
 - appoint, remove and approve the terms and conditions of appointment of professional advisers to the Committee.

Membership

- 4) The Committee and its Chair will be appointed by the Board from amongst its ordinary, non-executive Members^{iv} and the period of appointment to the Committee shall be agreed by the Chair of the Board.
- 5) A majority of the Committee's Members will be lay persons^v.
- 6) The Chair of the Board may not be a member of the Committee.
- 7) The Chair of the Committee may not also be the Chair of the Remuneration and Nomination Committee.
- 8) At all times, there must be a financially qualified member of the Committee. Where this requirement cannot be satisfied from among the non-executive Members, the Committee shall appoint a professional adviser who is financially qualified.

Access

- 9) The internal and external auditors will have free and confidential access to the Chair of the Committee.

Meetings

- 10) The Committee will meet at least three times a year.
- 11) The quorum for a meeting of the Committee will be three Members^{vi}, attending in person by telephone or video-conferencing facility and decisions may be made or ratified following a suitable exchange of correspondence, either electronically or in hard copy.

- 12) A lay majority is required for all decisions. Where a meeting is not quorate it will nevertheless go ahead, with decisions to be ratified via correspondence, at the next meeting of the Committee or the full Board as appropriate.
- 13) Where necessary, in order to make sure that Committee members are aware of the nuance of a particular debate, a resolution may be circulated to all Committee members after a meeting and a decision taken by email. Alternatively, a decision may be delayed to a subsequent meeting where there is any doubt as to the decision taken.
- 14) The Accounting Officer, Director, Enabling Services, the Head, Finance and IT, and normally not more than two representatives of each of the internal and external auditors will attend meetings of the Committee. Board Members will have a standing invitation to attend meetings of the Committee, and will receive a full set of Committee papers prior to each meeting. The Board Chair shall attend no more than one ARAC meeting in each year as an observer, thus strengthening the independence of the Committee. Other colleagues will attend meetings at the invitation or direction of the Committee or the Accounting Officer.
- 15) The Committee will have the right to direct those attending a meeting to withdraw to facilitate the open and frank discussion of particular matters. The Committee may direct all colleagues to withdraw during private discussions with either or both the internal and external auditors.
- 16) A Board Member or the internal and external auditors may request the Chair of the Committee to convene an additional meeting of the Committee.
- 17) The Corporate Governance Manager, in the capacity of Board Secretary, will be secretary to the Committee. Draft minutes of each meeting will be circulated by the Corporate Governance Manager within five working days of each meeting.

Reporting to the Board

- 18) The minutes and papers of each meeting of the Committee will be circulated to the Board.
- 19) The Chair of the Committee will present a written or oral report about each meeting of the Committee to the next appropriate meeting of the Board.
- 20) The Chair of the Committee will produce and present to the Board on an annual basis a report summarising the activities of the Committee and the outcomes of its work. This report will be presented to the meeting of the Board that is scheduled to consider and agree the LSB's Annual Report and Accounts for the preceding financial year.

Annual review of remit and performance

- 21) The Committee will assess its effectiveness, and will also review these Terms of Reference, annually. It will submit recommendations for any proposed changes to the Board for approval. The Committee's duties and activities shall be disclosed in the LSB's Annual Report and Accounts.

Annex B

AUDIT AND RISK ASSURANCE COMMITTEE ANNUAL CYCLE OF AGENDA ITEMS			
Standing items	May	Oct	Mar
Approval of previous minutes	√	√	√
Matters arising and outstanding action points	√	√	√
Oral update on fraud assurance	√	√	√
Any other business	√	√	√
Agenda items			
Corporate risk register	√	√	√
Budget proposal for the next financial year		√	
Budget update for the next financial year			√
LSB annual report and accounts for the previous financial year - draft	√		
LSB annual report and accounts for the current financial year - update			√
LSB annual report on expenses for the previous financial year	√		
Internal audit report for the previous financial year	√		
Internal audit plan for the current financial year		√	
Internal audit update			√
NAO external audit report: completion report for the previous financial year and management letter	√		
NAO external audit update: lessons learnt from the previous years' audit and changes to guidance and issues that may affect the LSB for the current financial year audit		√	
NAO external audit planning report for current financial year			√
LSB Governance Manual annual review		√	
LSB risk management strategy annual review		√	
Assurance mapping		√	
ARAC annual report - draft	√		
Review of the effectiveness of ARAC			√

Register of attendance at meetings of the Committee

1=Present

0=Apologies submitted

ARAC Member	Role	28 May 2019	1 Oct 2019	3 March 2020
Catharine Seddon	Chair of ARAC	1	1	1
Catherine Brown		1	1	1
Marina Gibbs		1	1	1
Michael Smyth		1	1	1
ARAC Attendees				
Neil Buckley	Chief Executive	1	N/A	N/A
Matthew Hill	Chief Executive	N/A	1	1
Melanie Stewart	Head, Finance and IT	1	1	1
Holly Perry	Director, Enabling Services	1	1	1
John Ward	Independent Financial Adviser	1	1	N/A
NAO	External auditor	1	1	1
Crowe LLP	Internal auditor	1	1	1
BDO (LLP) UK	NAO framework partner BDO LLP	1	1	1

**Audit and Risk Assurance Committee
Work Programme 2020/21**

Meeting Date	June 2020	October 2020	March 2021
Finance	Finance Report <i>[Inc. bringing to ARAC's attention changes to policies and guidance]</i> Review prior to Board [MS]	Finance Report <i>[Inc. bringing to ARAC's attention changes to policies and guidance]</i> Review prior to Board [MS]	Finance Report <i>[Inc. bringing to ARAC's attention changes to policies and guidance]</i> Finance Regulations review Review prior to Board [MS]
Performance	Performance Reports, Management Review and Assurance Business Plan Alignment Assurance Review prior to Board [CEO]	Performance Reports, Management Review and Assurance Business Plan Alignment Assurance Review prior to Board [CEO]	Performance Reports, Management Review and Assurance Business Plan Alignment Assurance Review prior to Board [CEO]
Annual Report and Accounts	Annual Report and Accounts <i>[informal report to the board]</i> ARAC: to scrutinise before AO signs [MS/HP]	Lessons learned from 2019/20 audit and changes to guidance and issues that may affect the LSB for 2020/21 [MS]	Annual Report and Accounts Project Plan and Early Drafts of Annual Report for 2020/21 Review prior to Board [MS/HP]
Business Planning Budget Setting		Draft Indicative Budget proposal with supporting information for 2021/22 Review [CEO/MS]	Budget for 2021/22 Review, Endorse and Recommend to the Board [MS]
Internal audit	Internal Audit Annual Report and opinion for 2019/20 Reports issued [Internal Auditor]	Decision on future internal auditor Review / Endorse [CEO/MS]	Internal Audit Draft Head of Internal Audit Opinion Reports issued Review

Meeting Date	June 2020	October 2020	March 2021
	Internal Auditor's Effectiveness and Internal Audit Charter and Performance of Internal Auditor Review [MS]	Internal Audit Plan for coming financial year, if already agreed with AO ARAC: provide advice to AO [CEO/MS]	[Internal Auditor]
External Auditor	External Audit Completion report for 2019/20 financial year and management letter [Formal requirement] [External Auditor]	Lessons learned from audit of ARA 2019/20 Forward look at possible reporting changes for next financial year [MS/HP]	External Audit Audit Planning Report Review [External Auditor]
Risk [Executive own risk register; ARAC review; Board 6 monthly review May & Nov]	Corporate Risk Register to include new and emerging risks Review prior to Board [TB/HP]	Corporate Risk Register to include new and emerging risks Review prior to Board [TB/HP] Risk Management Strategy Review, Endorse and Recommend to the Board [TB/HP]	Corporate Risk Register to include new and emerging risks Review [TB/HP]
Governance	ARAC's Effectiveness Terms of Reference Review [SN/HP] Annual Review of Corporate Policy as it relates to Board, OLC, Consumer Panel & SLT Expenses	Governance Manual, including review of retention and disposal <i>[captures majority of LSB corporate policies]</i> Review, Endorse and Recommend to the Board [SN/HP]	ARAC's Effectiveness Annual Review Draft of ARAC's Report for inclusion in Annual Report Review, Endorse and Recommend to Board Agree updated framework [SN/HP]

Meeting Date	June 2020	October 2020	March 2021
	Review [MS]	Corporate Policy Publication Scheme Review	Report on internal check of data management policy adherence [SN]
Risk Deep dive	Resource planning [CN]	Stakeholder relations including Communications Strategy [PN]	Value for money [MS]

* General items of business will be presented on a case-by-case basis, subject to the directions of the Committee, the programme agreed with the internal auditor, and the capacity of the Executive.
