

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

Meeting held on 1 October 2019
14:00 to 17:00 | One Kemble Street, London WC2B 4AN

Present: (Members)	Catharine Seddon Catherine Brown Marina Gibbs Michael Smyth John Ward	Chair (by phone) Independent Financial Adviser
In attendance:	Matthew Hill Steph North (minutes) Holly Perry Jenny Prior Melanie Stewart Michael Asare Bediako Matthew Vosper Shelagh Dale Richard Evans Bri Luscombe	Chief Executive and Accounting Officer Corporate Governance Manager Head of Corporate Services Corporate Services Manager Head of Finance BDO LLP External Auditor BDO LLP External Auditor National Audit Office (NAO) External Auditor Crowe Internal Auditor Crowe Internal Auditor
Observing:	Ed Bowie	Ministry of Justice
Attendance for items:	Sally al-Saleem Tim Borthwick Danielle Viall	Regulatory Policy Manager (item 12) Corporate Associate (items 15-16) General Counsel (items 14-17)

Item 1 – Private session

1. Members met as a Finance Committee in private to discuss the LSB Budget for 2020/21.

Item 2 - Private session with auditors

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

Item 3 - Welcome and apologies

3. The Chair welcomed everyone present to the meeting, in particular to: Matthew Hill at his first meeting as Chief Executive and Accounting Officer; to Crowe, the new internal auditors; and to Catherine Brown, joining the meeting by phone.
4. Apologies had been received from Alison Wedge, and Ed Bowie was attending on her behalf.

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

5. The internal auditors, Crowe, **declared** an interest that as well as being the LSB internal auditor, they were the external auditor for the NAO, and the internal auditor for the Bar Council and the Bar Standards Board. Crowe would recuse themselves from any items where this was or was perceived to be a conflict of interest. This had been declared at the tender stage, and would be considered a standing declaration.

Item 5 - Minutes of the previous meeting

6. The minutes of the ARAC meeting held on 28 May 2019 were **APPROVED** subject to an addition to the action tracker: *A review of the paperless approach should take place after six months to consider whether the move to paperless had inhibited Board Members' ability to adequately consider papers.*

Item 6 - Noting of items considered out of committee since 28 May:

7. The Committee **NOTED** the following items which had been considered out of committee since the last meeting:
 - Finance Assurance Map - **Paper (19) 21 ARAC** circulated on 28 June 2019
 - IT and information assurance Assurance Map – **Paper (19) 22 ARAC** circulated on 5 August 2019
 - Communications Assurance Map – **Paper (19) 23 ARAC** circulated on 13 August 2019
 - LSB compliance with transparency provisions – **Paper (19) 34 ARAC** circulated on 27 September 2019
8. The Chair thanked members for their full comments - by circulation - on the assurance map papers. Points raised would be covered in the paper on the future assurance mapping approach, which was later on the agenda.

Item 7 - Action tracker

9. The Committee **REVIEWED** the action tracker, noting in particular that several updates were covered by items on the meeting's agenda, and welcoming the note circulated by the Strategy Director on measuring policy outcomes.

Item 8 – NAO external audit update

10. The external audit manager, Michael Asare Bediako, provided an update on the NAO external audit for 2019/20. Work was still in its planning stage, and a draft audit plan would be circulated in December 2019 ahead of a full discussion in March 2020. The 2018/19 audit had gone smoothly. A lessons learned exercise had been carried out with management, noting in particular that communications between NAO and BDO could be improved to ensure a more seamless process. IFRS16 was the main accounting standard on the horizon which would come into effect in 2021. Management would need to consider the impact of its implementation in due course.
11. The Committee **NOTED** the update.

Item 9 – Crowe draft internal audit plan

12. The internal auditors presented the draft internal three-year audit plan for 2019/20 to 2021/22 which covered three types of work: key activities and how they drive assurance; operational activities; and key risks. An audit into how the LSB operated was timely, not least because of the new Chief Executive. Areas of interest included: the process for PCF approval; a high-level check of any areas where the LSB was not complying with managing public money functions; and how the LSB discharged its responsibility towards the Office for Legal Complaints. It was expected that the draft plan would change, and Crowe would flex their work plan to accommodate colleagues' working patterns and mindful of deadlines for ARAC meetings.
13. The Committee considered the plan and the following points were raised in discussion:
 - Were Crowe confident they had the right skills for the proposed work – yes, and work on the tech areas would be undertaken by Crowe's IT team.
 - Was enough time allocated for 'bread and butter' issues – yes, although the focus would be on areas of change. If priorities changed, the audit plan would change accordingly.
 - Once the plan was agreed, Crowe would ensure that sufficient resource was allocated, and that management had sufficient time on their side.
 - Crowe's offer to work with colleagues on the assurance map work was welcomed. A draft assurance framework would be circulated out of committee in December 2019 / January 2020 (**ACTION**).
14. The Committee **NOTED** and **ENDORSED** the draft internal audit plan.

Item 10 – Counter fraud update

15. The Head of Finance confirmed that there were no instances of fraud to report the last meeting.

16. The Head of Corporate Services presented an update on the counter fraud standard report submitted to the Cabinet Office and copied to the Ministry of Justice (“MoJ”) in time for the 2 September 2019 deadline. There had been no response from the Cabinet Office to date – if one was forthcoming, it would be circulated to the Committee. In relation to the requirement to have a senior lead member of the counter fraud profession in place within the organisation by 2022, more detailed investigation was required but it was anticipated that the role might be absorbed into an existing LSB role - proportionality would be a key consideration and more information on the requirement was expected from the Cabinet Office before 2022. In addition, it was noted that Crowe had offered to run counter-fraud training for all colleagues by the end of the financial year.

17. The Committee **NOTED** the counter fraud update.

Item 11 - LSB Corporate risk update

18. The Corporate Services Manager presented the corporate risk update which was in two parts: i) the risk register, and ii) the LSB’s approach to risk.

Risk register

19. The Corporate Services Manager outlined changes made to the risk register since the Board had last reviewed it on 4 June 2019. The following points were raised in discussion:

- The risk scores for both the office move and the IT transformation had decreased
- Annual refresher training on cyber security would be introduced and a formal log of completion maintained (**ACTION**)
- The risk register should be focussed on risks which were real / dynamic
- The OLC risk in relation to the adequacy of LSB oversight was deemed too low – mitigations should be strengthened, and those which were already in place should be added to the register. It would be hard to draw the conclusion that mitigating actions had been successful if the risk remained red.
- On EU exit, the inherent risk had increased but the mitigating actions were felt to be accurate. The executive had been working with the MoJ and operational preparedness was not in question.
- On planning and performance management, it was acknowledged that the current approach to business planning did not make the most of limited resources. This risk could perhaps be reworded to show value for money against work delivery. The mitigating action in relation to the colleague survey action plan - building pride in working for the LSB and an increased pace of work – was to be applauded.
- The revised risk register would have a broader range of characterisations of likelihood e.g. very probable, and certain.

20. The Committee **noted** the risk register update.

Approach to risk

21. The Corporate Services Manager outlined the proposed revised approach to risk. The biggest change was a shift from the risk register being used as a reporting tool to it becoming a live management tool which would help management to manage risk in an active way– as well as encouraging engagement and the efficient use of resources. The approach drew on arrangements put in place in another body, albeit

modified for the LSB's purposes. The two major changes to the risk policy were i) risk prioritisation (i.e. to only reflect the most pressing risks on the register) and, ii) use of risk appetite.

22. The Committee welcomed the proposal and the following comments were made in discussion:
- The paper set out a refreshing approach to risk.
 - The Board should see strategic risks - which may be high risk – the executive would maintain its view of operational-level risks. This approach had the benefit of limiting the extent to which the Board might inadvertently veer into operational matters. More operational matters could be fed into the risk assurance framework. This was not to say that on occasion, the Committee would not want to have sight of operational risks as well. **ACTION:** provide a paper to the Committee which sets out risks over and above the stated level of acceptable risk.
 - It would be important to build in capacity for emerging risks to be fed in, as well as a mechanism for risks to be elevated up and down as required. **ACTION:** provide by circulation a paper on risk to ARAC following the monthly SLT risk discussion.
 - There was a lower tolerance for operational than strategic risk.
23. The Corporate Services Manager also talked the Committee through a populated version of the new risk template. Risk causes were a new addition, as was assurance that actions were being carried out and risk origin had been suggested. Owners would be assigned for every risk / action, and a list of definitions would be provided with each iteration – effectively there would be a contents page outlining an overview of the risks.
24. The Committee reviewed the template and the following comments were made in discussion:
- It would be important to get the process right in order to get the desired outputs.
 - The template fitted well with the revised approach to business planning, and would require management buy-in if it were to become a live management tool with real accountability.
 - Some organisations weighted impact more in their risk assessment. The traditional approach was risk x likelihood however it would be helpful for the executive to trial impact x likelihood + impact on existing risks to see what difference, if any, that made, and whether the spread of risks became greater **(ACTION)**.
25. The Committee **noted** the corporate risk update, and that a further paper on the topic would be presented to the November Board meeting, and a review paper would be presented to the Committee in March 2020 **(ACTION)**.
26. The Committee thanked the Corporate Services Manager for the papers.

Item 12 – Deep dive – rule change applications

27. Sally Al-Saleem introduced the deep dive on rule change applications. The paper outlined how the rules team assessed risk, how they ensured robustness in decision-making, and how they anticipated the types and volume of applications - and asked ARAC to agree that sufficient controls were in place to control risks effectively. Since 2019 there had been an unprecedented number of often complex cases, the majority

of which fell into the higher risk category. At the same time, there had been a decline in the quality of applications submitted, which led to a greater strain on resource. Plans were in place to address this in the short term.

28. The Committee considered the paper and the following points were raised in discussion:

- This was an excellent paper which set out the issues well.
- The LSB should be clear in what it was requesting from applicants, and be firm when this was not received.
- Applicants should be encouraged to submit impact and equality and diversity assessments, as well as complete applications without gaps which had already considered existing rules and guidance.
- The executive should consider whether associate-level colleagues could take on more of the low risk cases, avoiding duplication of staff resource and mindful of limited resources.
- More robust business planning to be undertaken, and the use of wider sources of intelligence to help with resource planning.
- Executive to consider a failsafe strategy to deal with volume.
- Rules changes which were intended to drive the legal services market on were positive but it was of concern if timeliness was becoming an issue.
- There was scope for more horizon scanning, and a need for ongoing liaison with legal and finance colleagues to monitor financial impact and the likelihood of legal challenge.
- The method for conducting the scope of the review of the Rules and Guidance should be considered to gain quicker buy-in from regulators.

29. The Committee **NOTED** the paper and **ENDORSED** the proposals outlined, including a review of the statutory-decision process.

Item 13 – LSB assurance mapping update

30. The Head of Corporate Services introduced the paper, which contained an evaluation of the first round of assurance mapping, which had taken almost two years to carry out – in part because of personnel changes. The work had been resource intensive, and lessons learned were set out in the paper. Scoping had been difficult, and the executive would now work with the internal auditors, Crowe, on assurance universe key risks. There was no proposal to repeat the work just completed, but they would be kept live and follow-up actions actioned accordingly.

31. The Committee considered the paper and raised the following points in discussion:

- The paper was a good summary of work completed to date.
- It was critical that the next assurance maps had overlap with the revised risk register to provide assurance to the Committee and Accounting Officer. Internal audit could be used to plug any gaps.
- The next round assurance mapping should be mindful of value for money considerations – that is, the cost versus benefit of work carried out.
- It was refreshing to be working with the internal auditors on a unified approach to risk management, avoiding duplication so far as possible.

32. The Committee **noted** the update, and were content with the proposed way forward.

Item 14 – Retention and disposal schedule update

33. General Counsel introduced the paper which set out an updated, legally sound retention and disposal schedule for the LSB, following an outstanding action from May 2019. The legal team would work with the governance team to produce a succinct and user friendly desk guide. **ACTION:** a draft to be circulated to ARAC by December 2019.
34. The Committee considered the paper and raised the following points in discussion:
- Issues with data management were largely cultural, and related to the control of knowledge. Compliance issues were also important.
 - The executive needed to check that references in the schedule to the Limitation Act did not need to be 14 years, rather than 6 (**ACTION**), and that interview notes did not need to be kept for longer than 12 months, not least in case a subject access request was received after that time. **ACTION:** confirm to ARAC that both of these points have been satisfied and signed off by General Counsel.
35. General Counsel also provided an update on the outstanding action to check the requirement to keep hard copy originals of signed documents. There was no specific legal requirement to keep hard copy originals: it was a matter of the weight given in court to soft copies. At the LSB, hard and soft copies were kept for property and commercial contracts. HR kept soft copies only. The LSB's retention and disposal policy did not distinguish between hard and soft copy retention. If there was a move to soft copy only, the LSB would need to ensure it had in place a robust document management system. In any case, deeds, and execution of the LSB seal would be kept in hard copy for twelve years. A database of contracts would be created. In Q4 2019/20, and General Counsel would assess if it was viable to move to predominantly soft copy retention as part of the Finance Manual Review. **ACTION:** report to March AARC on this piece of work.
36. The Committee **noted** the update.

Item 15 – LSB Governance Manual Review 2019

37. The Corporate Governance Manager introduced the paper, which proposed minor editorial changes alongside some factual corrections e.g. job titles, as well as introduced reference to the LSB's social media policy in line with the revised Board Members' Code of Conduct 2019.
38. Committee members considered the paper, and made the following comments in discussion:
- The addition of the social media policy was a positive one
 - The following could be added to the ARAC Terms of reference: *agree audit plan; have either a member or an adviser who is a qualified accountant; a private session to be held annually* (**ACTION:** to be carried over to March 2020 as part of the annual review of ARAC Terms of Reference)
 - It was queried whether the proposed public speaking guidance was too restrictive. Lawyer members in particular were in frequent contact with members of the profession and this was an appropriate and relevant part of their function. Any guidance would need to provide space for this. **ACTION:** executive to reconsider wording.

- It was queried whether the social media policy applied equally to Board members and members of the executive.
- On proposed changes to the conduct rules, it was queried whether there was a role for the Senior Independent Director to play, as a step before approaching the Ministry of Justice in cases which involved the LSB Chair.
- The executive to reconsider the requirement for Board members to dial in to meetings only 'in exceptional cases'.
- On the suggested counter-fraud mitigations, there were perhaps more pertinent examples that could be given e.g. financial audit, management supervision
ACTION: executive to pick this up offline.

39. The Committee **recommended** the paper to the Board in November, subject to points raised. If the executive felt it necessary, specific revised amendments could be circulated to the Committee by correspondence.

Item 16 – Oral update on the IT transformation

40. The Head of Finance presented the update, outlining that the transition to the new managed service provider had been a success and the move to the cloud was scheduled on 4 November 2019. It had been discovered that the old pool LSB laptops were not USB disabled and this would be picked up by the executive who proposed to securely wipe and dispose of the old laptops now that the new ones had been distributed to colleagues.
41. The Committee **endorsed** the recommendation to delay penetration testing until November 2019, after the move to the cloud.
42. The Committee **NOTED** the update on the IT transformation.

Item 17 – Update on the office move

43. The Head of Corporate Services presented the office move paper, outlining that weekly visits to the site were ongoing, and that fit-out was expected to be complete by the end of October.
44. The Committee **NOTED** the update on the office move and thanked the whole move team for their hard work.

Item 18 – Forward look

45. The Committee **NOTED** the forward look agenda. It was noted that a paper on value for money would be presented to ARAC in March 2020, with a view to a deep dive in March 2021. Members were invited to submit other ideas for deep dives to the Chair.

Item 19 - AOB

46. The Chair thanked Michael Asare Bediako, outgoing external audit manager, for his work with the LSB and wished him well for the future.
47. The Chair also thanked John Ward for his invaluable service to the Committee since 2016. He had provided open counsel to both the Committee and Executive, and had offered to be on hand to provide advice on an ad hoc basis in future.

48. It was noted that this was the last meeting to take place at One Kemble Street. The next meeting would take place on 3 March 2020 at The Rookery.
49. There was no other business and the meeting ended.

SN, 7 October 2019

Signed as an accurate record of the meeting

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Date

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