**Meeting:** LSB Board

**Date:** 26 March 2024[1]

**Item:** Paper (24) 14

**Title:** ARAC Annual Report 2023/24

**Author:** Ethan Fleming, Corporate Governance Manager

**Status:** Official

**Introduction: Purpose of the paper**

1. The Terms of Reference (ToR) for the ARAC provide that:

   *'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'.*

2. This paper covers a draft report (at **Annex A**) for the period 1 April 2023 to 31 March 2024 for consideration by the Board at its meeting on 26 March 2024. This report will inform the LSB's *Annual Report and Accounts 2023/24*.

3. The draft report concludes that the Committee's activities during 2023/24 provide sufficient assurance to the Board that there were effective arrangements in place to provide assurance on risk management, governance and internal control.

4. The current ToR are attached at **Annex B**. (Last reviewed as part of the 2022 Governance Manual Review – agreed 29 November 2022).

**Recommendation**

5. The Board is invited to **agree** the draft report at **Annex A**, for submission to the Board's 26 March 2024 meeting.

Annexes
Annex A – Draft ARAC Annual Report
Annex B – ARAC Terms of Reference
Annex C – Work Programme

[1] Circulated 19 March 2024

## Annex A Draft ARAC annual report 2023/24

### Overview of the Committee and its ToR

1. 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.

2. The Corporate governance in central government departments: code of good practice[2] 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.

3. 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 – the External Auditor).

### Membership and attendees

4. 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.

5. Following a competitive recruitment process the committee appointed Marta Phillips to the committee as an independent lay non-voting member. This had the benefit of expanding the skillset and diversity of the committee and helps to build resilience on the committee.

6. The Membership and attendance of the Committee in 2023/24 were:

| | |
|---|---|
| Catherine Brown (Lay) (Chair) | 4/4 |
| Clare Brown (non-Lay) | 1/1 |
| Stephen Gowland (non-Lay) | 1/2 |
| Gary Kildare (Lay) | 4/4 |
| Lizzie Peers (Lay) | 2/2 |
| Marta Phillips (Lay) | 3/3 |

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

7. Representatives from Crowe LLP and NAO were represented, as appropriate, at meetings of the Committee.

| | |
|---|---|
| Matthew Hill (Board Member, Chief Executive and Accounting Officer) | 4/4 |
| Holly Perry (Director, Enabling Services) | 4/4 |
| Danielle Viall (General Counsel) | 4/4 |
| Stuart Hamill (Head, Finance and IT) | 4/4 |
| NAO (External auditors) | 3/4 |
| Crowe (Internal auditors) | 3/3 |
| Ministry of Justice | 3/4 |

8. The Secretary to the Committee was the Corporate Governance Manager. Other LSB colleagues attended as necessary, for example colleagues have attended to present deep dive reports on areas of risk. Other SLT members have also attended to observe meetings.

**Observance of Terms of Reference**

9. The ToR require the Committee to meet at least three times a year. During 2023/24, the Committee met four times, on the following dates:
    - 31 May 2023
    - 4 October 2023
    - 15 November 2023 (a meeting scheduled to consider the draft budget)
    - 6 March 2024
10. In accordance with its ToR, the Committee monitors its own effectiveness in discharging its functions and in 2023 evaluated its effectiveness via the NAO guide.[3] The areas for improvement may be found at para 30.

11. The Committee operated in a manner considered to be compliant with its ToR and when it was not quorate it ratified its decisions via correspondence, this occurred on one occasion at the October meeting.

12. The Committee confirms to the Board that the ToR attached at **Annex B** remain current and that no changes are necessary at this time.

**Main activities**

13. The Committee's regular activities in 2023/24 included:
    - sitting as a Finance Committee to scrutinise the LSB budget and as part of this identifying that future work was needed to provide assurance on LSB's approach on delivering efficiencies;
    - review and scrutiny of the LSB's Annual Report and Accounts 2022/23;

[3] Audit and Risk Assurance Committee effectiveness tool (National Audit Office, May 2022).

- review and scrutiny of the activities of the External Auditor including extensive engagement to improve the external audit process;
- review and scrutiny of the activities of the Internal Auditor;
- review and scrutiny of risk management and controls, including the annual review of the LSB Risk Management Statement;
- review and scrutiny of the LSB Governance Manual ensuring it is appropriate to the work of, and risks to, the LSB; and
- oversight of the Committee's business programme, ToR and its effectiveness/performance.

14. Specific activities and matters considered in 2023/24 included:
    - the procurement of internal auditors;
    - an annual review of FoI requests received by the LSB in 2022/23; and
    - a deep dive in relation to regulators EDI helping to inform a revised approach to the risk.

15. Members also met in private sessions with the Internal, External auditors and Accounting Officer, in rotation throughout the year.

**Audit services**

16. Internal and external audit services were provided, respectively, by Crowe LLP and NAO.
17. The NAO used an external audit firm, Deloitte LLP to undertake the detailed work to support the C&AG's opinion for the 2022/23 audit, presented to the June 2023 meeting. The NAO has contractual arrangements and safeguards in place to ensure that framework partners are independent, competent and objective.
18. The Auditors were represented, as appropriate, at all meetings of the Committee.[4]

*Internal Audit*

19. During the period, a competitive retendering process was undertaken which resulted in the Committee recommending the reappointment of Crowe LLP as the LSB's auditors to the Board.
20. The Committee noted the *Internal Audit Planning Report*, covering the relevant period, at its meeting on 6 March 2024.

21. The internal audit work programme covered:
    - Business Continuity Planning – *substantial assurance*
    - Third Party IT – *substantial assurance*
    - LSB's Remit – TBC
    - LSB's Approach to EDI – TBC

22. The Committee concluded that the executive has responded positively to audit findings and has taken, or is in the process of taking, action to implement agreed recommendations from all Internal Audit reports. Progress

[4] With the exception of the November 2023 meeting, where the agenda did not require them to attend

against internal audit actions are tracked and reported on at each Committee meeting.

*External Audit*

23. The Committee noted the contents of the NAO's Audit Completion Report for the previous year 2022/23 at its meeting on 31 May 2023, 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.

24. The Committee is due to receive and consider the NAO's Audit Completion Report 2023/24 at its meeting on 6 June 2024.

25. A final version of the LSB's Annual Report and Accounts 2023/24 is due to be considered by the Committee at its meeting on 6 June 2024. 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.

**Assurance processes**

26. The Chief Executive meets members of the Senior Leadership Team individually at a frequency appropriate for each member. SLT members hold similar meetings with their reports and ensure that controls are in place on an ongoing basis. The SLT meets informally daily and formally monthly to approve policies, review exceptions, identify and act on lessons learned, to review the corporate risk register and undertake a horizon-scan review every quarter.

27. The Committee considers that ongoing management review and communication, supported by the findings of audits and MoJ oversight, give sufficient evidence to provide the Accounting Officer with assurance that systems are sufficiently robust and that the exceptions are materially insignificant.

**Committee terms of reference, performance and reporting**

*Terms of reference*

28. The Committee's current ToR were agreed by the Board at their meeting on 28 November 2023, following a review as part of the scheduled annual review of the LSB's governance arrangements.

*Performance*

29. The Committee has previously agreed that it will assess its own performance and effectiveness against good governance practice such as amongst other

things the 'Audit and Risk Assurance Committee Handbook'[5] and 'The Audit Committee Effectiveness tool[6] every other year.

30. In 2023/24 ARAC performance was undertaken using the NAO effectiveness tool with both members and attendees completing the assessment. Whilst overall, the results concluded that ARAC was performing well amendments to the ToR's were proposed to better reflect the role of the committee. A training plan was also required which will cover a variety of subjects such as Environmental, Social and Governance (ESG) digital/cyber and net zero. This is in the process of being drafted for committee approval.
31. The ARAC Chair has attended MoJ Arms-Length Body ARAC Chairs' meetings when they occur and feeds back on key points covered.

*Reporting*

32. Oral reports of all meetings of the Committee were presented to the subsequent meeting of the Board, presented by the Chair of the Committee, or a nominated deputy.
33. In addition, this written report about the activities of the Committee in 2023/24 will be presented to the Board at its 26 March 2024 meeting.

## Forward look to 2022/24

34. The Committee will continue to operate in accordance with its agreed ToR and annual business programme (**Annex B**). A work programme for 2024/25 is attached at **Annex C.**
35. Finally, the Committee will continue with efforts to further improve its own performance.

## Conclusion

36. The Committee concluded that its activities in 2023/24, including its regular challenge of the executive and the auditors, were sufficient to provide assurance to the Accounting Officer and Board that the LSB had effective arrangements in place in relation to risk management, governance and internal control.

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

[6] Audit and Risk Assurance Committee effectiveness tool (National Audit Office, May 2022).

**Annex B**

LEGAL SERVICES BOARD

**Terms of Reference**

**Audit and Risk Assurance Committee (ARAC)**

## Responsibilities

1) The Board has established an Audit and Risk Assurance Committee[i] to review, scrutinise and 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 Reference[ii].

2) These matters may include, but are not limited to:

- risk management, financial and other controls, and the Governance Statement and assuring itself that the risk management policy is effective and consistent with the Board's policies and appetite towards risk;
- 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 and recommending to the Board the appointment of internal auditors;
- the purchase of non-audit services from contractors who provide audit services;
- the planned activity and results of both internal and external audit;
- 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;
- the adequacy of the LSB's implementation of and compliance with functional standards;
- assurance on the arrangements for cyber security and data protection;

- anti-fraud policies, anti-bribery and whistle-blowing processes and arrangements for special investigations; and
- the outcomes of its periodic reviews of its own effectiveness and these terms of reference.

**General**

3) The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit. For the avoidance of doubt, this includes advice on matters where action or improvement is needed including:

- on specific issues where the Board is the decision taker; and
- on matters delegated to the Chief Executive where there is a substantive difference of view.

**Authorities**

4) 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**

5) The Committee and its Chair will be appointed by the Board from amongst its ordinary, non-executive Members[iii] and the period of appointment to the Committee shall be agreed by the Chair of the Board.

6) A majority of the Committee's Members will be lay persons[iv].

7) The Chair of the Board may not be a member of the Committee.

8) The Chair of the Committee may not also be the Chair of the Remuneration and Nomination Committee.

9) At least one ARAC member should hold a suitable financial qualification or background. If a Board Member is unavailable to be appointed to the Committee,

or if such skills need to be added to the Committee for any other reason, the Board may appoint a suitably qualified non-Board member as an adviser to the Committee.

**Access**

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

**Meetings**

11) The Committee will meet at least three times a year. An indicative annual cycle of non-exhaustive agenda items is provided at Annex A. Meetings will be scheduled to coincide with key dates within the reporting and audit cycle covering financial and control matters - this includes an appropriately scheduled meeting to review the annual report and accounts prior to submission to the LSB Board for approval.

12) The ARAC Chair may convene additional meetings as deemed necessary. A Board Member or the internal and external auditors may request the Chair of the Committee to convene an additional meeting of the Committee.

13) The quorum for a meeting of the Committee will be three Members[v] composed of a majority of lay members, attending in person or by telephone or video-conferencing facility and decisions may be made or ratified following a suitable exchange of correspondence.

14) In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

15) 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.

16) 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. A decision might be delayed to a subsequent meeting where there is any doubt as to the decision taken.

17) The Accounting Officer, Director, Enabling Services, Head, Finance and IT, General Counsel and normally not more than two representatives of each of the internal and external auditors will attend meetings of the Committee except where ARAC sits as a Finance Committee at which only ARAC Members and LSB executive are required to attend. 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.

18) 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.

19) The Corporate Governance Manager, in the capacity of Board Secretary, will be secretary to the Committee. Papers will be circulated to the meeting seven days in advance unless otherwise agreed with the Chair of the Committee. Draft minutes of each meeting will be circulated by the Corporate Governance Manager within 10 working days of each meeting.

**Reporting to the Board**

20) The minutes of the Committee will be circulated to the Board after the Committee has approved them.

21) The papers of each meeting will be circulated to the Board in advance of each Committee meeting and Board Members have a standing invitation to attend meetings in an observer capacity. The exception to this is the Chair of the Board which is dealt with elsewhere within these terms of reference.

22) 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.

23) 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. A draft of the ARAC annual report will be circulated to the Internal and External Auditors for comment.

**Annual review of remit and performance**

24) The Committee will assess its effectiveness and the skills it requires to discharge its functions on a two-yearly basis 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.

25) These terms of reference will be reviewed on an annual basis.

**ARAC Terms of Reference Annex A**

| AUDIT AND RISK ASSURANCE COMMITTEE INDICATIVE ANNUAL CYCLE OF AGENDA ITEMS[7] | | | |
|---|---|---|---|
| **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 | | √ | |
| ARAC annual report - draft | √ | | |
| Review of the effectiveness of ARAC | | | √ |

[7] Depending on the business planning cycle for the year a November meeting may also take place

**ANNEX C**

**Audit and Risk Assurance Committee**
**Work Programme 2024/25**

| Meeting Date | June 2024 | October 2024 | March 2025 |
|---|---|---|---|
| Finance, IT and Procurement | Finance Report<br>*[Inc. bringing to ARAC's attention changes to policies and guidance]*<br>**Review prior to Board**<br>Cyber Security Thematic Review<br>**[SH]** | Finance Report<br>*[Inc. bringing to ARAC's attention changes to policies and guidance]*<br>**Review prior to Board**<br>Procurement Policy Review<br>**[SH]** | Finance Report<br>*[Inc. bringing to ARAC's attention changes to policies and guidance]*<br>Finance Regulations review<br>**Review prior to Board**<br>**[SH]** |
| Performance | Performance Reports, Management Review and Assurance | Performance Reports, Management Review and Assurance | Performance Reports, Management Review and Assurance |
| Annual Report and Accounts | Annual Report and Accounts<br>***[informal report to the board]***<br>**ARAC: to scrutinise before AO signs**<br>**[SH/HP]** | Lessons learned from 2023/24 audit and changes to guidance and issues that may affect the LSB for 2023/24<br>**[SH]** | Annual Report and Accounts<br>Project Plan and Early Drafts of Annual Report for 2024/25<br>**Review prior to Board**<br>**[SH/HP]** |
| Business Planning \| Budget Setting | | Draft Indicative Budget proposal with supporting information for 2025/26<br>**Review**<br>**[CEO/SH]** | Budget for 2025/26<br>**Review, Endorse and Recommend to the Board**<br>**[SH]** |
| Internal audit | Internal Audit | Internal Audit | Internal Audit |

| Meeting Date | June 2024 | October 2024 | March 2025 |
|---|---|---|---|
| | Annual Report and opinion for 2023/24<br>Reports issued<br>**[Internal Auditor]**<br>Internal Auditor's Effectiveness and Internal Audit Charter and Performance of Internal Auditor<br>**Review**<br>**[SH]** | Plan for 2025/26 financial year<br>Reports issued<br>**ARAC: provide advice to AO**<br>**[CEO/SH]** | Draft Head of Internal Audit Opinion<br>Reports issued<br>**Review**<br>**[Internal Auditor]** |
| External Auditor | External Audit Completion report for 2023/24 financial year and management letter<br>***[Formal requirement]***<br>**[External Auditor]** | Lessons learned from audit of ARA 2023/24<br>Forward look at possible reporting changes for next financial year<br>**[SH/HP]** | External Audit<br>Audit Planning Report<br>**Review**<br>**[External Auditor]** |
| Risk<br>[*Executive own risk register; ARAC review; Board 6 monthly review June & Nov*] | Corporate Risk Register to include new and emerging risks<br>**Review prior to Board**<br>**[EF/HP]**<br><br>Risk Management Strategy<br>**Review, Endorse and Recommend to the Board**<br>**[EF/HP]** | Corporate Risk Register to include new and emerging risks<br>**Review prior to Board**<br>**[EF/HP]** | Corporate Risk Register to include new and emerging risks<br>**Review**<br>**[EF/HP]** |
| Governance | ARAC's Effectiveness \| Terms of Reference | Governance Manual | ARAC's Effectiveness Annual Review |

| Meeting Date | June 2024 | October 2024 | March 2025 |
| --- | --- | --- | --- |
| | **Review**<br>**[EF/HP]**<br>Annual Review of Corporate Policy as it relates to Board, OLC, Consumer Panel & SLT Expenses<br>**Review**<br>**[SH]** | *[captures majority of LSB corporate policies]*<br>**Review, Endorse and Recommend to the Board**<br>**[EF/HP]**<br>Corporate Policy<br>*Publication Scheme*<br>**Review** | Draft of ARAC's Report for inclusion in Annual Report<br>**Review, Endorse and Recommend to Board**<br>**Agree updated framework**<br>**[EF/HP]**<br>Report on internal check of data management policy adherence<br>**[EF]** |
| Risk Deep dive | Regulators Capacity and Capability<br>**[AL]** | **N/a** | **TBC** |

* 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.

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[i] Legal Services Act 2007, Schedule 1, para. 20(1).
[ii] *Ibid.*, para. 21.
[iii] *Ibid.*, para. 20(3), restricts the membership of the Committee only to Board Members.
[iv] *Ibid.*, para. 20(4).
[v] *Ibid.*, para. 21(2).