

**Minutes of the 55th Meeting of the
Office for Legal Complaints Audit and Risk Committee
Thursday 30 June 2022, via Teams**

Members Present:

Harindra Punchihewa, Chair

Alison Sansome

Annette Lovell

Martin Spencer

Board Secretary

Kay Kershaw

In Attendance:

Elisabeth Davies, OLC Chair – observing

Paul McFadden, Chief Ombudsman

Michael Letters, Head of Finance

Blessing Simango, Finance Manager

Steph Godbold, Stakeholder and External Engagement Manager (item 7)

Laura Stroppolo, Head of Programme Management and Assurance

Treena Moseley, Operations Manager – observing

External Attendees:

Clare Brown, Regulatory Policy Associate, Legal Services Board

Jorjie Woodroffe, Government Internal Audit Agency

Ella Firman, National Audit Office

Rebecca Palmer, Deloitte

Joanna Fleming, Deloitte

Juan Garzon, MoJ, ALB Centre of Excellence

Apologies:

Matthew Hill, CEO, Legal Services Board – observing

Matt Ellis, Government Internal Audit Agency

Sandra Strinati, Chief Operating Officer

Alison Wedge, MoJ, ALB Centre of Excellence

Alex Clark, National Audit Office

Item 1 - Welcome, Apologies and Declarations of Interest

1. The Chair welcomed attendees to the meeting.
2. Apologies were noted.
3. The meeting was quorate.
4. There were no declarations of interest reported.

Item 2 - Previous Minutes

5. The ARAC **approved** the minutes of the ARAC meeting that took place on 9 May 2022 as an accurate record of the meeting.

Item 3 – Previous Actions and Matters Arising

6. ARAC **noted** the update on previous actions.

7. Reflecting on the timeframe for the completion of some of the actions arising from the GIAA audit of Recruitment, their interconnection with matters arising from the audit of Payroll, and the extent of work involved, the ARAC Chair questioned whether the Executive was comfortable with this timeframe and whether consideration would be given to recruiting additional HR resource to accelerate the completion of these actions with a view to mitigating the associated risks which is very important.

8. In response, the Chief Ombudsman (CO) confirmed that the Executive was comfortable with the timeframe set out for the completion of the Recruitment Audit actions, drawing ARAC's attention to the following points:

- The timeframe for the completion of the Recruitment audit actions had been agreed following careful consideration with the Head of People Services and Strategy and GIAA; this allowed sufficient time to ensure that all actions were properly and thoroughly addressed whilst placing this in the context of wider prioritisation of HR resource.

- Where possible, audit actions would be accelerated. Work to address the actions associated with the Recruitment Policy was currently planned to commence in July.
- GIAA had agreed that a random dip sample of security checks for all staff across all grades would be a reasonable approach to providing the assurance sought by ARAC ; the Executive would assess the outcome of this to determine whether any further action would be required to mitigate any risks associated with security checks. ARAC would be kept updated accordingly.
- Some temporary HR resource has already been recruited and is in place. Challenges had been experienced recently in obtaining and retaining suitable temporary agency resource but, with permanent HR recruitment underway, additional temporary resource to deal with the audit actions would not be required.
- ARAC would be alerted to any changes to the timeframe set out for completing the Recruitment audit actions.

9. Acknowledging the points made, the ARAC Chair confirmed that he was satisfied with the Executive's plan for addressing the actions arising from the recruitment audit and to complete them by the specified timescales. He asked the Executive to alert ARAC if there is anything that will cause any delay in delivering the plan or any issues identified whilst addressing the actions.

10. The ARAC Chair reported on a private meeting that had taken place with Internal and External Auditors, in line with ARAC's Terms of Reference. Auditors had commented positively on the year-end financial audit process and the engagement and support that had been provided by LeO in response to questions they had raised and evidence requested. Auditors had noted the incremental improvements that had been seen in the audit process this year, which had built on the significant improvements that had been made in 2020/21.

Item 4 – Financial Governance

11. The Head of Finance (HoF) reported on the May year to date actuals against budget, and other key financial reporting, drawing ARAC's attention to the following key points:

- An emerging year to date underspend of £78k (3.7%) on staff costs, driven by vacancies and a higher-than-expected Investigator attrition at the end of Q4 / beginning of Q1, and an increased number of staff on maternity leave than had been budgeted for and delays by MoJ in approving Business Cases for recruitment.
- Mitigating action to over-recruit Investigators had taken place in Q4. Additional mitigating action had been taken in Q1 to increase the number of Investigators recruited to work from the Cardiff hub.

- Further discussions are ongoing on future recruitment rounds and how these should be adapted. The Finance Team continued to work closely with Operations and Business Intelligence to monitor and review staffing forecasts which would inform future recruitment requirements.
- Recognising that it would be harder to over-recruit for corporate roles, a vacancy factor had been factored into the 2022/23 budget.

12. Responding to questions raised, the HoF confirmed that the Executive intended to fully utilise the £78k staffing costs underspend during the year. Further operational recruitment had been planned for Q3. This would be the main mitigating action to ensure that the staffing budget was fully spent by year end; the Executive did not propose any specific additional mitigating action to address this underspend at the present time but have discussed and are assessing potential options for additional spend to supplement the planned additional ops recruitment should it be required.

13. The CO drew ARAC's attention to the cumulative impact on the budget and delivery of the Business Plan because of delays by the Ministry of Justice (MoJ) in approving LeO's Business Cases, especially for those Business Cases linked to recruitment. Most notably this included a three month wait for approval of the COO recruitment but the CO also referenced the long delay in approvals for managed recruitment in the previous financial year which significantly delayed the recruitment of the 40 nationally recruited investigators. The CO would be raising the implications of these delays with the MoJ at a Business Assurance meeting in July and would also raise with the LSB in future discussions.

14. ARAC Chair welcomed any support the MoJ could provide to ensure a more flexible response to Business Cases submitted by LeO in the future.

15. The MoJ confirmed that the Business Case for the Chief Operating Officer role had now been approved and the recruitment campaign could commence.

16. ARAC was advised that the Executive had committed to providing the Board with quarterly financial reports; this would ensure that Board was kept fully apprised of the OLC's financial position, including staff and non-costs and the mitigating action being taken to address any under / overspends. The first of these reports would be issued for quarter 1 2022/23.

17. A discussion took place about case fee income, which was currently £66k under budget. ARAC was advised that the current budget position reflected the fact that there had been a high number of front-end case closures in April and May which did not attract a case fee. In line with current forecasts, the balance of case closures was expected to shift as the year progressed resulting in a higher number of cases closed following investigation, recovering the position on case fee income.

18. The Executive would be monitoring case fee income closely and updates would be provided to ARAC.

19. Recognising that any short fall in case fee income would affect the levy, the HoF **agreed** to re-circulate a paper that was issued earlier in the year setting out the levy funding mechanism.

ACTION: The Head of Finance to re-circulate a paper issued earlier in the year to ARAC setting out the levy funding mechanism.

20. The OLC Chair advised that the Board would have an opportunity to consider the strategic issues associated with case fee income, the impact of early case closures and investigations, and the wider OLC funding system as part of the stage two deliberations on Scheme Rules changes..

21. ARAC **noted** the update on financial governance.

Item 5 – Internal Audit update

22. GIAA reported on the progress made so far on delivering the 2022/23 Internal Audit plan and the findings of the Audit on OLC Payroll. The following key points were made:

- Good progress had been made on delivering the 2022/23 Internal Audit plan.
- Management responses to the draft audit report on Budget and Business Planning, which had received a substantial audit rating, were due to be submitted by 8 July. The final audit report would then be presented at the next ARAC meeting.
- Planning for the audit of Information Assurance and GDPR was in progress; Terms of Reference had been issued.
- A planning meeting for the Q2 audit of Grievances and Staff Complaints had been scheduled for 1 July.
- The 2021/22 Payroll audit had received a limited audit opinion; recommendations had been made GIAA for improvements.
- As part of the 2021/22 Payroll audit, GIAA had revisited the findings of the 2019/20 Payroll Audit, which had been undertaken when LeO's payroll had been outsourced and when the processes and control framework had been slightly different to the way they were at the time of the 2021/22 audit.
- Some common themes between the two audits had been identified. This included: the need for a more comprehensive procedural guidance notes; the need for improved audit trails for starters and leavers and the need for restricted access to the payroll tracker to reduce the risk of potential inappropriate calculations of payroll figures.
- GIAA had recommended that consideration was also given to outsourcing payroll once again with a view to reducing the risk associated with the manual transfer of data between the HR and payroll systems.

23. Considering the findings and recommendations arising from the Payroll audit and the potential associated risks, the ARAC Chair asked the Executive to prioritise and

expedite mitigating actions and controls where necessary to provide ARAC with the level of assurance required on payroll.

24. Reflecting on the reasons why LeO had brought payroll back in house, it was suggested that the Executive revisited the lessons learned from the previous outsourcing of payroll before proceeding to outsource it once again.

25. In response, the CO confirmed that progress had already been made on outsourcing payroll; this would be implemented in July / August 2022. The Executive were comfortable with the approach being taken but would assess any available lessons from the previous outsourcing. It was clarified that the provider would not be the same one provider as with the previous outsourcing. An action plan was in place to address the recommendations in response to the Payroll audit with the agreed deadlines.

26. A question was raised about the possibility of completing the action on the two high rating recommendations before December 2022 to limit the associated high risk sooner.

27. In response, the CO explained that the two high rating Payroll audit actions were linked to a wider, substantial piece of work being undertaken in HR and in the context of resourcing challenges and a significant restructuring of the HR team. Previous discussions with Board and Remco on this wider programme of work had emphasised the need for prioritisation. Further consideration, in discussion with the Head of People Services and Strategy, would be given to whether it would be feasible to bring forward the implementation dates for these actions but the CO emphasised that, similar to the actions discussed earlier and previously in relation to the GIAA recruitment audit these had been agreed with GIAA in that context. The CO **agreed** to report back to ARAC accordingly at the October meeting.

ACTION: The CO, in discussion with the Head of People Services and Strategy to consider the feasibility of bringing forward the implementation date of the two high rating Payroll audit actions and report back to ARAC accordingly at the next meeting in October.

28. In response to a question raised, GIAA confirmed that a completed action from the 2019/20 Payroll audit regarding the payroll tracker has not since been reversed. In discussion, GIAA commented on the importance of ensuring that lessons learned from previous audits were taken into consideration and encompassed in any future changes made to business processes.

29. ARAC **noted** the update from Internal Audit.

Item 6 – External Audit Update

30. External Auditors thanked the Head of Finance and the Finance Team for their hard work, cooperation and open approach during the 2021/22 Audit of Financial Statements, which had led to a smooth audit process that would be completed in line with agreed timescales.

31. ARAC's attention to the following key points:

- The audit of 2021/22 Financial Statements was largely completed; some minor points relating to disclosures were due to be finalised on 30 June and when completed, the work on accounts production would then be closed.
- All audit findings from previous years (2019/20 and 2020/21) had been closed and there were no further findings in relation to them.
- The implementation of the new IRFS 16 had been challenging but progress had been made. Two unadjusted misstatements had been identified relating to:
 - A historic rent incentive linked to the lease of LeO's office space; this was not material, or close to material. The lease had now been transferred onto the whole balance sheet with a full gross up of assets and liabilities and the expense previously recorded as rent had moved to depreciation of the right of use asset.
 - Fixed assets with a net book value of £nil that were no longer in use but had been included on the Asset Register. This had a disclosure impact only.
- Auditors confirmed that LeO had commenced a process earlier in the year to cleanse the Asset Register of assets that were no longer in use.
- Auditors had tested areas of significant risks and no issues had been identified.
- There were no adjusted misstatements.
- Two new audit findings had been identified and recommendations had been made for the inclusion of user details on journal listings and a full review of assets. The Executive had accepted the recommendations.
- A further audit finding, relating to the oversight of the Annual Report, had been identified. Auditors would be updating the Management Letter accordingly and this would be recirculated to the Executive and ARAC.
- A draft of the standard Letter of Representation had been included in the Audit Completion Report.

32. The Head of Finance reflected on the comprehensive audit process that had taken place and, acknowledging that the Auditors had had no prior knowledge of the OLC / LeO, commented on the clarity of their questioning and information requests which had enabled the Finance Team to respond quickly.

33. The Head of Finance thanked the Finance Manager for their support during the audit process, commenting on how their appointment had provided greater resilience within the Finance Team.

34. Reflecting on the unadjusted misstatements, the Head of Finance drew ARAC's attention to the following points:

- The review of fixed assets to determine which assets should be removed from the asset register was now in progress.
- The Auditors' calculations on the historic rent incentive had been based on the assumption that correct accounting had been in place at the beginning of the lease and on the benefit of hindsight of what the rent would be 5 years from the lease starting.

35. In response to a request from the ARAC Chair, Auditors updated the Committee on the previous audit findings from 2019/20 and 2020/21. The following key points were made:

- Despite the improvements that had been seen during the audit in 2020/21 some audit recommendations from 2019/20 had not been completely closed and had been carried forward and included in the 2020/21 Management Letter.
- All the 2019/20 recommendations that had been carried forward into 2020/21 had now been closed as a result of the evidence seen by Auditors during the 2021/22 Audit.
- Specifically, Auditors had been content to close the recommendations relating to Financial Governance because improvements had been seen throughout the 2021/22 Financial Statements audit; the risks associated with single points of failure had now reduced and there was now greater resilience within the Finance Team. Auditors had also seen improvements in the quality of the accounts and the quality of the audit evidence presented during the 2021/22 audit and had therefore been content to close the recommendations relating to the quality of financial statements and the quality of audit evidence.

36. Following discussion, the ARAC Chair **confirmed** that the Committee was content with the unadjusted misstatements, the audit certificate for 2021/22 and the draft Letter of Representation as set out on the Audit Completion Report. Additionally, ARAC members **confirmed** that they were content with the findings and responses to the 2021/22 Financial Statements Audit, **noting** that there were no major risks associated with the Audit.

37. Auditors advised that an updated Management Letter would be issued now that the Executive and ARAC had accepted the findings of the 2021/22 Financial Statements Audit. The updated Management Letter would reflect that the findings from previous audits had been closed and that three new findings had been identified during the 2021/22 audit.

ACTION: External Auditors to re-issue an updated Management Letter to reflect that the findings from previous audits had been closed and that three new findings had been identified during the 2021/22 audit.

38. ARAC **noted** the External Audit update and thanked Auditors for their support and collaboration throughout the audit process.

Item 7 – Annual Report & Accounts – sign off

39. ARAC received an update on the progress being made on the preparation of the Annual Report and Accounts. The following key points were made:

- The Annual Report and Accounts were in the final stages of production.
- Subject to ARAC's assurance, the Board would be asked to approve the Annual Report and Accounts at its meeting on 30 June.
- Once approved by the Board, the Annual Report and Accounts, along with the Letter of Representation would be submitted to the Comptroller and Auditor General on 1 July.
- The MoJ had approved the Annual Report and Accounts for laying in Parliament and confirmed that the page furniture complied with its requirements.
- The Annual Report and Accounts would be submitted to the printers on 6 July and laid in Parliament on 14 July.
- A press release was being prepared for issue on the day the Annual Report and Accounts were laid in Parliament. On the same day, the Annual Report and Accounts would be published and shared with the LSB for discussion at its Board meeting later in July.
- There had been no substantive changes to the accounts since they had last been presented to ARAC and Board but there had been some minor presentational adjustments and changes to the note references along with some numerical corrections. Changes included:
 - A rounding adjustment had been made to the cash flow statement.
 - The removal of a note about a newly adopted accounting standard with the bulk of the information being added to the lease note in line with consultation with Auditors.
 - An update to the related party transactions to highlight the licence agreement for LeO's office space with the MoJ.
 - Minor adjustments to the figures in the narrative section in the Annual Report to ensure consistency with the data source.
 - Additional figures added to the pay disclosures, this includes more pay comparisons, percentile differences, a gender pay table and Senior Civil Service equivalent pay table.
- Since the Annual report and Accounts had been issued to ARAC some further changes had been made to the graphics and narrative in response to feedback from the Board. These changes included:
 - The refinement of graphics where changes had been made to the narrative.

- Ensuring consistency with the title pages.
- Changes to the LeO process visual, which now includes more information on the customer journey.
- General presentational changes to ensure consistency of title pages and the correction of typographical errors.
- ARAC was advised that page references would be added to the document once it had been approved by the Board and a final proofread would be undertaken before it was submitted to the Comptroller and Auditor General.

40. The ARAC Chair opened the discussion to ARAC members and no questions or points of clarification were raised.

41. In response to a point raised by the ARAC Chair, the Head of Finance confirmed that more positive statement on the OLCs sustainable procurement policy would be included in the Annual Report and Accounts.

ACTION: The Head of Finance to ensure that a more positive statement on the OLCs sustainable procurement policy would be included in the Annual Report and Accounts.

42. The ARAC Chair identified a typographical error in a table on page 57 of the Annual Report and Accounts that had been presented to ARAC. The Head of Finance confirmed that this error had already been corrected.

43. In response to a query on intangible assets, the ARAC Chair was advised that the figure set out on page 104 of Annual Report and Accounts related to fully depreciated software which was no longer in use.

44. The ARAC Chair questioned why there had been an increase in accruals when compared to the 2020/21 accounts. In response, the Finance Manager explained that LeO had been waiting for an invoice from the MoJ in respect of Microsoft Licences which had not been received until May 2022. It had therefore been necessary to accrue for this in the 2021/22.

45. ARAC members reported that they had been impressed with the way LeO had kept the Committee updated and involved in the production of the Annual Report and Accounts which had given members the opportunity to comment and provide feedback throughout. The Committee had appreciated the hard work of all those involved in the process and had been pleased with the positive outcome.

46. Following discussion and the clarification of points raised by the ARAC Chair, ARAC members **formally confirmed** that the Committee was assured and content with the Annual Report and Accounts process and that the ARAC Chair would be providing assurance to the Board in due course.

Item 8 – Budget planning 2023/24

47. The Head of Programme Management and Assurance reported that the 2023/24 Budget and Business Planning process would continue to be managed through the programme management architecture put in place last year.

48. Drawing ARAC's attention to the very positive substantial audit rating received following the recent GIAA internal audit of Budget and Business Planning, the following key points were made regarding the 2023/24 Budget and Business Planning process:

- The final Budget and Business Planning audit report would be shared with ARAC out of committee in advance of the next ARAC meeting.

ACTION: The Head of Programme Management and Assurance to ensure that the Budget and Business Planning audit report is shared with ARAC Ahead of its next meeting in October.

- The Head of Programme Management and Assurance would be meeting with the ARAC Chair in July to discuss ARAC's 2023/24 Budget Setting Acceptance Criteria. At this meeting, consideration would also be given to factoring in to the 2023/24 Budget and Business Planning process an internal audit recommendation to review the role of ARAC within the Budget and Business Planning process to ensure that the balance of independence was maintained.
- A meeting with the Chair of the Performance and Quality Task and Finish Group had been scheduled for 12 July to discuss the Group would support the 2023/24 Budget and Business Planning process and provide assurance to ARAC and Board on the process.
- Early engagement on 2023/24 Budget and Business Planning process was taking place with the LSB. A sub-set of the high-level milestones on the 2023/24 Budget and Business Planning was to be shared with the LSB.
- The high-level milestones for the 2023/24 Budget and Business Planning process had been shared with ARAC and Board. More frequent financial reviews had been introduced to build in additional rigour to the process.
- An Executive workshop would be taking place in July where initial consideration would be given to identifying the strategic objectives and priorities for inclusion in the Business Plan.

49. In response to a request for more information on the plans for Budget and Business Plan consultation, the Head of Performance Management and Assurance reported that:

- The plan was to launch the formal consultation process in November. The LSB would be sighted on the draft budget proposals before the consultation was launched and would formally discuss the proposals at their November Board meeting.

- Plans were being developed to share high level indicative budget proposals with the LSB in September and to take initial soundings on these.
- The formal consultation would be for a 6-week period. Internal and external stakeholders would be consulted on the Budget and Business Plan. Consultation events would be scheduled between the start of November and mid-December.

50. The ARAC Chair recommended that business simulations were built into the Budget and Business Planning process to test a range of different scenarios where business assumptions changed.

51. Recognising the tight timescale at the end of the Budget and Business Planning process, the ARAC Chair recommended that ARAC and the Board was kept regularly updated throughout the process, in the same way that it was during the Annual Report and Accounts process, so that feedback could be provided to the Executive in a timely way.

52. In discussion, members commented on how the very positive outcome of the Budget and Business Planning audit meant that the process followed provided a blueprint for 2023/24 and, with the addition of any lessons learned, would help to give the Committee greater assurance on the 2023/24 Budget and Business Planning process.

53. The OLC Chair reported on a discussion that would take place at the June Board meeting on strategy timings.

54. ARAC **noted** the update on 2023/24 Budget and Business planning.

Item 9 – Review of ARAC effectiveness

55. The Board Secretary updated the Committee on the key points arising from the ARAC effectiveness self- assessment. Drawing the committee’s attention to the following points:

- The key areas of strength identified by ARAC members included: teamwork and the way members collectively managed time well at meetings and asked a balance of questions; the support provided to the ARAC Chair by Committee members; the range of skills, experience and perspectives amongst ARAC members; the open dialogue and pertinent questions posed to the Executive by Committee members; the effectiveness of the ARAC Chair.
- Areas for development had included: further work to develop the risk assurance framework; external attendance at meetings; broadening the focus on the wider assurance framework, such a deep dive of key areas.

56. An action plan would be drawn up in collaboration with the ARAC Chair, OLC Chair and Board Secretary. This would feed into the wider work on Board effectiveness that was being led by the OLC Chair.

57. Reflecting on the areas for development, the ARAC Chair made the following key points:

- The development of a tracker to monitor the actions and outcomes of risk mitigations would be a key area for future development; the CO and Head of Programme Management and Assurance would be considering how the tracker would be presented as part of their ongoing work to improve risk management and assurance.
- Future discussions would take place with ARAC members, the OLC Chair and external attendees to review external attendance at ARAC meetings. Consideration would be given to the number of attendees from each organisation; what their contribution to the meeting would be and whether they should be allocated specific time on the agenda to discuss specific items.
- As part of ARAC's work to broaden the focus on the wider assurance framework consideration may be given to looking into the quality assurance framework, risk management, risk appetite and any other areas where more assurance was required. Deep dives into specific areas may form part of the main ARAC agenda or take place outside of the meeting.

58. ARAC **noted** the update on ARAC effectiveness.

Item 10 - Any Other Business

59. There was no other business.