

**Minutes of the 50th Meeting of the
Office for Legal Complaints Audit and Risk Committee
Thursday 1 July 2021, by video call**

Members Present:

Harindra Punchihewa, Chair

Annette Lovell

Rod Bulmer

In attendance

Elisabeth Davies, OLC Chair – observing

Paul McFadden, Chief Ombudsman

Sandra Strinati, Chief Operating Officer

Steve Pearson, Deputy Chief Ombudsman and Head of Complex Cases

Michael Letters, Head of Finance

Leona Awoyele, Ministry of Justice

Jorjie Woodroffe, Government Internal Audit Agency

Matt Ellis, Government Internal Audit Agency

David Eagles, BDO, External Audit

Tharshiha Vosper, BDO, External Audit

Matthew Hill, CEO, Legal Services Board

Ella Firman, National Audit Office

Kathryn Barrett, National Audit Office

Laura Stroppolo, Business Performance Manager (items 6 - 8)

Jonathan Davies, Risk Manager (items 6 - 8)

Apologies:

Alison Wedge, Ministry of Justice

Alex Clarke, National Audit Office

Board Secretary:

Kay Kershaw

Item 1 – Welcome, Apologies and Preliminary Matters

1. The Chair welcomed those in attendance.
2. Apologies were noted.
3. The meeting was quorate.
4. There were no declarations of interest reported.
5. A private meeting with Internal and External Auditors had taken place prior to this ARAC meeting, in line with the ARAC Terms of Reference.
6. Auditors had commented on the quantum leap that had been seen during this year's audit of financial statements; this had been due to the significant improvements put in place by LeO in response to the Auditors feedback on the 2019/20 financial statements audit.
7. The Chair of ARAC formally thanked the Executive and Head of Finance for the significant progress that had been made and thanked the Auditors for their support during the audit process.

Item 2 – External Audit Update: Audit Completion report on the 2020/21 Financial Statement Audit and draft opinion

8. External Auditors presented the audit completion report on the 2020/21 financial statements audit which set out that:
 - Auditors anticipated recommending to the Comptroller and Auditor General that the 2020/21 financial statements should be certified with an unqualified audit opinion, without modification in respect of regularity and the true and fair view on the financial statements.
 - There had been no adjusted misstatements.
 - Materiality had been adjusted downwards from £265,000 to £263,000 due to a decrease in the final outturn of gross expenditure compare to budget.
 - There were £24,000 unadjusted misstatements which related to a small number of invoices that were accrued until a purchase order had been raised.
9. Auditors commented on the significant progress that had been made since the 2019/20 audit and thanked the Head of Finance and the Executive for the support provided during the auditing process.
10. Auditors apologised for the changes that were made to the audit timetable because of demand and resourcing issues and assured ARAC that the audit would now progress in line with the revised timetable.
11. The Annual Report and Accounts were to be laid in parliament on 15 July 2021.
12. Auditors drew ARAC's attention to the following key points:
 - No further risks or risk factors had been identified as a result of work undertaken at the final audit stage.

- There had been no incidents of management override of controls identified during the audit and there had been no indication of bias identified in management's estimates.
- A good first draft of the Annual Report and Accounts had been provided to Auditors.
- The audit comments on the accounts production were in line with those expected at the final audit stage.
- Auditors had seen a significant improvement in the accounts production this year; evidence of control reconciliations had been seen and the management were very aware of the transactions that had taken place.
- Information had been provided to Auditors in a timely manner, but some responses to queries had lacked sufficient detail, resulting in several exchanges before matters could be concluded. Auditors commented that this highlighted the gap between the Head of Finance and the Management Accountant and concurred with the Executive's decision to recruit for a role beneath the Head of Finance.
- The OLC had been selected as a sample to review the implementation of the new accounting standard IRFS 16, which the MoJ intended to adopt early. Auditors confirmed that the IRFS 16 disclosure was now complete and that discussions with the Head of Finance were taking place about some minor disclosure adjustments to be made within the accounting policies section of the Annual Report and Accounts.
- A voluntary submission had been made by the LSB to HMRC in respect of under paid tax on Board Member expenses. To date, HMRC had not made a decision on this matter and, as such, Auditors confirmed they were content with the disclosures made within the Annual Report and Accounts.
- Following the audit of the remuneration report, Auditors had requested some changes to be made to the bandings for some Board Member salaries.
- Auditors confirmed that they were content that the remuneration report was complete and that everyone acting up in the current year had been appropriately reflected in the report and adequately disclosed. Some additional wording had been agreed regarding the Director of Corporate Services post to provide greater transparency on the dates they worked during their notice period. Some minor amendments to fair pay disclosure had also been agreed.
- The finalisation of the rent calculations had been completed. Auditors were in discussion with the Head of Finance regarding a query about a payables sample which once resolved should complete this section of the audit. Auditors thanked the Head of Finance for clearing all the issues relating to rent calculations, which had been ongoing for some years.
- The letter of representation included details of the unadjusted error resulting from the accruals being overstated. Auditors stressed that the liability was not within the Annual Report and Accounts and was a classification error between the payables and accruals.
- Auditors would undertake final checks on the Annual Report and Accounts once the final adjustments had been made and tested.

13. The Head of Finance confirmed that a paper setting out the minor changes requested by Auditors had been drafted.
14. It had been intended that this paper would be circulated to all Board Members for approval out of committee, but at the Board meeting that followed this ARAC meeting the Board agreed that the action to approve these changes would be delegated to the OLC Chair and Chair of ARAC.
15. Confirmation was sought by the Chair of ARAC and Head of Finance on whether any further changes would be made to the accounts once the final adjustments had been made. In response, Auditors confirmed that they were not anticipating any material issues to be identified at this stage that would require any further changes to the figures. However, to be certain, they would first need to undertake their final testing; any minor changes identified during testing would result in an unadjusted error which shouldn't impact on the timeline for finalising the accounts.
16. In response to a question raised by the Chair of ARAC about contingent liabilities relating to legal challenges, the Head of Finance reported that provision had been made for the accrual of legal costs in respect of an employment matter. Auditors confirmed that they had considered the position regarding provisions and contingencies for legal costs as part of the audit.
17. The Head of Finance confirmed that a disclosure had not been required following the adjustment made to the depreciation of the case management system; this was because the adjustment had been in line with the current depreciation policy.
18. The Head of Finance confirmed that £45,000 of aged debts mainly relating to firms that had closed had been written off.
19. ARAC was advised that an appointment had been made for a Finance Manager to commence in role in mid-July.
20. Following discussion, ARAC **noted** the audit completion report on the 2020/21 financial statement and **approved** the unadjusted misstatements of £24,000.

Item 3 – Update on the NAO Management Letter 2019/20

21. Auditors reported that a paper would be presented for discussion at the next ARAC meeting in October providing a comprehensive update on the recommendations made in the 2019/20 Management Letter and setting out any recommendations identified during the 2020/21 financial statements audit.
ACTION: Board Secretary to add the NAO Management Letter to the ARAC Forward plan for the October 2021 meeting.
22. For assurance purposes, Auditors provided a verbal update on the progress that had been made against the five key areas (governance of finance; corporate knowledge and documentation of procedures; the robustness of financial controls; the quality of financial statements, and the quality of audit evidence) that were covered in the 2019/20 Management Letter. The key points made were:

- The improvement in the accounts presented for audit in 2020/21 provided Auditors with evidence of the robustness of financial controls, the quality of financial statements and audit evidence.
- There had been no adjusted errors in the 2020/21 accounts and the evidence underpinning the accounts had been of good quality.
- There were no major queries outstanding, indicating that the points raised in the 2019/20 Management Letter had been taken into account.
- Changes in the management structure and the improved knowledge and understanding within the Finance Team underpinned the improvements seen in the governance of finance.
- Evidence of improved documentation of finance procedures had been seen.
- The appointment of a Finance Manager would ensure that the structure within the Finance Team would be even more robust in the future.

23. Auditors had been content that the points raised in the 2019/20 Management Letter had been addressed and were confident that the 2020/21 accounts could be signed off. They recognised that there would always be room for further improvement but stated that this should not detract from the considerable improvement that had been made this year.

24. Having been provided with a confident indication that no further issues would be identified in the accounts, the ARAC Chair confirmed that the Committee had been assured by the verbal update provided by Auditors and stated that ARAC should feel comfortable signing off the 2020/21 accounts.

Item 4 – Annual Report and Accounts 2020/21: Accounts sign off by ARAC

25. The Head of Finance presented the 2020/21 Annual Report and Accounts, advising that there was nothing material in the accounts to be drawn to the Committee's attention.

26. In response to a question from the ARAC Chair, the Head of Finance confirmed that expenditure was balanced out against what was charged to the levy and, as such, the reserves and general funds were of the same value this year in line with previous years.

27. The ARAC Chair identified an error in the use of brackets for the total reserves figure shown against the notional transfer of consolidated funds in the table setting out the statement of changes in taxpayers' equity on page 53 of the accounts.

ACTION: Head of Finance to remove the brackets for the total reserves figure shown against the notional transfer of consolidated funds in the table setting out the statement of changes in taxpayers' equity table on page 53 of the accounts.

28. The Head of Finance reported on a £1000 correction had been made for a rounding discrepancy in the 2019/20 accounts shown in the statement of changes in taxpayers' equity table on page 53.

29. The Head of Finance confirmed that the date shown on the front cover of the Annual Report and Accounts document that had been sent to ARAC had been updated.

30. Having considered the Audit Completion report on the 2020/21 Financial Statement Audit, the draft opinion, the verbal feedback provided by Auditors and the recommendation from the Head of Finance, ARAC **approved** the 2020/21 Annual Accounts, **confirming** that they could be signed off by the Accounting Officer.

Item 5 –GIAA Audit Plan 2021/22 and Update

31. ARAC considered the 2021/22 Internal Audit plan which had been updated in line with previous feedback from ARAC and in discussion with the Executive and Chair of the OLC.
32. The revised plan included: changes in the sequencing of audits to ensure they were better aligned to business priorities; changes to the number of days allocated for follow up work on previous audits; an additional audit on change and transformation which was to be undertaken in Q4, and changes to the indicative long-term audit plan to include audits on learning and development, budget and business planning and performance management framework.
33. In discussion with the ARAC Chair out of committee, the RemCo Chair had been pleased to see that an audit on recruitment included in the 2021/22 audit plan and asked GIAA to include a follow up audit on staff development and wellbeing as part of the long term audit plan, taking into account staff training, objectives, and performance management.
34. The OLC Chair thanked GIAA for the consideration that had gone into the 2021/22 audit plan commenting on the added value and a level of additional assurance it would provide to the OLC and external stakeholders.
35. GIAA reported on MoJ cross-functional audits, advising that the OLC may fall into the scope of some of these audits in the future.
36. ARAC **approved** the 2021/22 Internal Audit plan.

Item 6 – 2021/22 Strategic Risks and overarching risk statement

37. ARAC considered a paper setting out a revised set of proposed strategic risks for 2021/22 and a revised risk appetite statement, which had been developed in line with feedback provided by Board Members at the Board's strategic risk workshop on 17 May 2021.
38. The revised strategic risks included a reputational risk, reflected the risks around the evolution of Covid and the wider issues around managing and implementing transformational change, and included two risk issues in respect of the PAP backlog and the framework of governance.
39. ARAC was advised of the progress being made on improving risk management and closing down some of the Q1 internal audit actions, which included SMART action setting, with members of the Executive owning and progressing individual risks, and delivering risk training for Board Members and the Executive.
40. Concerns were raised about the high risk score rating for the proposed 2021/22 strategic risk SR01 and whether it may have been given cognisant to the PAP backlog issue rather than the performance improvement trajectory.

41. In discussion, the Executive stated that whilst this risk scoring had been undertaken earlier in the year, the score was still appropriate and should remain in place until such times as the mitigations provided evidence of wider performance improvement, not just improvement at the front end. The Executive acknowledged that it would be important to keep this risk score under review and would be reflecting further on the impact and likelihood scores to determine when they were likely to reduce and in turn bring down the overall risk score.
42. Considering this, Members commented that it was important to differentiate between the issue, which should carry a high score, and the risk that was extracted out of it, and that both should be closely monitored to ensure that progress was made in reducing the overall risk score.
43. The ARAC Chair commented on how the revised proposed 2021/22 risks and risk statement accurately reflected the discussions that had taken place at the Board's risk workshop in May.
44. Considering this, and recognising that the risks and classifications would be reviewed on a regular basis and that a more robust risk management framework was now in place, ARAC **approved** the 2021/22 strategic risks in line with the delegated authority provided by the Board in May 2021.

Item 7 – Points of clarification on the papers presented for information

Paper 50.6 - Budget and Business Plan update (2020/21 and 2022/23)

45. The ARAC Chair sought clarity on the position regarding 11 Business Plan activities that had been delayed in Q4 2020/21 and Q1 2021/22 and was advised that, whilst the overall status of the Business Plan programme was amber, these activities were being appropriately managed and controlled through Design Authority and Programme Board. Assurance on the progress being made against these activities would be provided through Programme Board to the Executive and then to the Board.
46. No further comments were raised by ARAC on this report.

Paper 50.7 – Risk Assurance Report

47. The OLC Chair commented on the level of grip and rigour now being evidenced through the risk assurance report.
48. The CO reported that the Executive would be reviewing risk tolerances and KPIs in September with a view to presenting them to the Board in October.
49. No further comments were raised by ARAC on this report.

Paper 50.8A – Risk Policy

50. In response to comments from the ARAC Chair about the importance of embedding risk across the organisation and ensuring that staff understood their role in risk management, the CO reported that a temperature check survey had been issued to Executive and

Management Teams to assess their understanding of risk and their role within risk management. The outcome of this survey would be reported to Board in due course.

51. The Risk Manager reported on procedural documents that were being produced to support staff and to ensure compliance with the risk policy. The Board's approval of the risk policy would enable him to ensure further rigour and accountability for risk management across the business.
52. Risk management was now included as part of the induction process for new staff.
53. No further comments were raised by ARAC on the risk policy which would now be circulated to the Board out of committee for formal approval.

ACTION: The Board Secretary to circulate the Risk Policy to the Board for approval out of committee.

Paper 50.8B - Risk Management Training

54. There were no comments raised by ARAC on risk management training.

Paper 50.9 - Internal Audit Update.

55. GIAA reported that good progress had been made during Q1. Fieldwork was underway for the audit on Business Continuity and Covid Response.
56. The final audit report on Case Progression phase 2 had been shared with ARAC prior to the meeting. This audit followed on from the phase 1 audit and focussed on the controls and progress being made as part of the improvement programme.
57. GIAA had adopted a consultancy approach to this audit due to the number of ongoing improvement activities that were already taking place. As such, an opinion was not provided, and suggestions had been made instead of recommendations.
58. The findings of this audit would be taken into account by GIAA when forming a final opinion on case progression. Following a suggestion made by the ARAC Chair, GIAA agreed to consider adding a note to the bottom of the report to explain this.

ACTION: GIAA to consider adding a note to the bottom of the Case Progression (2) audit report to explain that the findings of this audit would be taken into consideration when forming a final opinion on case progression.

59. The actions arising from the recommendations made following the phase 1 Case Progression Audit were not yet fully completed; progress on this would be closely monitored by GIAA.
60. ARAC **noted** the update from GIAA on the progress being made on internal audit and the supplementary information that GIAA had provide on cross-government insights which the Committee had found informative.

Paper 50.10 – Previous actions

61. Action 3, paragraph 7 from the May meeting: ARAC noted that the BCP assurance report was due to be presented at the July meeting but had been postponed to the October meeting because the agenda for the July meeting had been changed to predominantly focus on the Annual Report and Accounts.
62. Action 4, paragraph 18 from the May meeting: ARAC noted that this action remained ongoing.
63. ARAC **noted** the update on previous actions.

Item 8 – Any other business

64. Recognising that this was to be Rod Bulmer's last ARAC meeting, the Committee thanked him for his willingness earlier in the year to join ARAC at short notice, expressed their appreciation of his commitment and contribution and wished him well in his future endeavours.