

<b>Meeting</b>	OLC Board	<b>Agenda Item No.</b>	3 131.2
<b>Date of meeting</b>	30 January 2024	<b>Time required</b>	10 Minutes
<b>Title</b>	<b>ARAC update</b>		
<b>Sponsor</b>	Hari Punchihewa (ARAC Chair)		
<b>Status</b>	<b>OFFICIAL</b>		
<b>Executive summary</b>			
<p>This paper provides the OLC Board with the key updates, actions and discussion points from the January meeting of ARAC.</p> <p>ARAC received assurance updates on the following areas:</p> <ul style="list-style-type: none"> <li>• Risk management and audit</li> <li>• Internal and External audit</li> <li>• Financial Governance</li> <li>• Information Security</li> <li>• Budget Setting Assurance</li> <li>• Data Assurance</li> <li>• Deep Dive on Case Management System</li> <li>• Cyber Security; and</li> <li>• Annual Report &amp; Accounts timetable and planning</li> </ul> <p>For the purpose of the report, the above papers have been categorised into five headings, which includes an ARAC Chairs summary.</p> <p>In line with the Board Effectiveness Review, Appendix A has been attached to the report which will provide Board with a high-level snapshot of the current strategic risks and issues, including movements in scoring from the previous month.</p> <p>Following the discussion on the Risk Assurance item, ARAC have requested one item to be escalated to the Board for consideration, the detail of which can be found on page 6.</p>			
<b>Recommendation / action required</b>			
Board is asked to <b>note</b> the contents of the report and form a <b>decision</b> on the proposed escalation point.			
<b>Equality Diversity and Inclusion</b>			
<b>EDI implications</b>	<b>Yes</b>		
In keeping with the LeO commitment to inclusivity this paper will be published on LeOs website.			
<b>Freedom of Information Act 2000 (Fol)</b>			

Paragraph reference	Fol exemption and summary
	N/A

# ARAC update

## 1. ARAC Chairs Summary

This was a very full meeting covering a huge range of areas across LeO functions. The Committee received assurance on the full range of standing items including Risk Management and Assurance, Financial Governance, Budget Setting, Internal and External Audit, Annual Report and Accounts planning. Assurance was also provided through ad hoc reports on Cyber Security, Data Assurance, Case Progression deep dive and Health and Safety Compliance.

A key point of focus was on the Executive plans to improve the risk framework, recognising that this has improved greatly but can always further improve and reflect ongoing Board and Committee feedback. This included the balance between focus on reducing impact and likelihood scorings, with a view from the Executive that the short to medium term focus is on reducing likelihood of Strategic Risks arising. Where there are circumstances that the likelihood is very much out of LeOs control, then the Executive will look to seek ways to minimise the impact. The Enterprise Risk Manager will be progressing this work as part of the development and implementation of key risk indicators.

An overview was provided of the meeting between the ARAC Chair, Chief Ombudsman (CO), Head of Programme Management & Assurance (HoPM&A) and the Enterprise Risk Manager on improvements. This included discussion around the approach to reporting risk tolerances, with a view to ensuring target scores are realistic, timescales are clear and realistic (even when stretching beyond the current financial year) and that anything outside of target scoring is reported to Board with supporting narrative.

ARAC also discussed the issues being out of tolerance and the actions planned, where ongoing actions don't have a set target date, and where meaningful actions are outside of LeOs control.

The Cyber Security and Staff Grievances audits, both receiving with substantial audit ratings and no recommendations -this was commended by ARAC members.

The committee sought assurance on the underspend and was content with the proactiveness of the Executive taking mitigating actions.

## 2. Risk Management Assurance

Three strategic risks had reduced in scoring since the end of Q3, relating to senior leadership resilience, budget variance and the Edward House renewal. The likelihood has decreased for all of these risks as a result of permanent appointments at Executive Team and Management level, proactive management of the underspend (which is

currently manageable within the MoJ tolerance) and progress on assessing the best value for money option and negotiations with the landlord on a new tenancy.

A significant reduction in outstanding audit actions was reported, reducing from ten in October and with only one remaining action due for completion at the end of January.

Engagement on the 2024/25 audit planning has commenced.

### 3. Audit and Compliance Reporting

#### *Internal Audit update (GIAA)*

The final GIAA internal audit reports for Q2 and Q3 were presented alongside the outline audit plan for 2024/25. All three audits completed to date have received a substantial audit rating, with two receiving no recommendations. The 2024/25 audit plan was being progressed with the ARAC Chair, Chief Ombudsman (CO) and HoPM&A.

#### *External Audit update (Deloitte / NAO)*

On external audit, Deloitte presented the plan for the 2023/24 external audit, which had been discussed with the ARAC Chair, CO and HoPM&A. This detailed key risks framing the audit, the milestones and progress made on the learnings from the previous year's audit. The ARAC Chair challenged the external auditors on the timeliness and meeting deadlines and milestones to avoid issues seen last year. The audit will commence a week earlier to help ensure this.

#### *Information rights and security update*

The Committee sought assurances on information security and heard that figures for data breaches and the number of statutory requests has broadly remained static over a period of time, with insubstantial changes over Q2 and Q3. Trends remain the same in terms of theme for data breaches (incorrect recipient) and there are a number of measures already in place to manage and improve this. Others have been considered but judged disproportionate given the relative low proportion compared with the volume of LeO's interactions. ARAC questioned the scale of the risk despite the numbers being low and the trigger point which would instigate a fresh look at measures and approach. The Executive providing assurance around the monitoring and checks undertaken, including through quarterly Security Forums, and action was always taken in line with ICO guidance. ARAC was pleased to hear the ongoing dialogue and positive steps taken to manage this.

### 4. Financial Governance and assurance

#### *Financial Governance*

ARAC heard that, since the paper had been issued, LeO had completed the December reporting on the basis of financial review meetings. This now highlighted an increase of £47k in the year end forecast position. Understanding was sought in the reasons (attrition and unforeseen income given as two key examples) and assurances were

sought on the Executive's confidence in remaining within a reasonable tolerance. Whilst end of year always brings significant movement in different directions the committee were assured that the Executive had in place contingencies and mitigating actions to reduce the year end underspend and manage this to a reasonable position.

## 5. Other key assurance updates

### *2023/24 Annual Report & Accounts Timetable*

The 2023/24 annual report & accounts planning cycle and high-level milestones was presented. A further planning session with External Audit is scheduled for January. ARAC were supportive and reassured on the outline plan and the fact the audit will commence earlier given the issues faced last year.

### *CMS Deep Dive*

A detailed discussion on the case progression deep dive took place and updates were provided on partially completed actions, which included increasing resilience within LeO. The important message given was on the improvement and change within this space since the original internal audit was completed. This is due to improvements in technology and process, and resilience built within the IT and Business Intelligence Team. Further improvements will be highlighted as part of the ongoing LEAN process.

### *2024/25 Budget Setting Assurance*

The paper outlined the process, testing and assurances which the Executive have undertaken in setting the 2024/25 budget against the criteria set by ARAC. It takes account of stakeholder feedback and the latest Performance Sub-Group discussions on underlying assumptions. ARAC were assured the criteria have been met.

### *Annual Cyber Security report*

The update reported no substantial changes in position to previous years and ARAC referenced the recent substantial GIAA rating on cyber security. Penetration testing continues via managed service provider and internally. Further enhancements have been implemented during the year to strengthen IT security. One incident occurred which exposed a vulnerability in one of the forms on the website. This was addressed and mitigating actions are now in place in collaboration with the managed service provide to prevent this issue occurring again. ARAC sought further assurance around the provision of external services and provider security which the Executive agreed to further reflect on.

### *Annual Security Policy Self-assessment*

An update was provided on enhancements to IT security. A question was raised as to whether LeO is Cyber Essential certified but given the size of organisation this is not deemed appropriate - LeO take key elements from cyber essentials alongside various

other elements to produce LeOs own framework. ARAC members were satisfied with this and level of controls in place.

#### *Annual H&S Compliance Report*

Assurance was provided around the continuity of a H&S platform whilst the transition to a new supplier will be taking place. The ongoing maintenance issued for the Birmingham office is being managed through the lease negotiations.

#### *Annual data assurance*

An update was provided on data assurance. Through the future reporting project, LeO will be taking stock of the current reporting suite, ensuring this is fit for purpose and that data quality remains. ARAC questioned the agility of specific committee dashboards, noting the different data sources and links and this will be driven by building a set of internal reporting suites and the robust data architecture.

## **6. Escalations to OLC Board**

A proposal to the OLC Board to recommend Board members agreeing the target risk rating set by the Executive. This in turn will provide assurance of risks falling outside of tolerance based on the current residual risk scoring with the supporting narrative and mitigating actions.

# Strategic issues and risks

Description	Risk Appetite	End of Q2 residual risk rating	End of Q3 residual risk rating	Trend	Management and mitigation	Update and outlook	Strategic Objective (service Impact)
<b>Issue</b>							
<b>SI.01</b> (Backlog of investigation cases)	Open	16	16		This issue is intrinsically linked to SR.01. The management and mitigations within SR.01 directly impact and relate to this strategic issue.  This issue remains a key and central focus of LeO's risk management and reducing the backlog remains the central aim of LeO's strategic and business plan focus. Mitigations are focused on targeting key drivers of performance, delivering efficiency and continued reduction of rework in the process, all a focus of ongoing Lean review. At strategic level the focus is on monitoring and mitigating the areas with the biggest impact - attrition and demand - to address root causes, focus on barriers and continually improve the things within LeO's control.	We remain on a sustainable path to reduction as we reduce the backlog on a sustained basis. The PAP saw a slight predicted increase, as is normal for December, but has been reducing on a sustained basis and will reduce again throughout Q4. Key to this is positive outlook on operational closure performance with closures recovering back into or above ranges for Q3 and November and December exceeding Likely scenarios. This has reduced the annual gap on closures against forecast to just 69 cases with Q4 performance forecast to be comfortably within range.  Demand, alongside attrition, remain the main areas of underlying risk. New complaints received reduced in quarter 3 by 3.4%. This was against an expected 10% decrease. Despite a Q3 reduction the annual position remains a 2.1% increase despite scheme rule changes. We continue to monitor as we move through quarter 4 and assess levels of demand and the impact of Scheme Rule changes.	Service
<b>Risk</b>							
<b>SR.01</b> (Performance Trajectory)	Open	16	16		This is a key risk managed at business unit and executive level. Mitigations are focused on targeting key drivers of performance, delivering efficiency and continued reduction of rework in the process. At strategic level the focus is on monitoring and mitigating the areas with the biggest impact - attrition and demand - to address root causes, focus on barriers and continually improve the things in LeO's control. In addition, we continue to manage performance and seek opportunities to achieve further efficiencies, including through ongoing Lean review. From a reputational perspective, we continue to engage with stakeholders on performance progress and to highlight areas out of LeO's control where we require intervention and support.  Demand, a key driver for performance and back log position, is being closely monitored with LeO building its capacity to understand drivers of sustained increases in demand, whilst delivering efficiencies in LeO's process to absorb.	Positive outlook on operational closure performance with closures recovering back into or above ranges for Q3 and November and December exceeding Likely scenarios. This has reduced the annual gap on closures against forecast to just 69 cases with Q4 performance forecast to be comfortably within range. Issues stemming from Scheme Rule changes have been resolved, though although this will continue to have an impact on trajectories as cases flow through to early resolution and investigations. This will reduce throughout Q4 and first half of 2024/25.  Attrition has also continued to reduce, now tracking better than Likely scenario. Despite a Q3 reduction in new customer complain the annual position remains at an increase of 2.1% , offsetting forecast reductions from SR changes.	Service

# Strategic issues and risks

Description	Risk Appetite	End of Q2 residual risk rating	End of Q3 residual risk rating	Trend	Management and mitigation	Update and outlook	Strategic Objective (service Impact)
<b>Issues</b>							
<b>SI.02</b> (staff attrition: Corporate and some Operations roles)	Open	20	20	↔	This issue is being managed alongside other strategic issues and risks through a wide range of people activities including: Development of new EVP <ul style="list-style-type: none"> <li>New Recruitment Policy &amp; processes</li> <li>Current review of onboarding and induction</li> <li>Actions arising from Executive workshop re: strategic focus on attrition – first stage in development of attraction and retention strategy</li> </ul>	Issue continues to be LeO's most significant issue and focus of LeO's attention. Remains static in scoring with limited scope for movement in the medium term, largely due to underlying root causes outside LeO's control. Attrition has reduced in recent months but LeO remains cautious on the outlook for quarter 4 and beyond given the root causes and several variables impacting this and the fact that we remain subject to external recruitment by other Ombudsman organisations. Score unlikely to change in near term.	Service
<b>SI.03</b> (Operations staff attrition: BAU investigators only)	Open	25	25	↔	This issue is being managed alongside other strategic issues and risks through a wide range of people activities including: <ul style="list-style-type: none"> <li>Development of new EVP</li> <li>New Recruitment Policy &amp; processes</li> <li>Current review of onboarding and induction</li> <li>Actions arising from Executive workshop re: strategic focus on attrition – first stage in development of attraction and retention strategy</li> </ul>	Issue continues to be LeO's most significant issue and focus of LeO's attention. Remains static in scoring with limited scope for movement in the medium term, largely due to underlying root causes outside LeO's control. Attrition has reduced in recent months but LeO remains cautious on the outlook for quarter 4 and beyond given the root causes and several variables impacting this and the fact that we remain subject to external recruitment by other Ombudsman organisations. Score unlikely to change in near term.	Service
<b>Risks</b>							
<b>SR.02</b> (Leadership Resilience)	Cautious	12	8	↓	Risk is being managed through ongoing monitoring of leadership resilience and movements in both Executive and wider Management Team; support for individual and collective resilience and management of workload pressures; focus on succession planning and plans to enhance effective succession planning through people strategy.	Risk remains stable and scoring reduced with leadership and management stable and low attrition within this group. Executive Team (ET) resilience has been enhanced through recent permanent and fixed term appointments. Wider management attrition, which contributes to overall resilience, also remains stable, recruitment completing for a small number of roles	Service & Impact
<b>SR.03</b> (OLC Budget Variance)	Minimal	12	8	↓	Executive is monitoring on a weekly basis to mitigate end year underspend. Head of Finance is supporting budget holders to assess actual expenditure and to plan and mitigate forecast outturn. A range of mitigating areas of spend are being actioned, including increased operational overtime, professional and legal advice on a range of HR and casework policy issues, and progressing the Lean review process and other identified projects. Others are being assessed if required.	The Executive is actively monitoring the budget variance and implementing mitigating actions to ensure minimal underspend and meeting MOJ tolerance. Attrition remains a primary root cause of underspend. At this stage of the year there are always a number of variables and movements in terms of income and spend which are difficult to mitigate against but the Executive are confident of managing within end year tolerance and minimising unnecessary underspend as much as possible given movements.	Service & Impact

Description	Risk Appetite	End of Q2 residual risk rating	End of Q3 residual risk rating	Trend	Management and mitigation	Update and outlook	Strategic Objective (service Impact)
<b>Risks</b>							
<b>SR.04</b> (Scheme Rules changes)	Cautious	9	9		This risk is managed at both executive and business unit levels. The possible implications and impacts of the changes on LeO's customers or on the efficient and proportionate application of the Scheme are tracked through detailed monitoring both of EDI data and of operational performance and quality assurance metrics. With an agile workforce and through the application of ombudsman discretion, LeO is able to take steps to mitigate any unexpected adverse impacts on customer experience, operational delivery or EDI very quickly.	This risk scoring has remained stable but will decrease in the coming months as a result of the work being done to clear the volume of discretion checks created in Q1 and Q2 is concluded. LeO is working toward further enhancements around the collection and analysis of EDI data which will provide yet further assurance around the fair application of the rules to all of LeO's customers. Further efficiencies in the application of the scheme and improvements in customer journey will come in Q4 and into 2024/25 through the application of SR 5.19/20.	Service
<b>SR.05</b> (Edward House Lease Renewal)	Cautious	16	12		Risk is being managed through ongoing proactive assessment and management of accommodation options via instructed property agents. Edward House identified as best value for money option meeting LeO's needs following extensive market research. Negotiations with EH landlord on a shorter term lease have been progressing since December 2023 with tenant legal protections also put in pace. Discussions on LeO's requirements of an MOJ Hub from 2027 are also progressing with a view to assessing viability.	Discussions on the lease renewal for Edward House continue with the current position indicating that the proposed negotiations are looking favorable. LeO are tentatively confident on the prospects of an MOJ Hub from 2027 although this is subject to a Hub meeting LeO's requirements. The Executive is actively engaging with MOJ on potential requirements of an MOJ hub post 2027 and will continue to assess the viability of a proposed Birmingham hub as more information becomes available.	Service