

Scottish Legal Aid Board

Management Report 2017/18



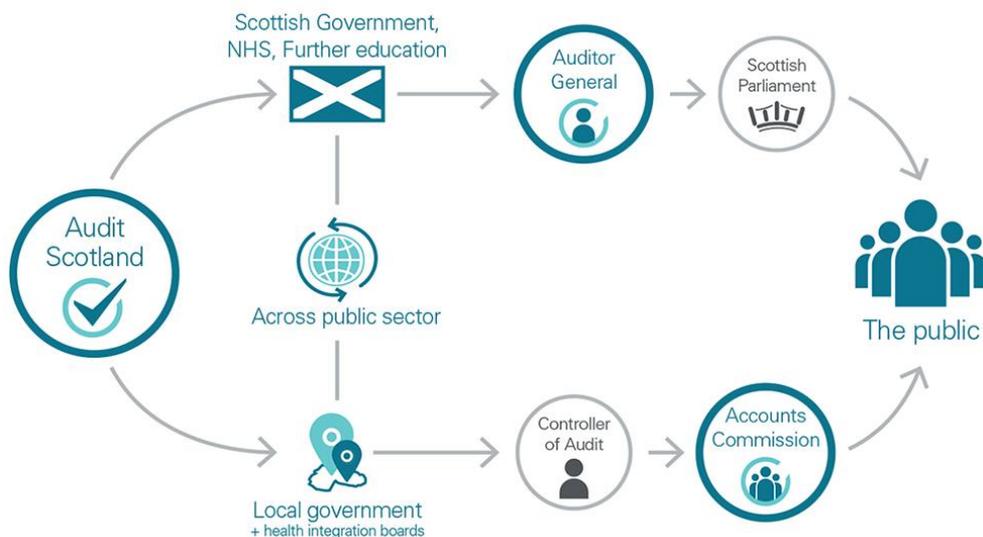
 AUDIT SCOTLAND

Prepared for Scottish Legal Aid Board
May 2018

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non – executive board chair, and two non – executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world – class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Audit findings

Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at Scottish Legal Aid Board. This work included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the financial statements; completion annual assessment of Internal audit; and early discussions on the legal aid provision. We will use the results of this testing to determine our approach during the 2017/18 financial statements audit.

2. Our responsibilities under the [Code of Audit Practice](#) require us to assess the system of internal control put in place by management. We seek to gain assurance that the audited body:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
- complies with established policies, procedures, laws and regulations.

3. We have also under the [Code of Audit Practice](#), carried out work on the wider dimension audit. This focussed on financial management, financial sustainability, and governance.

Conclusion

4. We identified several control weaknesses as summarised in [Exhibit 1](#) overleaf. These findings will inform our approach to the financial statements audit where relevant.

5. In terms our wider dimension audit work we concluded that there was a need to improve aspects of the Internal Audit section to ensure fuller compliance with the Public Sector Internal Auditing Standards, in particular the need for at least annual audit plans to be reported to the Audit Committee and the fact that there are currently shortages in Internal Audit's staffing levels.

Work summary

6. Our 2017/18 testing covered key controls in a number of areas including bank reconciliations, payroll validation and exception reporting, authorisation of journals, change of supplier bank details and IT access controls. Additionally, our testing covered budget monitoring and control, feeder system reconciliations and controls for preventing and detecting fraud.



Bank reconciliations



Payroll controls



IT access



Budgets

7. Provision for amounts outstanding in granted legal aid cases: In addition to reviewing the key controls, we held initial discussions with officers on the planned changes to the method for calculating the year end provision for the value of outstanding payments of legal aid. As this is a material balance within the financial statements (2016/17 £57.1 million) we will continue to review the basis for calculating future provisions and carry out additional testing in this area as part of the audit of the 2017/18 financial statements.

8. Review of Internal Audit: We reported in our 2017/18 Annual Audit Plan that we planned to place reliance on the work of Internal Audit on transfer of balances between the old and new financial ledger systems. At the time of our interim audit, the transfer of system balances had yet to be fully completed and will be tested further at the financial statement audit. We have concluded from our review of the adequacy of Internal Audit that there is a need to ensure fuller compliance with the Public Sector Internal Auditing Standards, in particular the need for at least annual audit plans to be reported to the Audit Committee and the fact that there are currently shortages in Internal Audit's staffing levels.

9. Introduction of new financial ledger: Scottish Legal Aid Board was in the process of completing the move to a new financial ledger at the time of the interim audit visit. Although this was progressing well, there were still aspects of the system were not fully functional. SLAB has acknowledged that because of the roll out of the new financial ledger system since December 2017, custom roles which SLAB would like to have in place to control access have not been fully established. We will continue to keep this issue under review.

10. Ongoing audit work: Work remains to be concluded on the accounting treatment of debtors for contributions payable by assisted persons and controls over access to the payroll system by Scottish Natural Heritage.

11. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

Risks identified

12. The key control and wider dimension risks identified during the interim audit are detailed in [Exhibit 1](#).

13. Any weaknesses identified represent those that have come to our attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to Scottish Legal Aid Board.

Exhibit 1

Key findings and action plan 2017/18

Issue identified	Management response	Responsible officer and target date
Audit findings		
1. Access Rights: Bankline		
Our testing of user access rights to the Bankline banking system highlighted a number of system users who had not activated their accounts in over a year and in one instance, one employee continued to have access the banking system after his role had changed. It not current practice for officers to	This issue arose as some departments have read only access and must inform us when there are staff changes. Bankline access will now be periodically reviewed by Finance and access will be checked with other departments.	VS Financial Controller Immediate

Issue identified	Management response	Responsible officer and target date
<p>review the listing of user access rights to ensure its continued accuracy.</p> <p>There is a risk that staff members may have inappropriate access to the Bankline system.</p>		
<p>2. Bank Accounts: Inactive accounts</p> <p>From review of the bank accounts held by SLAB, there would appear to be several accounts which remain open, but have little to no activity on the accounts.</p> <p>There is a risk that bank accounts which are no longer required remain open and increase the risk of errors in the bank balances.</p>	<p>There are a number of SDA bank accounts which have little activity but these contain funds arrested from solicitors and must be retained. There are 3 bank accounts which have a nil balance and one of these can be closed.</p> <p>All bank accounts are reviewed monthly, including those with little activity. This process would identify and correct any errors.</p>	<p>VS</p> <p>Financial Controller</p> <p>31 May 2018</p>
<p>3. Supplier Bank Details Changes</p> <p>It is not standard practice for the checks by officers on the validity of requests to change suppliers' bank account details to be formally evidenced.</p> <p>Our testing of a sample of 10 bank account changes found 5 instances where either there was no evidence of manager authorisation or no evidence that the new details had been confirmed with the supplier before the change was made.</p> <p>In addition, payments made to solicitors using amended bank account details are made before the confirmation of the validity of the change is received.</p> <p>There is a risk of fraudulent requests for changes to supplier bank details being approved and payments being made to the wrong bank accounts.</p>	<p>Administration Suppliers: Changes to Supplier bank details are checked with the supplier to confirm that both the change is valid and the details are correct. We will ensure these checks and the manager authorisation is always recorded going forward.</p> <p>Fund Solicitors: Changes to Solicitor bank details must be on the firms headed paper and signed by the senior partner. Amendments are checked with the firm by phoning them and sending a confirmation letter. However, sometimes we aren't able to reach our usual contact by telephone and a message is left detailing the account changes. This process has been changed so that the account details will only be changed after we have positive confirmation of the change from the solicitor firm.</p>	<p>VS</p> <p>Financial Controller</p> <p>Immediate</p> <p>VS</p> <p>Financial Controller</p> <p>Immediate</p>
<p>Audit dimensions - issues and risks</p>		
<p>4. Internal Audit: Risk Based Plan</p> <p>In order to comply with the Public Sector Internal Auditing Standards (PSIAS), internal audit should produce at least an annual risk based audit plan which highlight the planned reviews and resource requirements. A full risk based internal audit plan has not yet been produced, with the last plan put to the Audit Committee, covering only a period of 3 months.</p> <p>The internal audit section is not meeting the audit planning requirements of the PSIAS and members are unable to assess the</p>	<p>Internal Audit have been looking to move to a Risk Based plan; however have adopted an interim arrangement to discuss appropriate audit work based on risk areas identified by Directors.</p> <p>The last plan was based on 3 months as the introduction of the new Risk Management Framework is due to be approved in July 2018. Thereafter Internal Audit will prepare an Audit Plan based on the new framework and new Functional and Strategic risk registers.</p>	<p>GH</p> <p>Director of Corporate Services and Accounts</p> <p>31 August 2018</p>

Issue identified	Management response	Responsible officer and target date
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appropriateness of the planned audit reviews in the light of audit risks.

5. Internal Audit: Resources

From a review of the staffing establishment and the current staffing levels within the Internal Audit section, there is a resource shortfall within the Internal Audit Section. In addition, the post of Chief Internal Auditor remains a temporary appointment. This has been the case for over a year.

There is a risk that the staffing complement in the Internal Audit section is inadequate to deliver the planned Internal Audit work and the provision of the annual Internal Audit controls assurance report.

Current staffing levels are lower than previous years due to long term absence and maternity; however the staff complement was based on a cyclical approach and was viewed as excessive in terms of available audit hours. Recruitment has been delayed to review the output of the new Risk Management Framework to determine what level of staff resource should be required. Due to a backlog of current Audit work recruitment has been underway and a full time temporary member of staff has been appointed and will start in June 2018.

GH
Director of Corporate Services and Accounts
30 June 2018

6. Related Parties

There is no annual declaration on conflicts of interests required to be completed by operational staff awarding legal aid or approving payments to solicitors.

Consideration should be given to the introduction of a process whereby staff are unable to process accounts for which they have a close connection

Currently, declarations on conflicts of interest is only requested at the time of appointment to a post. Annual checks will be introduced and outcomes monitored.

GH
Director of Corporate Services and Accounts
31 August 2018

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