

Scottish Legal Aid Board

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for Scottish Legal Aid Board
January 2019

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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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

Adding value

3. We aim to add value to the Scottish Legal Aid Board through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the Scottish Legal Aid Board promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for the Scottish Legal Aid Board. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1 2018/19 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none">• Detailed testing of journal entries.• Review of accounting estimates.• Focused testing of accruals and prepayments.• Evaluation of significant transactions that are outside the normal course of business.
<p>2 Risk of fraud over income</p> <p>Scottish Legal Aid Board receives a significant amount of income from external sources including income from claimant contributions. The extent and complexity of income means that, in accordance with</p>	<p>SLAB has an Assisted Persons Investigations department.</p> <p>There are long established procedures and strong segregation of duties</p>	<ul style="list-style-type: none">• Analytical procedures on income streams.• Detailed testing of revenue transactions focusing on the areas of greatest risk.



Audit Risk

Source of assurance

Planned audit work

ISA240, there is an inherent risk of fraud.

covering each of SLAB's income streams.

3 Risk of fraud over expenditure

Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure.

The majority of expenditure by SLAB relates to the payment to solicitors to cover the costs of legal aid billing and the provision of advice. This is an area of potential fraud by solicitors and claimants.

SLAB has a Compliance and Investigations department and an Assisted Persons Investigations department that investigate irregularity and propriety of applicants and the profession.

SLAB has a delegated authority matrix, strong segregation of duties and ongoing cash flow management of Scottish Government (SG) funding. We hold monthly Accountability Meetings with our SG Sponsor and Justice finance. We complete SG monthly monitoring and have weekly contact with Scottish Government.

- Review of the work of SLAB's Compliance Audit and Assisted Persons Investigations Teams.
- Testing of expenditure transactions focusing on the areas of greatest risk.

4 Estimation of legal aid provision

The financial statements include a provision for unbilled live legal aid cases. The calculation of the provision figure uses an internally developed model which includes a significant degree of estimation in the range of data used in valuing cases. In 2017/18 we reported on insufficient supporting evidence being provided on key variables used within the model.

The value of the provision is material and as such represents an increased risk of misstatement in the financial statements

We will work with the Auditors to explain the detailed working of the model, its assumptions and the overall appropriateness of the calculations. Up to date supporting evidence for key variables will be provided.

- A review of the process for calculating the provision.
- Assess the reasonableness and accuracy of the assumptions and data used.
- A full review of all key variables within the model and agreement to supporting documentation
- Focused substantive testing of key areas.
- A review of the disclosures made to support the provision.

5 New payroll system

SLAB is due to complete the introduction of a new payroll system during 2018/19.

As the new system will be used for the production of the 2018/19 financial statements, there is an increased risk of misstatement in the figures and balances.

All migrated data is being reconciled between old and new payroll systems and Internal Audit will review and agree the reconciliation work.

- Review and testing of the controls in place within the new payroll system.
- Confirm the completeness and accuracy of balances transferred from the old to the new payroll system

Wider dimension issues and risks

6 Annual performance report

SLAB's performance management remains under development in 2018/19. A key

SLAB are working through an updated performance framework for 2019/20 (SOPOR). The current SOPOR has been in place

- Review reports to the Board on performance management
- Monitor the progress made in implementing a full

	Audit Risk	Source of assurance	Planned audit work
	purpose of the performance report is to provide an analysis of past performance and without the updated performance framework there is a risk that the performance report will not achieve this objective and Scottish Legal Aid Board are unable to demonstrate improvements or best value and the achievement of SLAB's corporate objectives	throughout 2018/19 and produces quarterly comparisons for current and prior years, showing overall performance for Operations and Accounts.	performance management and reporting system.

Source: Audit Scotland

Reporting arrangements

- 5.** Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.
- 6.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the Director of Corporate Services and Accounts to confirm factual accuracy.
- 7.** We will provide an independent auditor's report to the Scottish Legal Aid Board, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2 2018/19 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	18 January 2019	28 January 2019
Management Report	17 May 2019	27 May 2019
Annual Audit Report	19 July 2019	29 July 2019
Independent Auditor's Report	19 July 2019	12 August 2019

Source: Audit Scotland

Audit fee

- 8.** The agreed audit fee for the 2018/19 audit of Scottish Legal Aid Board is £43,540 [2017/18 £42,690]. In determining the audit fee we have taken account of the risk exposure of the Scottish Legal Aid Board, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual report and accounts with a complete working papers package on 10 June 2019.
- 9.** Where our audit cannot proceed as planned through, for example, late receipt of the unaudited annual report and accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional

fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Audit Committee and Accountable Officer

10. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

11. The audit of the annual report and accounts does not relieve management or the Audit Committee as those charged with governance, of their responsibilities.

Appointed auditor

12. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

13. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Annual report and accounts

14. The annual report and accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Scottish Legal Aid Board and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Scottish Legal Aid Board will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

15. We will give an opinion on whether the financial statements:

- give a true and fair view of the state of affairs of the Scottish Legal Aid Board as at 31 March 2019 and of the income and expenditure of the Scottish Legal Aid Board for the year then ended;
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of the expenditure and income

Other information in the annual report and accounts

16. We also review and report on other information published within the annual report and accounts including the performance report, corporate governance report, remuneration and staff report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

17. We also read and consider any information in the annual report and accounts other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.

Materiality

18. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

19. We calculate materiality at different levels as described below. The calculated materiality values for the Scottish Legal Aid Board are set out in [Exhibit 3](#).



Exhibit 3 Materiality values

Materiality	Amount
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2019 based on the latest audited accounts for 2018.	Scottish Legal Aid Fund £1.340 million
	Scottish Legal Aid Board £0.177 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75% of planning materiality.	Scottish Legal Aid Fund £1.005 million
	Scottish Legal Aid Board £0.133 million
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 1% of planning materiality.	Scottish Legal Aid Fund £13 thousand
	Scottish Legal Aid Board £2 thousand

Source: Audit Scotland

Timetable

20. To support the efficient use of resources it is important that a timetable is agreed with us for the receipt of the unaudited accounts and completion of the audit. We have included an agreed timetable at [Exhibit 4](#).

Exhibit 4 Annual report and accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual report and with complete working papers package	10 June 2019
Latest date for final clearance meeting with Director of Corporate Services and Accounts	27 June 2019
Issue of Letter of Representation and proposed independent auditor's report	12 July 2019
Agreement of audited unsigned annual report and accounts	12 July 2019
Issue of Annual Audit Report to Audit Committee	29 July 2019
Independent auditor's report signed	12 August 2019
Latest date for signing of WGA return	End Sept 2019

Internal audit

21. Internal audit is provided by an internal team of Scottish Legal Aid Board staff overseen by the Acting Head of Internal Audit. We are currently undertaking our annual assessment of the internal audit function and we will report any significant findings to management as part of our interim audit work.

Using the work of internal audit

22. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

23. From our initial review of internal audit plans, a number of reviews have been identified where we plan to place formal reliance on aspects of internal audit work:

- Accounts assessment
- Payroll and pensioners (this Internal Audit report is on the current payroll system and not the new system planned for introduction during 2018/19)
- Receipts and payments
- Accounting and budgeting
- Grant funding finance

24. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Governance boards and committees
- Business continuity
- Best value
- Procurement

25. In order for formal reliance to be placed on the work on internal audit, we will undertake a detailed review of the internal audit files to ensure that the audit work has been completed to required standards. In addition, we will also require this work to be completed timeously to allow the required assurance to be obtained for the annual report and accounts audit. As noted previously, if we are unable to take planned reliance from the work of internal audit, a supplementary fee may be levied.

Audit dimensions

26. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5

Audit dimensions



Source: Code of Audit Practice

Financial sustainability

27. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit and comment on the Scottish Legal Aid Board's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term

Financial management

28. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether the Scottish Legal Aid Board has arrangements in place to ensure systems of internal control are operating effectively
- whether the Scottish Legal Aid Board can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how the Scottish Legal Aid Board has assured itself that its financial capacity and skills are appropriate
- whether the Scottish Legal Aid Board has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

29. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether the Scottish Legal Aid Board can demonstrate that the governance arrangements in place are appropriate and operating effectively.
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.

- the quality and timeliness of financial and performance reporting.

Value for money

30. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- The Scottish Legal Aid Board can provide evidence that it is demonstrating value for money in the use of its resources.
- The Scottish Legal Aid Board can demonstrate that performance and outcomes are improving.
- There is sufficient focus on improvement and the pace of it.

Independence and objectivity

31. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

32. The engagement lead (i.e. appointed auditor) for the Scottish Legal Aid Board is Elaine Barrowman, Senior Audit Manager. Auditing and ethical standards require the appointed auditor Elaine Barrowman to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the Scottish Legal Aid Board.

Quality control

33. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

34. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

35. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk