

Scottish Legal Aid Board

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for by Scottish Legal Aid Board
February 2020



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 which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts 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 (SLAB) 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 SLAB 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 significant risks for SLAB. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement caused by management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent 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.• Completion of cut-off testing to ensure transaction appropriately recorded in the correct year.
<p>2 Risk of material misstatement caused by fraud in income recognition.</p>	<p>There are long established procedures and strong segregation of</p>	<ul style="list-style-type: none">• Analytical procedures on income streams.



Audit Risk

Source of assurance

Planned audit work

As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. The Scottish Legal Aid Board receives a material amount of income from external sources including income from claimant contributions. Due to the extent and complexity of income there is the risk of a material misstatement in the financial statements

duties covering each of SLAB's income streams. SLAB has an Assisted Persons Investigations department that investigates applicants.

- Detailed testing of revenue transactions focusing on the areas of greatest risk.
- Review of the work of SLAB's Internal Quality Control Unit (ICQU).

3 Risk of material misstatement caused by fraud in expenditure

As most public-sector bodies are net expenditure bodies, 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 regular 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.
- Review of the work of SLAB's ICQU.

4 Risk of material misstatement caused by estimates and judgements in the valuation of the Legal Aid provision and pensions

The financial statements include a provision for live legal aid cases which remain unbilled at the year-end. The calculation of the provision value is based on an internally developed model which includes a significant degree of estimation in the range of data used in valuing cases. In addition, the pension figures within the financial statements also include a significant degree of estimation. The value of both the provision and pensions 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.

The Executive Team and Actuary papers on pension scheme assumptions will be available for the auditors to review. The Actuaries final report and valuation will also be made available.

- 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.
- A review of payments made in 2019/20 compared to the provision to provide assurance over the accuracy of the assumptions.
- Review of actuarial assumptions made in the valuation of pension liability.



Audit Risk

Source of assurance

Planned audit work

5 New payroll system

SLAB introduced a new payroll system in April 2019. As the new system will be used for the production of payroll figures for the 2019/20 financial statements, there is an increased risk of misstatement in the figures and balances.

We will share with the Auditors the detailed checks undertaken by HR and Internal Audit on payroll data and parallel runs.

Controls mirror those on the previous payroll system.

- 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.

6 Annual performance report

As reported in our 2018/19 annual audit report, the draft performance report did not fully meet FReM requirements. and did not detail progress against target objectives and outcomes or the performance levels to be assessed.

There is a risk that the performance report will not meet the requirements of the FReM and that SLAB will be unable to demonstrate improvements, best value and the achievement of corporate objectives.

We will review Audit Scotland's Good Practice note and the latest FReM requirements and ensure the Performance Reports is in line with requirements and good practice.

- Review of the draft report against FReM requirement and Audit Scotland's Good Practice note.
- Review performance reports to the Board to ensure consistency.

Wider dimension risks

4 Financial sustainability

The 2019/20 administration budget reflected a challenging position for SLAB with financial pressures arising due to the implementation of pay awards. Further funding gaps are anticipated going forward with flat cash settlement expected from Scottish Government. Around 80% of SLAB's budget relates to staff costs and the impact of future pay settlements will be significant. There is also little room to make savings in other areas. Currently vacancy management is being used to address some of the funding gap and there is a risk that SLAB may be unable to deliver its strategic objectives and respond to the ongoing Legal Aid Review.

We have regular financial discussions with SG, including accountability meetings and monthly financial monitoring. Our 2020/21 budget is achievable and we will monitor progress closely during the financial year, with regular updates to the Board and Executive Team. We have recently refreshed our Scenario Planning exercise, which details a variety of different saving options.

- Review the 2020/21 budgets and responses to ongoing funding shortfalls
- Assessment of the adequacy of the SLAB's longer-term financial management arrangements.
- Monitor SLAB's financial position through budget monitoring reports presented to the board.

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 relevant officer(s) to confirm factual accuracy.

7. We will provide an independent auditor's report to SLAB, 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

2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	26 February 2020	9 March 2020
Management Report	6 May 2020	18 May 2020
Independent Auditor's Report	15 July 2020	27 July 2020
Annual Audit Report	15 July 2020	27 July 2020

Source: Audit Scotland

Audit fee

8. The agreed audit fee for the 2019/20 audit of SLAB is £44,120 (2018/19 £43,540). In determining the audit fee we have taken account of the risk exposure of SLAB, 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 8 June 2020.

9. Where our audit cannot proceed as planned through, for example, late receipt of 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.

14. Our audit team membership has changed since last year. For 2019/20 we have appointed Pauline Gillen as the Senior Audit Manager for SLAB audit. Pauline Gillen will have overall control of the delivery and quality of the audit including audit engagement and ensuring the audit is properly planned, resourced and concluded within time.

Audit scope and timing

Annual report and accounts

15. 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 SLAB 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.

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

- give a true and fair view of the state of affairs of SLAB as at 31 March 2020 and of the net expenditure of SLAB for the year then ended;
- have been properly prepared in accordance with the with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of the expenditure and income.

Statutory other information in the annual report and accounts

17. We also review and report on statutory other information published within the annual 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.

18. We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

Materiality

19. 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.

20. We calculate materiality at different levels as described below. The calculated materiality values for SLAB are set out in [Exhibit 3](#).



Exhibit 3 Materiality values

Materiality	Amount
Planning materiality – This is the figure we calculate to assess 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 2020 based on the latest audited accounts for 2019.	Scottish Legal Aid Fund £1.3 million Scottish Legal Aid Board £0.2 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 million Scottish Legal Aid Board £0.150 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

21. To support the efficient use of resources it is critical that the annual report and accounts timetable is agreed with us to produce the unaudited accounts. 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 accounts with complete working papers package	8 June 2020
Latest date for final clearance meeting with Director of Corporate Services and Accounts	By 26 June 2020
Issue of Letter of Representation and proposed independent auditor's report	15 July 2020
Issue of Annual Audit Report to those charged with governance	27 July 2020
Independent auditor's report signed	11 August 2020
Latest date for signing of WGA return	By 30 September 2020

Internal audit

22. Internal audit is provided by internal team of Scottish Legal Aid Board staff overseen by the Head of Internal Audit. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit

Standards (PSIAS). ISA 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

23. 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

24. 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.

25. From our initial review of internal audit plans we plan to place formal reliance on internal audit work in the following areas:

- Payments, Receipts and Banking
- Payroll and Pensions
- Accounts Assessment
- Operations – Civil Finance Collection Contributions
- Operations – Civil Finance Principal/Capital Sums

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

- Corporate Governance
- Best value
- Purchasing & Supply Chain Management
- Financial Accounting, Budgets and Monitoring

Audit dimensions

27. 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

28. Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and accountability and value for money.

Financial sustainability

29. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on 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
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps

Financial management

30. 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 arrangements are in place to ensure systems of internal control are operating effectively
- the effectiveness of budgetary control system in communicating accurate and timely financial performance can be demonstrated
- how SLAB has assured itself that its financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption. In particular, we will consider whether there are effective arrangements in place within the procurement function.

Governance and transparency

31. 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 SLAB 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

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

- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered.
- that outcomes are improving.
- there is sufficient focus on improvement and the pace of it.

Best Value

33. The Accountable Officer of SLAB has a duty to ensure arrangements are in place to secure best value. We will review and report on these arrangements.

Independence and objectivity

34. 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.

35. The engagement lead (i.e. appointed auditor) for SLAB is Pauline Gillen, Senior Audit Manager. Auditing and ethical standards require the appointed auditor Pauline Gillen 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 SLAB.

Quality control

36. 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.

37. 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.

38. 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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