

Scottish Legal Aid Board

Annual Audit Plan 2020/21



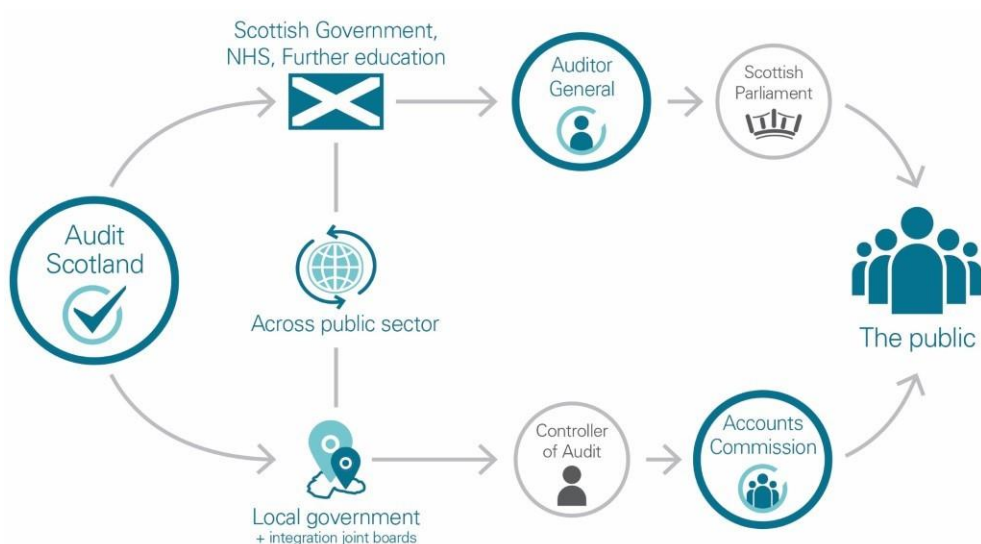
 AUDIT SCOTLAND

Prepared for Scottish Legal Aid Board
April 2021

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.
- 3.** The public health crisis caused by the coronavirus disease (Covid-19) has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.
- 4.** Public audit has an important contribution to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from Covid-19 across the full range of audit work including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

Adding value

- 5.** 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

- 6.** Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risks. 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

2020/21 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement due to fraud caused by the management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls. In addition, this risk includes the potential for management to influence the results in the financial statements through estimates and judgements.</p> <p>In response to Covid-19, to maintain processing levels, there is a possibility that this may have increased the opportunity for management override.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> <p>Completion of cut-off testing to ensure transaction appropriately recorded in the correct year.</p>
<p>2 Risk of material misstatement caused by fraud in revenue recognition.</p> <p>As set out in ISA (UK) 240, there is a presumed risk of fraud in the recognition of income. SLAB receives a material amount of income from claimant contributions.</p> <p>Due to the extent and complexity of income there is the risk of a material misstatement in the financial statements.</p>	<p>There are long established procedures and strong segregation of duties covering each of SLAB's income streams.</p> <p>DWP and CoPFS links provide assurance on application details.</p> <p>SLAB has an Assisted Persons Investigations department that investigates applicants.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p> <p>Review of the work of SLAB's Internal Quality Control Unit (ICQU).</p>
<p>3 Risk of material misstatement caused by fraud in expenditure</p> <p>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</p>	<p>SLAB has robust accounts assessment procedures, a Compliance and Investigations department and an Assisted Persons Investigations department that investigate irregularity and propriety of applicants and the profession.</p> <p>SLAB has a delegated authority matrix, strong segregation of duties and ongoing cash flow.</p>	<p>Review of the work of SLAB's Compliance Audit and Assisted Persons Investigations Teams.</p> <p>Testing of expenditure transactions focusing on the areas of greatest risk.</p> <p>Review of the work of SLAB's ICQU team.</p>

 Audit Risk	Source of assurance	Planned audit work
<p>4 Risk of material misstatement caused by estimates and judgements in the valuation the Legal Aid provision</p> <p>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.</p> <p>The value of the provision is material and as such represents an increased risk of misstatement in the financial statements.</p>	<p>Management are reviewing the model to ensure that it reflects the impact of Covid and the delays to court cases that have resulted.</p> <p>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.</p>	<p>A review of the process for calculating the provision.</p> <p>Assess the reasonableness and accuracy of the assumptions and data used.</p> <p>A review of all key variables within the model and agreement to supporting documentation.</p> <p>Focused substantive testing of key areas.</p> <p>A review of the disclosures made to support the provision.</p> <p>A review of payments made in 2020/21 compared to the provision to provide assurance over the accuracy of the assumptions.</p>
<p>5 Risk of material misstatement caused by estimates and judgements in the valuation of the property valuation and pensions</p> <p>At 31 March 2020, SLAB held property with a net book value of £9.8 million. In addition, the combined pension liability recorded was £142.8 million. Both of these figures contain a significant degree of estimation and subjectivity in their measurement and valuation. The valuation is based on specialist assumptions and estimates, and changes in these can result in material changes to the valuation.</p> <p>SLAB's valuer reported a material uncertainty, caused by Covid-19, in the valuation of land and buildings in 2019/20.</p>	<p>Valuation is based on specialist assumptions and estimates by experts.</p> <p>The latest building valuation notes that the material uncertainty no longer applies.</p> <p>The Executive Team and Actuary papers on pension scheme assumptions will be available for the auditors to review. The Actuaries & property valuers' final reports and valuations will also be made available.</p>	<p>Completion of 'review of the work of an expert' for the professional actuary and the professional valuer.</p> <p>Review and assess the reasonableness of the revaluation performed in year.</p> <p>Review of the estimates and assumptions made in calculating the pension fund liability.</p> <p>Assess SLAB's response to any changes in guidance issued by RICS.</p>
<p>6 Impact of Covid-19 on the financial statements</p> <p>As a result of Covid-19, interim arrangements were introduced to ensure legal aid payments continued to be made. SLAB is now reviewing the value and the impact that these payments will have in relation to the valuation of legal aid cases at 31 March 2021.</p>	<p>The Legal Aid provision has been adjusted for the effect of interim payments. 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.</p>	<p>Assess how SLAB has processed and controlled the interim payments made.</p> <p>Assess how this impacts on the financial statements.</p> <p>Review the Annual Report and Accounts and consider how the interim payments have been reported.</p>

7. No significant risk has been identified in relation to the wider audit dimensions. A number of points have been raised in the 2019/20 Annual Audit Report for financial sustainability regarding long term financial planning and workforce planning. Audit work to review arrangements for both will be considered as part of the 2020/21 audit. The outcome of this work will be reported in the annual audit report.

Reporting arrangements

8. 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.

9. 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.

10. We will provide an independent auditor's report to 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 2020/21 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	30 April 2021	14 June 2021
Management Report	20 September 2021	20 September 2021
Independent Auditor's Report	6 December 2021	6 December 2021
Annual Audit Report	6 December 2021	6 December 2021

Source: Audit Scotland

Audit fee

11. The proposed audit fee for the 2020/21 audit of SLAB is £45,220 (2019/20: £44,120). 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 20 September.

12. 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

13. 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.

14. 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

15. 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.

16. 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.

17. Our audit team membership has changed since last year. For 2020/21 Esther Scoburgh, Senior Audit Manager is the appointed auditor for SLAB. Esther Scoburgh 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 to agreed timescales.

Audit scope and timing

Annual report and accounts

18. 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 SLAB 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.

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

- give a true and fair view in accordance with the Legal Aid (Scotland) Act 1986 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2021 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2020/21 FReM; and
- have been prepared in accordance with the requirements of the Legal Aid (Scotland) Act 1986 and directions made thereunder by the Scottish Ministers.



characteristics



responsibilities



principal activities



risks



governance arrangements

Statutory other information in the annual report and accounts

20. We also review and report on statutory other information published within the annual accounts including the performance report, corporate governance statement and the 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.

21. 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

22. 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.

23. 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 2021 based on the latest legal aid fund report for Scottish Legal Aid Fund and audited accounts for 2019/20 for SLAB.	Scottish Legal Aid Fund £1.1 million
	Scottish Legal Aid Board £200,000
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 £805,000
	Scottish Legal Aid Board £131,000
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 £11,000
	Scottish Legal Aid Board £2,000

Source: Audit Scotland

Timetable

24. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

Exhibit 4 Annual accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual report and accounts with complete working papers package	30 September 2021
Latest date for final clearance meeting with Director of Corporate Services and Accounts	19 November 2021
Issue of Letter of Representation and proposed independent auditor's report	19 November 2021
Independent auditor's report signed	6 December 2021
Issue of Annual Audit Report to those charged with governance	6 December 2021
Latest date for signing of WGA return	31 December 2021

Internal audit

25. Internal audit is provided by an internal team of SLAB 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 (UK) 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.

26. 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

27. International 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.

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

- Payroll (and Pensioners)
- Regulation / Acceptance of Firms to provide Legal Aid

Audit dimensions

29. 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



30. 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

31. 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
- workforce planning arrangements.

Financial management

32. 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 systems 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.

Governance and transparency

33. 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
- review of the arrangements for the governance of the Legal Aid Pension Scheme
- how SLAB demonstrates its compliance with the Equality Act 2010.

Value for money

34. 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

35. 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

36. 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.

37. The engagement lead (i.e. appointed auditor) for SLAB is Esther Scoburgh, Senior Audit Manager. Auditing and ethical standards require the appointed auditor 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

38. International Standard on Quality Control 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.

39. 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.

40. 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.

Scottish Legal Aid Board

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If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

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