

# Scottish Legal Aid Board

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

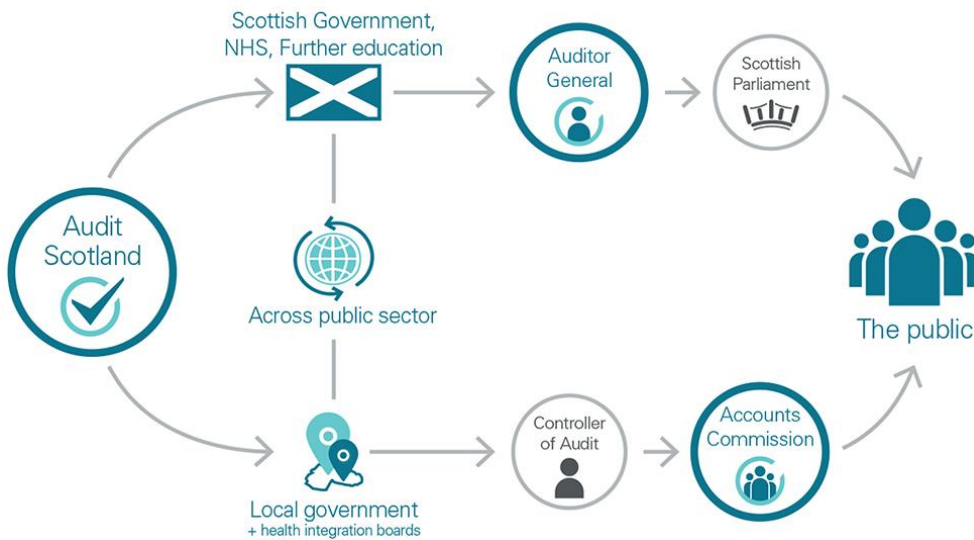
Prepared for Scottish Legal Aid Board

February 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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# Risks and planned work

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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 identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit
2. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Audit risks

3. 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 Scottish Legal Aid Board (SLAB). 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](#).

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## Exhibit 1

### 2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<b>1 Risk of management override of controls</b>  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 in order to change the position disclosed in the financial statements.	Owing to the nature of this risk, assurances from management are not applicable in this instance.	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.
<b>2 Risk of fraud over expenditure</b>  In public sector audit, there is a risk of fraud over aspects of expenditure due to most public sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure.. The Code of Audit Practice requires auditors to consider the risk of fraud over certain types of public sector expenditure.  The majority of expenditure by SLAB relates to the payment to	SLAB has an Assisted Persons Investigations department and a Compliance and Investigations department that investigate irregularity and propriety of applicants and the profession.  SLAB has a delegated authority matrix, segregation of duties and ongoing cash flow management of Scottish Government (SG) funding. We hold monthly Accountability	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.

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Audit Risk	Source of assurance	Planned audit work
<p>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>Meetings with our SG Sponsor and Justice finance. We complete SG monthly monitoring and have weekly contact with Scottish Government.</p>	
<p><b>3 Estimation of legal aid provision</b></p> <p>The financial statements include a provision for unbilled live legal aid cases. The calculation of the provision figure involves a significant degree of estimation in measurement and valuation and is based on a model which uses a range of data. The value of the provision is material and as such represents an increased risk of misstatement in the financial statements</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.</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>Focused substantive testing of key areas.</p>
<p><b>4 New finance system</b></p> <p>SLAB is due to complete the introduction of a new main accounting system in February 2018. The first stage of implementing the system went live in December 2017</p> <p>As the new system will be used for the production of the 2017/18 financial statements, there is an increased risk of misstatement in the figures and balances.</p>	<p>All migrated data has been reconciled between old and new financial systems and Internal Audit have reviewed and agreed the reconciliation work.</p>	<p>Review and testing of the controls in place within the new finance system.</p> <p>Confirm the completeness and accuracy of the balances transferred from the old to the new finance system.</p>
<p><b>Wider dimension risks</b></p>		
<p><b>5 Information and Cyber Security</b></p> <p>In the past year, public sector organisations in Scotland were subject to an increasing number of cyber-attacks. Successful cyber attacks can result in significant disruptions to operations, loss of data and reputational damage.</p> <p>In addition, the new General Data Protection Regulation (GDPR) becomes effective from 25 May 2018 and is more extensive in scope than the current requirements of the Data Protection Act. Significant progress has been made in preparation of the deadline. However, the member of staff leading the preparations has recently left the organisation Non compliance with the GDPR may</p>	<p>SLAB has been following and adhering to various requests to check and patch as per the Public Sector Action Plan on Cyber Resilience. SLAB receive patches from CISCO which are applied and tested. Annual penetration testing is carried out by a third party.</p> <p>Recruitment process to replace for GDPR is underway, along with monthly meetings planned to monitor progress. Much of the work is significantly advanced and requires departmental resource to implement.</p>	<p>A consideration of SLAB's arrangements in relation to cyber-security.</p> <p>Monitor and assess preparedness for complying with the requirements of the new General Data Protection Regulation.</p>

Audit Risk	Source of assurance	Planned audit work
result in financial penalties		

## Reporting arrangements

4. 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](http://www.audit-scotland.gov.uk).

5. 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.

6. We will provide an independent auditor's report to Scottish Legal Aid Board, and the Auditor General for Scotland setting out our opinions on the annual 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 in the course of the audit.

## Exhibit 2 2017/18 Audit outputs

Audit Output	Target date	Audit Committee / Board Date
Annual Audit Plan	24 <sup>th</sup> January 2018	5 <sup>th</sup> February 2018
Management Report	9 <sup>th</sup> May 2018	21 <sup>st</sup> May 2018
Annual Audit Report	11 <sup>th</sup> July 2018	23 <sup>rd</sup> July 2018
Independent Auditor's Report	23 <sup>rd</sup> July 2018	On or after the Board meeting on 23 <sup>rd</sup> July 2018

## Audit fee

7. The agreed audit fee for the 2017/18 audit of Scottish Legal Aid Board is £42,690 (2016/17 £42,050). In determining the audit fee we have taken account of the risk exposure of 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 financial statements, with a complete working papers package on 11 June 2018.

8. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements 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 outwith our planned audit activity.

## Responsibilities

### Audit Committee and Accountable Officer

9. 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.

10. The audit of the financial statements does not relieve management or the Audit Committee as those charged with governance, of their responsibilities.

### Appointed auditor

11. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the auditing profession's ethical guidance.

12. Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying the financial statements. 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.

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# Audit scope and timing

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## Financial statements

13. The statutory financial statements audit will be the foundation and source for the majority 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.

14. We will give an opinion on the financial statements as to:

- whether they give a true and fair view of the financial position of SLAB and their expenditure and income
- 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

## Materiality

15. 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 opinion in the auditor's report.



characteristics



responsibilities



principal activities



risks



governance arrangements

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

## Exhibit 3

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> – 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 2018 based on the latest audited accounts for 2017.	Scottish Legal Aid Fund £1.299 million
	Scottish Legal Aid Board £0.155 million
<b>Performance materiality</b> – 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 £0.974 million
	Scottish Legal Aid Board £0.116 million
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of planning materiality.	Scottish Legal Aid Fund £10 thousand
	Scottish Legal Aid Board £2 thousand



17. We review and report on other information published with the financial statements including Performance Report and Accountability Report, which include the Governance Statement and Remuneration and Staff Report. Any issue identified will be reported to the Audit Committee.

### Timetable

18. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit Committee and Scottish Legal Aid Board dates:

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts with complete working papers	11 <sup>th</sup> June



package

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Latest date for final clearance meeting with Director of Corporate Services and Accounts	29 <sup>th</sup> June
Agreement of audited unsigned annual accounts	23 <sup>rd</sup> July
Issue of Annual Audit Report including ISA 260 report to those charged with governance	23 <sup>rd</sup> July
Independent auditor's report signed	After Board meeting on 23 <sup>rd</sup> July

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## Internal audit

19. 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 and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by an internal team of Scottish Legal Aid Board staff overseen by the Acting Head of Internal Audit.

### Adequacy of Internal Audit

20. We are currently undertaking a review of the effectiveness of the Internal Audit function in your organisation and will report on this as part of our interim work.

### Areas of Internal Audit reliance

21. To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit review:

- Balances transferred into new finance system

22. We will continue to review all other relevant internal audit reports to identify any issues which may impact on our audit approach

## Audit dimensions

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

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## Exhibit 5

### Audit dimensions



## Financial sustainability

**24.** 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 SLAB'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
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether SLAB can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

## Financial management

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

## Governance and transparency

**26.** 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

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

- SLAB can provide evidence that it is demonstrating value for money in the use of its resources.
- SLAB can demonstrate that there is a clear link between money spent, output and outcomes delivered.
- SLAB can demonstrate that outcomes are improving.
- There is sufficient focus on improvement and the pace of it.

## Independence and objectivity

**28.** 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 in place robust arrangements 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.

**29.** The engagement lead for SLAB is Elaine Barrowman, 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 Scottish Legal Aid Board.

## Quality control

**30.** 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.

**31.** 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 relevant 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, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

**32.** 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.

## Adding Value

**33.** Through our audit work we aim to add value to SLAB. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well SLAB has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

# Scottish Legal Aid Board

## Annual Audit Plan 2017/18

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