

Scottish Legal Aid Board

Annual Report to the Board and the
Auditor General for Scotland

For the Financial Year ended 31 March 2015

30 July 2015



Executive Summary

Like many central government bodies, SLAB is facing increasing financial restraint as the administrative budget continues to reduce. SLAB also continue to work with the Scottish Government to help bridge the estimated £30m gap between the forecast spend on legal aid in Scotland to 2017-18, and the government's budget for legal aid.

During 2014-15, key steps have been taken to reduce the cost of administering legal aid, such as the move to new headquarters and continuing the digitisation agenda. During 2015-16, SLAB will welcome a new Chief Executive, and there may be further key changes at Board level. There are therefore opportunities and challenges facing SLAB to build on successes of prior years, and continuing to deliver key outcomes.

Financial statements

- We intend to give an unqualified opinion on the Scottish Legal Aid Fund and the Scottish Legal Aid Board.
- No issues were noted relating to the regularity of transactions undertaken for the 2014-15 financial year.
- The draft financial statements and supporting working papers were generally of a good standard, and as a result there were few audit adjustments required following our audit.
- We operate a risk based approach when planning our audit work and focus our audit effort on the areas with the highest risk. Our testing provided assurance on each area of risk identified, including the risk of management override of controls, the misstatement of legal aid payments and employee remuneration.
- Our review of the control environment highlighted no significant deficiencies.
- We applied separate levels of materiality to the Fund and SLAB. Materiality was set at £3,026k for the Fund and £335k for SLAB.
- We have reviewed key judgements made by management and disclosure of accounting policies and found policies to be in line with FReM requirements.

Governance

- SLAB reported through their Governance Statement that there were adequate governance processes in place during 2014-15. Our audit work supports this assessment.
- We have reviewed the processes and procedures in preparing the Governance Statement to ensure compliance with the Scottish Public Finance Manual (SPFM) and found the arrangements to be well established, and reviewed by SLAB's internal auditors on an ongoing basis.
- The Audit Committee reviewed its compliance against the SPFM in July 2014 and highlighted one minor area for improvement. In March 2016, the current Chair of the Committee will step down. Succession arrangements should therefore be developed to support the transition to a new Chair.
- Risk management arrangements were reviewed by internal audit during 2014-15. They confirmed that arrangements are well-established, and identified no areas for improvement.
- Anti-fraud and corruption measures are in place across SLAB. The Board also conducted a self-assessment against its arrangements for participation in Audit Scotland's National Fraud Initiative. No weaknesses were identified.

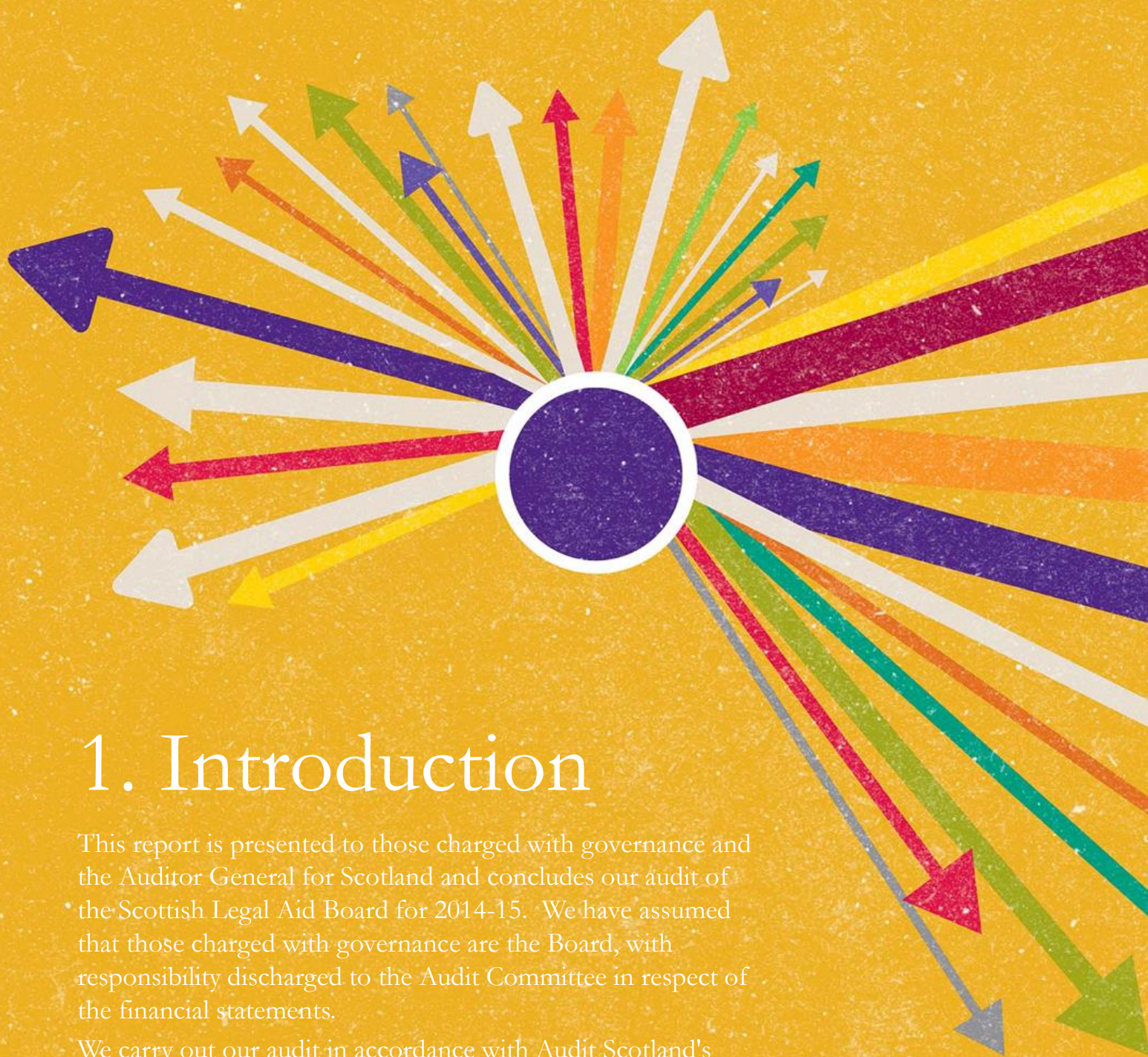
Best value, use of resources and performance

- SLAB's Corporate Plan 2014-17 outlines the uncertainties facing the organisation in future years as the Scottish Government continues to consult on ways to reduce the spend on legal aid in Scotland.
- SLAB has a performance management framework in place, based on the achievement of service standards, and accuracy of work. Arrangements are in place for reporting performance and outcomes, both to the Board and public.
- The Legal Aid Fund continues to record a significant net liability position of £66.4m (2014: £66.2m). As in prior years, the liability is largely due to significant provisions for legal aid work that has been carried out but not yet billed, and a growing pension liability.
- SLAB achieved all of its headline performance indicator targets during 2014-15.

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1. Introduction

This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of the Scottish Legal Aid Board for 2014-15. We have assumed that those charged with governance are the Board, with responsibility discharged to the Audit Committee in respect of the financial statements.

We carry out our audit in accordance with Audit Scotland's Code of Audit Practice. This report also fulfils the requirements of International Standards on Auditing (ISA) 260: Communication with those charged with governance.

Introduction

Purpose of this report

Audit Scotland appointed Grant Thornton UK LLP as auditor of the Scottish Legal Aid Board ("SLAB") for the 5 year period 2011-12 to 2015-16. This appointment is made under the Public Finance and Accountability (Scotland) Act 2000.

Our annual audit report is addressed to those charged with governance at SLAB, and the Auditor General for Scotland. The report summarises our opinion and conclusions on significant issues arising from our audit for the year ended 31 March 2015.

The scope of our audit work was set out in our Audit Plan, which was presented to the Audit Committee on 15 February 2015.

The Board's responsibilities

It is the responsibility of the Board and the Accountable Officer to prepare the financial statements in accordance with the HM Treasury Government Financial Reporting Manual (the FReM).

This means the Board must:

- prepare financial statements which give a true and fair view of the financial position of the Scottish Legal Aid Board and Scottish Legal Aid Fund and the income and expenditure for the year to 31 March 2015
- maintain proper accounting records which are up to date
- take steps to prevent and detect fraud and other irregularities.

The Board is also responsible for establishing proper arrangements to ensure that:

- business is conducted in accordance with the law and proper standards
- public money is safeguarded and properly accounted for
- economy, efficiency, effectiveness and Best Value is achieved in the use of resources.

Our responsibilities

It is a condition of our appointment that we meet the requirements of the Code of Audit Practice ('the Code') which was published in May 2011, and is approved by the Accounts Commission and the Auditor General for Scotland.

The Code highlights the special accountabilities that are attached to the conduct of public business and the use of public money. This means that audits in the public sector audit must be planned and undertaken from a wider perspective than the private sector. Our responsibilities are outlined in **Figure 1**.

We are required to provide an opinion on the financial statements and annual governance statement. Under the Code we are also required to review and report on the governance arrangements, Best Value, use of resources and performance.

Under the requirements of the International Standard of Auditing (UK and Ireland) ('ISA') 260: Communication with those charged with governance, we are required to communicate audit matters arising from the audit of the financial statements to those charged with governance. This annual report to the Board, together with previous reports to the Audit Committee throughout the year, discharges our ISA 260 commitments.



Acknowledgements

We would like to take this opportunity to record our thanks for the assistance provided by the Director of Corporate Services and Accounts, the Financial Controller, the Accounting & Budgeting – Interim Manager and the rest of the Finance Team during the course of our work.

Figure 1: Our responsibilities under the Code of Audit Practice

Financial Statements 

- Provide an opinion on:
- whether the financial statements provide a true and fair view of the financial position of the Scottish Legal Aid Board and Scottish Legal Aid Fund
 - whether the financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of expenditure and income

Corporate governance 

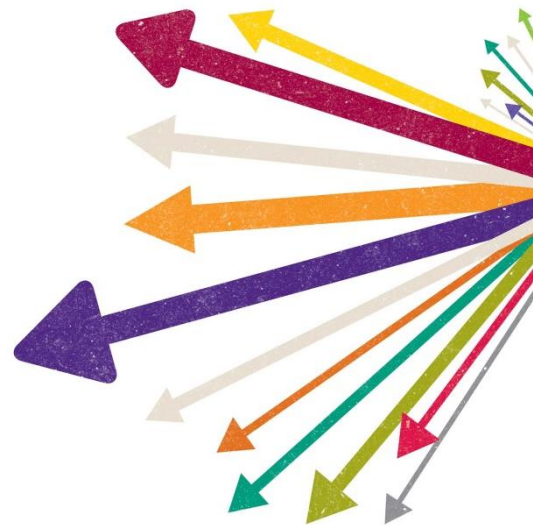
- Review and report on SLAB's corporate governance arrangements as they relate to:
- SLAB's corporate governance and systems of internal control, including reporting arrangements
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption

Best Value and performance 

- The Public Finance and Accountability (Scotland) Act 2000 gives the Auditor General the right to initiate examinations into the economy, efficiency and effectiveness with which the Board and other public bodies have used their resources to discharge their functions.
- In accordance with guidance issued by Audit Scotland, the Auditor General may require that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value.
- In accordance with guidance issued by Audit Scotland, auditors may be requested to participate in a performance audit, an examination of the implications of a particular topic at a local level, or a review of SLAB's response to national recommendations. In 2014-15 we have completed a baseline assessment of the financial capacity at SLAB.

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks are only those that have come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

Communication of the matters arising from our audit work does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.



2. Financial statements



Financial Statements

Introduction

Within this section of the report, we present our audit findings to management and those charged with governance in accordance with the requirements of International Standard of Auditing (UK & Ireland) 260.

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 23 February 2015.

Regularity

We did not identify any instances of irregular expenditure or non-compliance with laws and regulations in the Scottish Legal Aid Board or Fund accounts.

Financial Statements Opinion

We intend to give an unqualified opinion on the financial statements of the Scottish Legal Aid Board and Scottish Legal Aid Fund.

We identified two misstatements during the course of our audit, outlined at Appendix C. One of the misstatements was corrected, but neither had a material impact on the financial statements.

Whole of Government Accounts

SLAB will remain below Audit Scotland's threshold for submitting audited Whole of Government Account returns. The threshold for audit is £350 million.

Our Review of the Financial Statements

A complete set of draft financial statements were received on 15th June, after the start of our fieldwork. The statements received were of a high quality.

As part of our work on the financial statements we are required to review the narrative elements of the financial statements including:

- Directors' Report
- Strategic Report
- Annual Governance Statement
- Elements of the Remuneration Report; and
- The Accountable Officer's Report.

We review the narrative elements of the financial statements for compliance with required FReM disclosures, for consistency with other areas of the financial statements and our knowledge of SLAB.

We also reviewed the financial statements against the requirements of the Government Financial Reporting Manual (the FReM) which resulted in only minor disclosure adjustments being made.

During 2015-16, there will be significant changes to FReM requirements, including the adoption of a Performance Report and Accountability Report. SLAB therefore has an opportunity to review the content and focus of the financial statements to ensure they are concise, relevant and user friendly.

[Refer to Audit Action Plan Point 1](#)

A summary of our audit plan relating to financial statements



A reminder of our approach

Scope of the Audit

We operate a risk based audit approach. The starting point for our audit was to consider the inherent risks to the Scottish Legal Aid Board and Fund and how these may result in a material misstatement in the accounts. We identified one significant risk and two reasonably possible risks which have been outlined at **Table 1** and **Table 2**.

Systems linked to areas where we had identified a risk were subject to increased audit focus including consideration of the control environment, in particular whether the systems were operating effectively.

We conduct a range of audit procedures across all balances above performance materiality, including analytical review, agreement to third party confirmations and sample testing. Throughout the audit we have tailored the level of procedures to take account of the level of assessed inherent risk.

We also consider all disclosures in the financial statements and ensure compliance with the FReM issued by HM Treasury. We consider whether these are also consistent with the information gathered from our audit work.

Application of Materiality

We outlined in our audit plan that we had set individual materiality levels for the Fund and SLAB within the Statement of Accounts.

In planning the audit of the accounts, we have updated our thresholds from 2013-14 estimates using financial information from the 2014-15 draft accounts only where there is a change in expenditure of more than 10%. As such, our threshold for SLAB has been updated and the threshold for the Fund is unchanged. We have maintained our benchmark of 2% of resource expenditure.

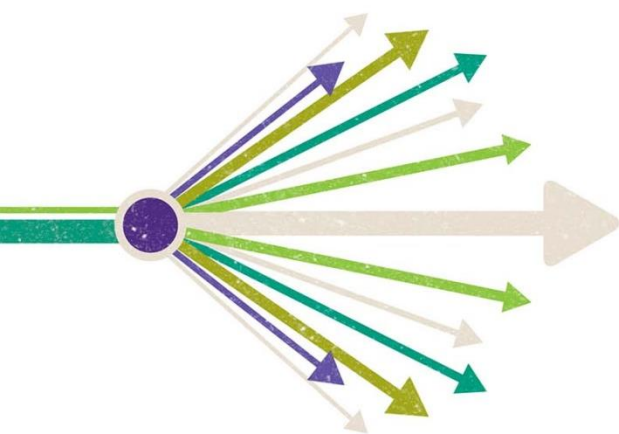
The primary focus of SLAB is to provide legal aid assistance to those who need it. We therefore recognise the entity is expenditure-driven and as such, we consider resource expenditure to be the most appropriate benchmark to meet the expectations of users. Total SLAB administrative expenditure in the draft 2014-15 accounts was £16,821k resulting in a materiality threshold of £335k. This means that cumulative unadjusted misstatements above this limit would have resulted in a qualified audit opinion.

The Fund's expenditure of £137,342k meant that final materiality remained assessed at £3,026k.

In addition to overall materiality we also establish a level for performance materiality, which as defined by ISA 320 is the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality. Performance materiality is the maximum amount the audit team will accept in an individual account.

We set our performance materiality at 70% of materiality which gave a measure of £234k for SLAB, and £2,118k for the Fund.

At all times throughout the audit we have assessed the impact on the Statement of Accounts. Items which were considered material by nature (eg cash and remuneration report disclosures) were subject to a higher degree of audit scrutiny.



Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards. However, as outlined in our external audit plan, we have rebutted the risk relating to revenue recognition leaving one significant risk applicable to SLAB's Statement of Accounts.

Table 1: Significant Risks identified at the planning stage

Risks identified in our audit plan	Work completed	Assurances and issues arising
<p>1 Management override of controls Under auditing standard ISA (UK&I) 240 there is a presumed risk that the risk of management override of controls is present in all entities.</p>	<ul style="list-style-type: none"> • Review of accounting policies, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions • Walkthrough of controls associated with key financial systems. • Agreement of the financial statements and disclosures against financial data in the general ledger 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting policies and judgements.</p>



Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty

(ISA (UK&I) 315).

Audit findings against reasonably possibly risks

Reasonably possible risks are, in the auditor's judgement, other risk areas which they have identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement is lower than that for a Significant Risk, and they are not considered to be areas that are highly judgemental, or unusual in relation to the day to day activities of the business.

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.




Table 2: Reasonably possible risks identified at the planning stage

Transaction cycle	Description of risk	Work completed	Assurances gained and issues arising
Legal Aid Payments	<p>Misstatement of legal aid liabilities:</p> <p>SLAB's main financial transactions relate to the payments of civil and criminal advice and assistance and legal aid.</p> <p>During 2014-15, net expenditure on the Scottish Legal Aid Fund was £137 million.</p>	<p>We gained assurance over the risk through:</p> <ul style="list-style-type: none"> Review and walkthrough of the processes and controls in operation for payment of legal aid. Analytically reviewing legal aid payments in comparison to expectations and investigating any significant variances Testing of a sample of legal aid payments made during the year. 	<p>Our audit work has not identified any misstatement of payments of legal aid.</p> <p>Our sample testing confirmed legal aid payments agreed to a valid invoice or claim, and was appropriately authorised, with no exceptions noted.</p>
Employee remuneration	<p>Employee remuneration accruals understated:</p> <p>Employee costs accounted for around 60% of administrative expenditure in 2014-15. There are a large number of transactions processed throughout the year and SLAB relies on numerous controls including monthly reconciliations and segregated duties when compiling payroll to ensure that the employee costs are recorded correctly in the financial statements.</p>	<p>We gained assurance over the risk through:</p> <ul style="list-style-type: none"> Review and walkthrough of the processes and controls in operation for payment of staff. Substantive testing of payroll accruals at the year end Judgemental sample testing of staff members to HR system and the recalculation of employer costs Analytically review payroll expenses in comparison to expectations and investigation any significant variances Review of the relevant disclosures relating to staff costs within the financial statements 	<p>We gained sufficient assurance over payroll processes to conclude that there are no material misstatements.</p>

Accounting estimates and significant judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included within SLAB's financial statements.

Table 3: Accounting estimates and significant judgements

Accounting area	Summary of policy	Our comments	Our assessment
Revenue recognition	<ul style="list-style-type: none"> Funding: Scottish Government fund the payment of legal aid. Although there is an approved budget allocation, cash is drawn down on a needs basis. Grant in Aid received for employee, capital and running costs purposes and other Government grants are regarded as financing and are credited to the income and expenditure reserve. Other Revenue: All non-funding income is recognised in the period it is receivable. 	<ul style="list-style-type: none"> The revenue recognition policies are appropriate under the Government Financial Reporting Manual. The disclosure in the draft accounts was found to be reasonable and in line with prior years. 	
Property, Plant & Equipment	<ul style="list-style-type: none"> During 2014-15, SLAB moved from its leased property in Drumsheugh Gardens to Thistle House. The Board's accounting policy has been amended to reflect the ownership of land and buildings for the first time. The policy states that land and buildings will be carried at fair value. Land and buildings will be re-valued from initial recognition in line with guidance (5 year programme, 3 year interim). Other assets are held at depreciated historical cost and depreciated accordingly. 	<ul style="list-style-type: none"> Thistle House was revalued on 31 March 2014 as part of the Scottish Government's programme of valuations. We are satisfied that the transfer value at 1 April 2014 was determined by professionally qualified valuers, and is consistent with guidance in the Financial Reporting Manual. SLAB established asset lives based on consultation with the facilities management team. We are satisfied that the asset lives adopted are reasonable and in line with sector norms. 	
Provisions	<ul style="list-style-type: none"> Funding provision for the payment of legal aid outstanding as at 31 March is calculated based on a model which takes account of past cost data and is based on a payments forecast over 12 months and beyond. 	<ul style="list-style-type: none"> The legal aid provision at 31 March 2015 totals £74.4m (2014: £78.6m), and is calculated following the same approach and model used in previous years. We are satisfied that the approach meets the requirements of IAS 37. Our testing considered the source data and re-calculation of this figure and no issues were identified in the work carried out. 	

Assessment:





-  Marginal accounting policy which could potentially attract attention from stakeholders
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Table 3 continued: Accounting estimates and significant judgements

Accounting area	Summary of policy	Our comments	Our assessment
Pensions	<ul style="list-style-type: none"> SLAB offers a contributory defined benefit scheme to all employees. The Legal Aid (Scotland) Pension Scheme 1988 is an unfunded pension scheme providing benefits based on pensionable pay. 	<ul style="list-style-type: none"> SLAB accounts for its pension scheme in accordance with IAS 19: Employee Benefits, on a defined benefits basis. Our audit of the accounting for employee benefits includes an evaluation of Buck Consultants, as the Actuarial experts, consideration of the data underlying the actuarial report and membership data provided to the actuary by SLAB. SLAB make a number of assumptions, in line with advice from actuaries, to support their calculations based on market conditions at the year end, including a discount rate to derive anticipated future liabilities and future salary increases. We asked our internal actuaries to review the assumptions adopted by SLAB in 2014-15. Our actuaries were satisfied with the reasonableness of assumptions used, but highlighted that the rate assumed for salary increases is 4.20% pa, which represents a 2.00% pa real salary increase above the CPI inflation rate assumption. It is difficult to predict long term salary movements, and we therefore reviewed SLAB's rationale, and noted that the assumption is in line with the Principal Civil Service Scheme. We are therefore satisfied that the assumption is reasonable. Pension liabilities have increased during 2014-15 and, in common with many public sector organisations, form a significant liability in the Statement of Financial Position. We therefore considered the pension liability as part of our assessment of going concern. 	

Other areas of audit focus

Internal controls

We update our understanding of SLAB's operations and key financial controls systems each year and tailor our audit strategy to focus on key risk areas.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. During our audit, we conducted testing on the following areas:

- employee remuneration
- legal aid payments
- journals testing

We did not identify any significant deficiencies or material weaknesses arising from our testing of the systems. Our testing on creditor balances did, however, highlight one area for improvement, relating to the reconciliation of the Principal Sums account.

[Refer to Audit Action Plan 2](#)

Overall, the results of our interim testing and review of internal audit work confirmed that there is a sound system of internal control covering key financial systems operated by SLAB.

Disclosures

Our work on the final accounts disclosures is on-going. To date we have proposed a number of minor adjustments including:

- Minor adjustments to the governance statement
- Additional disclosure on the nature of the transfer of Thistle House
- Other, small disclosure adjustments to improve the user's understanding and presentation of the financial statements.

Going Concern

The Legal Aid Fund continues to show a negative financial position as a result of significant provisions for the value of unbilled live cases at the year end and pension liabilities. As part of the audit, we have considered management's assessment of going concern.

SLAB receive an annual letter of comfort from the Scottish Government confirming that there are no plans to change the existing arrangements whereby they fund SLAB's administrative costs, including the provision for the net pension costs, through grant-in-aid.

Funding for 2015-16 has been included in the Scottish Government's estimates for the year, and take account of the liabilities expected to be met within one year.

SLAB has incorporated planned levels of funding based on the allocation from Scottish Government into their Operational Plan for 2015-16. A Corporate Plan covering the period 2014-17 has also been prepared.

Our work has therefore identified no significant issues in relation to going concern.

Related Parties

We have not identified any related party transactions which have not been disclosed.

Other areas of audit focus

Sustainability reporting

The Treasury's Financial Reporting Manual (FRm) requires central government bodies to include a section in their annual report which outlines the economic, social and environmental factors impacting the organisation. This is to be presented in a Sustainability Report.

Public Sector Sustainability Reporting- Guidance on the Preparation of Annual Sustainability Reports was published by the Scottish Government and outlines the minimum reporting requirements covering areas such as:

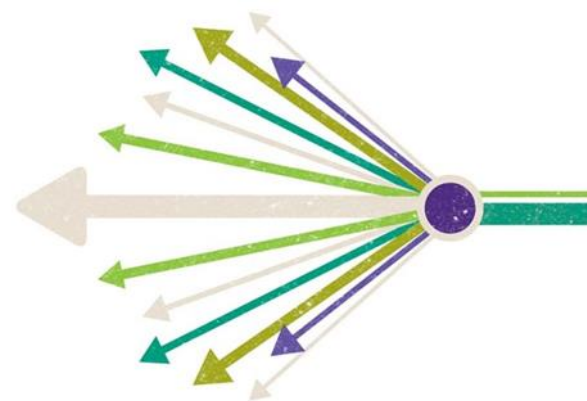
- greenhouse gas emissions
- waste minimisation and management
- finite resources
- action on biodiversity
- sustainable procurement.

SLAB reports on key actions taken to reduce their environmental impact within the Strategic Report in the Statement of Accounts. SLAB fully adopt the Carbon Trust's management system to measure and monitor the organisation's carbon footprint. Since 2011, SLAB has continuously reduced emissions. In January 2015, SLAB moved to Thistle House from previous headquarters in Drumsheugh Gardens. New baseline data will therefore be collected to allow future monitoring. As Thistle House is a more modern building, there is an expectation that environmental sustainability measures will further improve in future years.

Transfer to Thistle House

In January 2016, SLAB moved from its headquarters in Drumsheugh Gardens to Thistle House. The building is a Crown property, and title deeds therefore remain with Scottish Ministers. Under the transfer agreement agreed with the Scottish Government, SLAB are responsible for the management of the property and all maintenance and running costs.

Thistle House transferred to SLAB on 1 April 2014 although operational responsibility was only assumed from 1 July 2014. SLAB depreciated the building from 1 July 2014. We have reviewed the accounting entries and are satisfied that the transfer has been accounted for appropriately, and the building is disclosed at fair value, in line with the requirements of the Financial Reporting Manual.



3. Governance



Governance

Introduction

Under the Code of Audit Practice, we have a responsibility to review SLAB's corporate governance arrangements.

In May 2015, the Scottish Government published the updated [On Board](#) guidance for Board members, which provides support on key areas including corporate governance, ethics and standards of behaviour and effective financial management.

Governance Statement

Under the Treasury's Financial Reporting Manual (FReM), the Board must prepare a Governance Statement within the Statement of Accounts. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the Governance Statement as it forms a key summary of SLAB's governance ethos, and provides assurances around the achievement of the organisation's strategic objectives.

The statement should be informed by work undertaken throughout the period to gain assurance about performance and risk management, providing an insight into the organisation's risk profile and its responses to identified and emerging risks.

The SPFM does not prescribe a format for the Governance Statement, but sets out minimum requirements for central government bodies. Our review of SLAB's Governance Statement highlighted that only one relevant area of the guidance was not addressed, relating to data security. We were satisfied that this was reported within the Strategic Report, but SLAB agreed to a minor amendment to provide confirmation within the Governance Statement.

We found that SLAB's assurance arrangements continue to operate well in practice. The organisation's internal auditors conduct a programme of assurance assessments, which includes test of key controls to validate annual assurances from individual managers.

Each Director completes an annual self-assessment return against the Scottish Government's Internal Control Checklist to certify that they are content with the assurances provided by their managers and that there are no significant matters that should be raised specifically within the Governance Statement.

The Accountable Officer also refers to the work of external auditors, and the Head of Audit's Annual Assurance Statement when forming his view on the strength of internal controls.

Risk management

SLAB's Annual Governance Statement discloses its approach to risk management. The organisation has a Risk Policy and Risk Management Framework in place. A Strategic Risk Register is in place, which is supported by departmental and project level risk registers.

Risks are reviewed by the Leadership Team on a monthly basis. In addition, the Audit Committee review the strategic risk register on a quarterly basis and the Board reviews the overall effectiveness of the organisation's risk management framework twice a year.

Key areas of continuing high risk on the strategic risk register impact the Scottish Government's future funding of legal aid, and include:

- the continuing gap between the Legal Aid Fund expenditure forecast and the Scottish Government's budget provision
- the potential medium-long term growth in Legal Aid Fund expenditure.

Other high risks include the monitoring the ability of the organisation to response to continuing financial pressures:

- the capacity to deliver savings programme as required by Scottish Government
- the lack of grant-in-aid for SLAB to cope with the expanding change agenda
- lack of management capacity within SLAB to cope with volumes of business, the expanding change agenda, or loss of key personnel.

In July 2014, SLAB's internal auditors reviewed the risk management arrangements. Overall, they assessed the internal controls governing risk management as "good". No recommendations for improvement were identified.

Prevention and Detection of Fraud and Irregularity

The integrity of public funds is a key concern for the organisation and for auditors. As external auditors, we are required to consider the arrangements made by management for the prevention and detection of fraud and irregularities. SLAB has established arrangements to proactively identify and respond to fraud in the Legal Aid Fund.

The Compliance and Solicitors Investigations Team respond to allegations, and conduct a risk based audit of solicitors who are registered to provide legal aid. During 2014-15, the team undertook 77 compliance audits, resulting in reimbursements totalling £145k with a further £81k outstanding. Five cases of solicitor investigations have been referred to the Crown Office, and there are currently 10 active investigations.

The AP Investigations Team conduct financial verification checks on legal aid claimants, and investigate any financial representations relating to:

- undisclosed income
- undisclosed capital
- an undisclosed partner.

During 2014-15, the team responded to 659 referrals for investigation. The number of cases reported to the Crown Office decreased from 17 in 2013-14 to 7 during 2014-15. However, in 38% of cases closed in 2014-15, some form of action, including termination or warning letter, was required as a result of the investigation work. SLAB estimate that this work resulted in £517k in savings to the Legal Aid Fund.

SLAB also participates in Audit Scotland's National Fraud Initiative. In November 2014, the Audit Committee considered SLAB's self-assessment of arrangements in place to participate in the NFI exercise.

The self assessment concluded that arrangements were in line with Audit Scotland's recommendations, and no further actions were required.

During 2014-15 the data matching exercise found 80 matches. Action has been taken to investigate and close all of the matches.

The Accountable Officer also asks the Internal Audit team to conduct an annual review of the processes and programmes designed to mitigate and minimise fraud risk as part of the annual internal audit activity plan. During 2014-15, internal audit reported that a Scottish Government fraud awareness survey received a high level of participation from SLAB staff across all grades. The overall outcomes of the survey showed a high level of fraud awareness within SLAB.

Following enquiries with SLAB's management and internal audit, we note that there have been no instances of fraud or whistleblowing in the current financial year.

To support our opinion, we also conducted testing on journal entries and reviewed transactions to identify any potential related parties. There were no issues arising from this testing.

Arrangements for maintaining Standards of Conduct and detection of corruption

In line with the Ethical Standards in Public Life etc (Scotland) Act 2000, the Board has established a Code of Conduct for Board Members. The Code was reviewed and updated in June 2014 to reflect the updated Model Code for Board Members of public bodies.

A register of interests is available for each Board member on SLAB's website, is updated on a quarterly basis. In addition, declarations of interest are made at each Board meeting.

Internal audit

SLAB's internal audit team provide an annual opinion to the Audit Committee on the assurance framework. In 2014-15, they issued the following opinion:

Based on this work, in my opinion, the Scottish Legal Aid Board has a generally sound framework of control which provides reasonable assurance regarding the effective and efficient achievement of SLAB's objectives. Accordingly, I am of the opinion that there is nothing which would warrant the Accountable Officer not signing the standard form of Governance Statement in SLAB's annual report and accounts for the year to 31st March 2015.

The internal audit reports throughout the year highlight a high level of compliance assurance achieved for each review. All internal audit recommendations made during the year were assessed at the lowest level, advisable.

In 2015-16, the internal auditors will focus on core areas of risk, including:

- Corporate governance
- Fraud
- IS Core Systems
- AP Investigations Team
- Compliance and Solicitors Investigations Team
- Key financial systems, including grant funding.

Audit Committee

The Scottish Public Finance Manual (SPFM) is issued by Scottish Ministers to provide guidance to the Scottish Government and other central government bodies on the proper handling and reporting of public funds.

The Audit Committee considers its level of compliance against the SPFM Compliance Checklist as part of its annual review of effectiveness.

The most recent review, in July 2015, found a high level of compliance. An improvement identified during 2014, relating to the provision of an annual summary of accounting and auditing developments for the Audit Committee, was implemented during the year.

In March 2016, the current Chair of the Audit Committee will step down. Arrangements should therefore be made plan for the succession of another Chair, to ensure that the priorities and aims of the Committee continue to be met.

[Refer to Action Plan Point 3](#)



4. Best Value, Use of Resources and Performance



Best value and performance

Development of the Corporate Plan

SLAB's Corporate Plan 2014-17 outlines how the Board will meet the Scottish Government's National Performance Framework, including priorities for delivery of legal aid outcomes.

The plans for 2015-17 include a number of areas of uncertainty where actions are dependent on discussions with the Scottish Government to develop the next phase of A Sustainable Future for Legal Aid. The new strategy is not expected to be published in 2015-16.

In the interim period, the focus of the Operational Plan 2015-16 has therefore shifted from the implementation of legislatively driven savings initiatives to internal programmes to improve performance and make further efficiencies to the legal aid process. This work includes work to simplify legal aid processes and best value reviews.

Performance reporting

SLAB has eight key performance indicators across each key area of work. The indicators are set by Scottish ministers and reviewed each year.

These headline indicators combine underlying targets on accuracy and timeliness for each major legal aid process. Full performance reports against all targets are provided to the Board on a quarterly basis. During 2014-15, SLAB increased the targets across a number of areas.

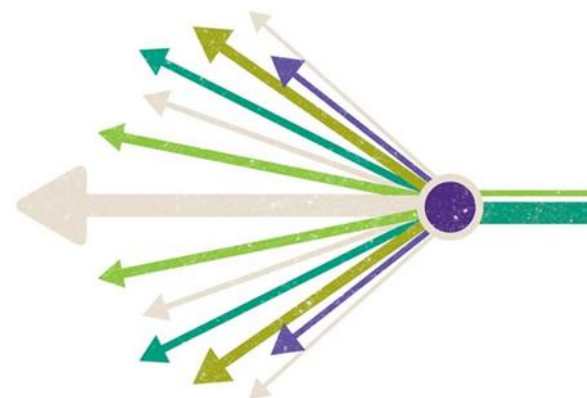
As Table 4 highlights, SLAB continues to achieve each target, despite the significant level of efficiencies and savings that have been made within the administrative budget.

Table 4: SLAB continues to achieve all headline performance indicator targets, based on service standard times to process applications

Indicator	Target	2013-14 Actual	2014-15 Actual	Achieved
Criminal applications	99%	99%	100%	✓
Civil applications	97%	98%	99%	✓
Children's applications	96%	98%	100%	✓
Advice and assistance	97%	100%	100%	✓
Criminal accounts	97%	99%	99%	✓
Civil accounts	97%	98%	98%	✓
Children's accounts	97%	99%	98%	✓
A&A accounts	97%	99%	99%	✓

Leadership

During 2014-15, the Chief Executive and Accountable Officer announced his intention to retire. Following a period of open recruitment, in June 2015, it was announced that his successor will be the current Director of Policy and Development and Deputy Chief Executive.



Use of resources

Objectives

SLAB's key objective is to provide access to justice for people in Scotland who are unable to pay for it on their own.

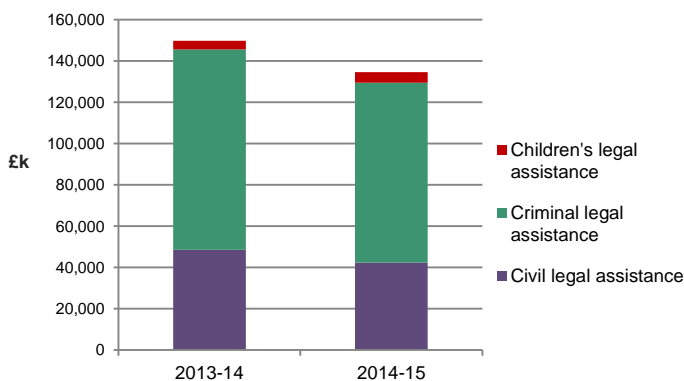
Legal aid also ensures that legal assistance is available to those accused of crimes, helping the criminal justice system to operate fairly.

The legal aid system in Scotland is demand led and not cash limited. This means that the Scottish Government is duty bound to fund the cost of cases which meet the statutory tests.

Legal aid fund costs in 2014-15

During 2014-15, SLAB provided £134.7 million of legal aid assistance, a reduction of £15.2 million from the prior year (2013-14: £149.9m).

Figure 2: A total of £134.7 million was spent on legal assistance during 2014-15



Source: Scottish Legal Aid Fund Statement of Accounts 2014-15

In prior years, we have noted that applications for civil legal assistance were very high, which SLAB attribute to the impact of the recession. During 2014-15, the number of applications fell to around 19,000, a reduction of around 7% on prior years. As a result of lower volumes in previous years and large falls in the costs of some types of cases, expenditure on civil legal assistance fell from £48.5m in 2013-14, to £42.3m in 2014-15.

Expenditure on criminal legal assistance also fell from £97m to £87.2m in 2014-15, a reduction of 10%.

During 2013-14, there was a large increase in grants of summary criminal legal aid, which increased the number of outstanding cases in the justice system. The process of clearing the outstanding trials began in the second half of 2014-15 with the balance, and the associated costs, expected in 2015-16.

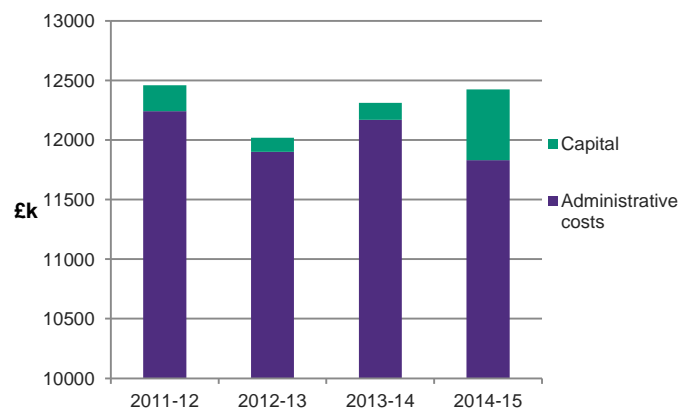
During 2014-15 there continued to be an increase in the outstanding volumes of more serious (solemn) cases, which led to a significant reduction in these costs in 2014-15.

The Children's Hearings (Scotland) Act 2011 came into force in June 2013. As a result, SLAB began dealing with applications for legal aid for representation at children's hearings. Expenditure increased during 2014-15 by £890k, to £5.2m, reflecting a full year of costs for the new application types.

Administrative expenditure

SLAB's administration costs are funded through Grant-in-Aid from the Scottish Government. Unlike the Legal Aid Fund, the Administrative budget is capped.

Figure 3: Cash spend on staff and running costs fell in 2014-15 despite one-off amounts relating to the office relocation

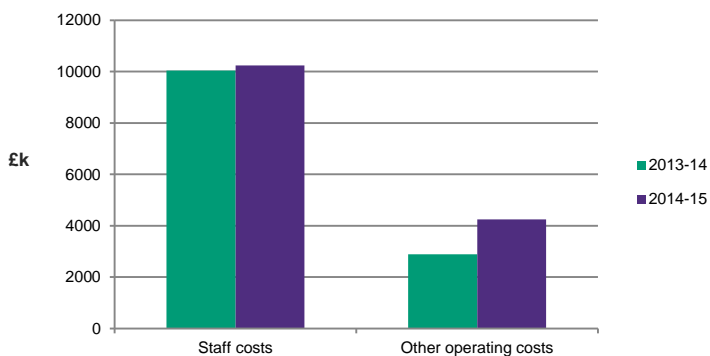


Source: Scottish Legal Aid Board Statement of Accounts 2011-12 to 2014-15

SLAB's administrative budget continues to fall, despite increases in workload attributed to new legislation and additional responsibilities for grant funding.

On an accruals basis, administrative expenditure on the Scottish Legal Aid Board was £14.5m, compared to £12.9m in 2013-14, as a result of accrued pension costs and one-off costs associated with the move to Thistle House. Figure 4 highlights that there were increases both in staff costs and in administrative costs during 2014-15.

Figure 4: On an **accruals** basis, running costs increased by £1.5m during 2014-15



Source: SLAB Statement of Accounts 2014-15

Staff costs rose by £0.2m despite a further reduction in average staff numbers, from 270 to 267. The increase can be attributed to higher pension scheme costs.

Other running costs increased by £1.3m, which reflects the costs of moving to new headquarters during the year. Accommodation costs included lease dilapidation costs of £1m relating to Drumsheugh Gardens. In future years, it is anticipated that the move to Thistle House will reduce operating costs by around £0.6m each year.

Scottish Legal Aid Fund Financial Position

As in prior years, the Fund's Statement of Financial Position reflects a negative financial position as a result of significant provisions for the value of unbilled live cases at the year end and pension liabilities. The provision for unbilled cases as at 31 March 2015 has decreased and now totals £74.4m (2014: £78.6m). This reduction is partially offset by a further increase in pension liabilities, from £5.3m to £7.5m in 2014-15.

Although these provisions create a significant liability at the year end, legal aid expenditure is not cash limited and the Legal Aid (Scotland) Act 1986 creates a statutory obligation on the Scottish Government for payment of sums due from the Legal Aid Fund.

Table 5: Legal Aid Fund Statement of Financial Position

	Year ended 31 March 2015 (£m)	Year ended 31 March 2014 (£m)
Non-current assets	10.809	11.899
Current assets	9.045	10.111
Current liabilities	(55.457)	(57.392)
Total net assets	(35.603)	(35.382)
Non-current liabilities	(30.825)	(30.821)
Total equity	(66.429)	(66.203)

Source: Scottish Legal Aid Fund Statement of Accounts 2014-15

We continue to expect further significant reform within the Justice System which will impact on legal aid expenditure, including an update on the Scottish Government's *Sustainable Future for Legal Aid* paper.

The Criminal Justice (Scotland) Bill and the Court Reform (Scotland) Bill are also likely to impact on legal aid costs.

Scottish Legal Aid Board Financial Position

During 2014-15, the Scottish Government transferred Thistle House to effective SLAB ownership, to provide new headquarters accommodation. There have therefore been significant changes within SLAB's Statement of Financial Position (Table 6, below).

Thistle House transferred to SLAB at fair value, reflecting an independent valuation of £4.5m at 31 March 2014. SLAB also incurred capital expenditure to improve the building and make it fit for purpose.

Table 6: The Scottish Legal Aid Board's Financial Position has declined by £4.6m as a result of pension liabilities

	Year ended 31 March 2015 (£m)	Year ended 31 March 2014 (£m)
Non-current assets	5.169	0.431
Current assets	0.845	0.995
Current liabilities	(0.667)	(0.232)
Total net assets	5.347	1.194
Non-current liabilities	(70.868)	(62.093)
Total equity	(65.521)	(60.899)

Source: Scottish Legal Aid Board Statement of Accounts 2014-15

The other significant movement on the financial position reflects a further increase in pension liabilities, included in non-current liabilities. The pension liability now stands at £70.9m (2014: £62m).

SLAB has received written assurances from the Scottish Government that they will continue to fund SLAB's administrative costs, including the provision for the net pension costs, through grant-in-aid. They also confirm that should the liabilities ever crystallise, then the liabilities falling due under the pension scheme would be a matter which the Scottish Government would require to recognise through legislation that was considered by Parliament.

Financial Capacity

During 2014-15, Audit Scotland asked auditors to collect baseline data on finance departments and the control environment within individual bodies. As part of the audit we therefore gathered data, in line with the Audit Scotland questionnaire, on the:

- organisational structure and influence of the most senior finance professional
- financial strategy and sustainability
- budget monitoring and reporting
- the quality and finance capability of the operational finance function.

Organisational structure

SLAB's most senior finance officer is the Director of Corporate Services and Accounts. He is a core member of SLAB's Leadership Team and regularly attends Board meetings to present operational performance and resource updates. We are therefore content that the Finance function within SLAB has sufficient status at a strategic level to deliver strong financial management.

The Director of Corporate Services and Accounts attends every Audit Committee meeting. In conjunction with the Financial Controller, he is responsible for presenting SLAB's annual accounts and other relevant papers including updates to accounting policies, the governance statement and outcomes from Audit Scotland national reports.

The Director of Corporate Services also oversees the work of a range of other services, including Human Resources, IT, Projects, Procurement, Facilities Management and SLAB's Internal Audit function.

Financial strategy and sustainability

The Board has an approved Corporate Plan 2014-17, which is supported by annual Operational Plans.

The Corporate Plan drives future strategies and priorities, including continuing to support the Scottish Government in reducing spend on legal aid. To date, this has been supported by key efficiency projects such as the digitisation strategy. However, the Corporate Plan forecasts a gap in legal aid expenditure and the Scottish Government budget of around £30m. Further reductions to legal aid costs will remain challenging without legislative change.

SLAB continues to work with the Scottish Government to support the next key stages in driving efficiency, anticipated in an updated *Sustainable Future for Legal Aid*.

SLAB's current financial plans project legal aid funding and expected costs to 2018-19. It is, however, difficult to make longer term plans for financial sustainability due to the nature of funding settlements, and uncertainty about future policy announcements from the Scottish Government.

Budget Monitoring and Reporting

Progress against budgets is monitored and reported monthly to the Leadership Team. In addition, comprehensive progress reports on performance and budget are provided to the Board three times per year. Monitoring reports to the Board also include trends and forecasts in legal aid expenditure, including the impact of new legislation.

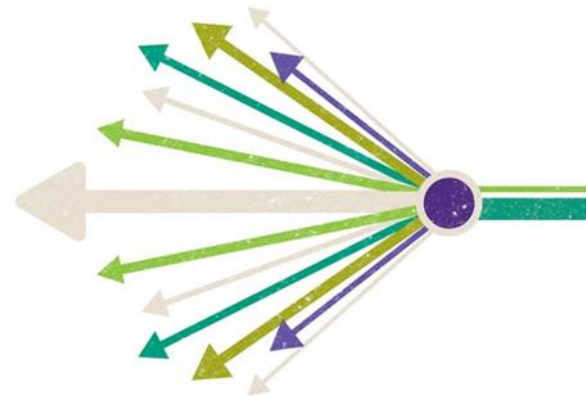
The Audit Committee scrutinises the Statement of Accounts, before they are passed to the Board for approval.

Quality and finance capability of the operational finance function

During 2014-15, SLAB's financial accountant resigned. The Finance Team elected to promote from within, rather than reappoint to the post. This, and additional responsibilities associated with shared services and grant funding, has placed additional pressure on the finance team in 2014-15, and as a result a number of changes were made to the draft accounts during the period of our fieldwork.

The finance capability of SLAB reduced from 3 professionally qualified finance staff, within a team of 16 to 2, although a further 3 members of the finance team are undertaking a professional qualification. Overall, however, the quality of the financial statements and supporting working papers remains good and we have identified only a small number of financial errors within the unaudited accounts.

SLAB continues to participate in the Scottish Government's procurement capability process and achieved a score of 74% in its last assessment. This process has recently undergone a substantial revision and SLAB will undertake the new assessment sometime during 2016.



Appendices

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Appendix A



Action Plan

Page	Issue and Risk	Priority	Recommendation
1. Financial Reporting Manual changes			
8	<p>During 2015-16, there will be significant changes to FReM requirements, including the adoption of a Performance Report and Accountability Report. SLAB therefore has an opportunity to review the content and focus of the financial statements.</p> <p>Risk</p> <p>There is a risk that financial statements may not meet the future Financial Reporting Manual requirements, or focus on key outcomes for SLAB</p>	Medium	<p>The Finance Team should review the structure and content of the Statement of Accounts, in consultation with key stakeholders such as the incoming Chief Executive and Chair of the Audit Committee.</p> <p>Management Response:</p> <p>This will be reviewed in advance of the 2015-16 annual accounts process.</p>
2. Principal Sums Account			
15	<p>During testing, we noted that the Principal Sums account is not regularly fully reconciled to identify excess interest retained due to timing differences between settlement and cashing of creditor cheques or payments.</p> <p>Risk</p> <p>There is a risk that SLAB may not regularly identify sums that are unlikely to be paid.</p>	Low	<p>SLAB should fully reconcile the Principal Sums account during 2015-16, and identify an appropriate schedule for completing full reconciliations.</p> <p>Management Response:</p> <p>Agreed. Very small amounts of interest accrue over time and these are identified in the periodic reconciliation. A reconciliation will be carried out in 2015-16.</p>
3. Key changes in Board members			
20	<p>In March 2016, the current Chair of the Audit Committee will step down. Arrangements should therefore be made plan for the succession of another Chair.</p> <p>Risk</p> <p>There is a risk that a change in Chair will lead to a loss of expertise and experience, and therefore disrupt the achievement of the priorities and aims of the Committee.</p>	Low	<p>SLAB should develop a succession programme for a new Chair of the Audit Committee to ensure that training or other requirements can be identified and delivered prior to handover.</p> <p>Management response:</p> <p>The recruitment of new Board members is a matter for the Scottish Government, but the Chair of the Board has highlighted key skill areas to be included as desirable attributes, including audit committee experience and professional accountancy qualifications.</p>

Appendix B



Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Annual audit 2014-15	40,650	40,650
Total audit fees	40,650	40,650

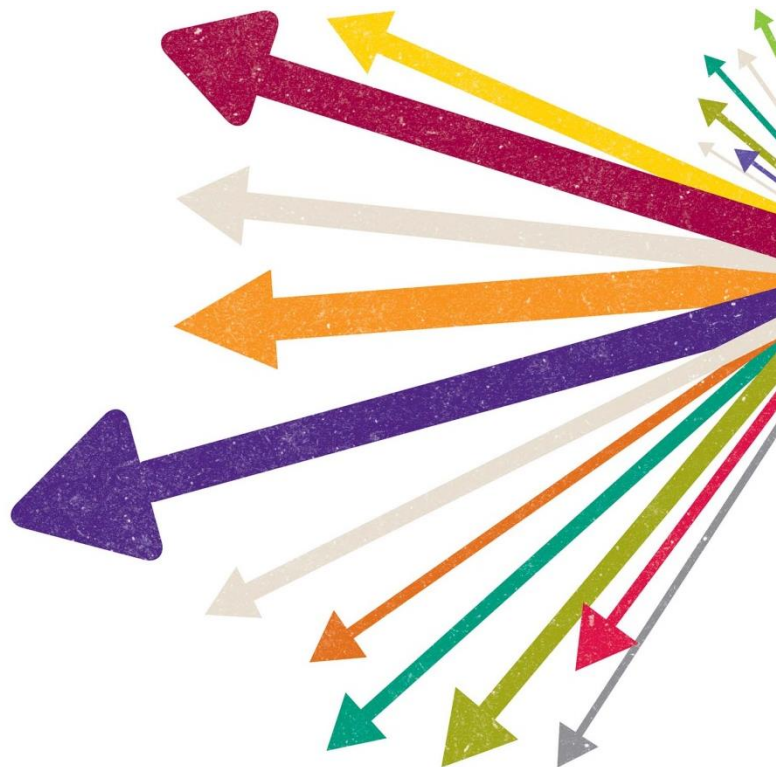
Fees for other services

Service	Fees £
Nil	-

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.



Appendix C



Misstatements and adjustments

Adjustment type	Value of change £k	Account balance	Impact on the financial statements
Adjusted			
Error in posting actuarial loss	948	Scottish Legal Aid Board - Pension liability	<p>During testing, we noted that the pension liability in the Statement of Net Comprehensive Expenditure did not match the Pension Liability per the report from the Board's Actuaries.</p> <p>We found that a £474k actuarial loss had been entered as a debit rather than a credit in the general ledger. As a result, an adjustment of £948k was made to the Statement of Net Comprehensive Expenditure.</p>
Unadjusted			
Actuarial error	80	Scottish Legal Aid Board – Note 41	<p>As part of our audit on pensions, we ask our internal actuaries to review actuarial reports and calculations. Our actuaries were unable to reconcile the interest cost given the start of year liabilities and estimated movements in the liabilities over the year.</p> <p>It appears that a value of 4.45% was used to calculate the pensions interest cost, rather than the 4.35% stated in the Actuary's Report. The value we have calculated for the interest cost is around £80k lower than the value disclosed by the Actuary. The Actuary's value is more prudent, and the difference is not material to our audit, and we have not, therefore, asked SLAB to adjust the Statement of Accounts for the difference.</p>

Appendix D



Independent Auditors Report

Independent auditor's report to the members of the Scottish Legal Aid Board, the Auditor General for Scotland and the Scottish Parliament

We have audited the financial statements of the Scottish Legal Aid Fund and the Scottish Legal Aid Board for the year ended 31 March 2015 under the Legal Aid (Scotland) Act 1986. The financial statements comprise Statement of Financial Position, the Statement of Comprehensive Net Expenditure, the Statement of Cash Flow, the Statement of Changes in Taxpayers' Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2014-15 Government Financial Reporting Manual (the 2014-15 FReM).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of Accountable Officer and auditor

As explained more fully in the Statement of the Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We are also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial statements. It also involves obtaining evidence about the regularity of expenditure and income. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements, irregularities, or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion 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 2015 and of its net operating cost 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 2014-15 FReM; and
- have been prepared in accordance with the requirements of section 5 (1) of the Legal Aid (Scotland) Act 1986 and directions made thereunder by the Scottish Ministers.

Opinion on regularity

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Opinion on other prescribed matters

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records;
or
- we have not received all the information and explanations we require for our audit; or
- the Governance Statement does not comply with guidance from the Scottish Ministers.

We have nothing to report in respect of these matters.

Joanne Brown, (for and on behalf of Grant Thornton UK LLP)

7 Exchange Crescent

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30 July 2015



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