Report No: **SLAB/2021/37** Agenda Item: **8**

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| **Report to:** | The Board |
| **Meeting Date:** | 20 September 2021 |
| **Report Title** | Performance Report – Audit Committee |
| **Report Category** | For Discussion |
| **Issue status:** | Business as usual |

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| **Written by:** | Tim McKay in consultation with the Audit Committee members |
| **Director responsible:** | Graeme Hill |
| **Presented by:** | Tim McKay |
| **Contact details:** | Via [Hillgr@slab.org.uk](mailto:Hillgr@slab.org.uk) |

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| **Delivery of Strategic Objectives** | |
| Select the Strategic Objective(s) relevant to the issues | 1. to deliver improvements to legal aid processes that increase efficiency and improve the experience of system users and customers. |

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| **Link to Board or Committee Remit** |
| The Audit Committee is a Standing Committee of the Board. To formally update the Board on the activities of the Audit Committee during 2020-21. |

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| **Publication of the Paper** |
| This paper is suitable for publication. |

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| **Executive Summary** |
| The purpose of this paper is to provide a summary report on operational performance of the Audit Committee during the financial year 2020-21. The Audit Committee have discussed the issues, and considers it to be a true and fair reflection of their activities to 31 March 2021. |

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| **Previous Consideration** |
| The Board considers a report of the Audit Committee’s activities each year, normally in conjunction with the consideration of the annual accounts. |

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| **Report** |

1. **INTRODUCTION**

Although the Board sees the activities of the Committee as reported in the Audit Committee Minutes, best practice as set out in the Scottish Government’s Audit Committee Handbook, recommends that an audit committee should provide an annual report on its own activities. This is a retrospective report on the work of the Committee during the year from 1 April 2020 to 31 March 2021.

This paper sets out the results of the Audit Committee’s Self-Assessment based on the checklist for Audit committees from the Scottish Government’s Audit Committee Handbook as well as wider consideration of the Internal Audit environment.

1. **AUDIT COMMITTEE MEMBERSHIP**

The Committee’s membership during the 2020/21 year was as follows;

* + Tim McKay (Convener)
  + Rani Dhir
  + Marieke Dwarshuis
  + Brian Baverstock

The Chief Executive, as Accountable Officer, the Director of Corporate Services & Accounts, the Director of Operations as required, and representation from Internal Audit attend meetings, as do representatives of SLAB’s external auditors, during the period, Audit Scotland. The Chair of the Board also attended meetings. The secretariat function was provided by SLAB’s Chief Executive’s Office.

During this financial year Internal Audit has reported to the Director of Corporate Services & Accounts.

1. **TERMS OF REFERENCE**

The Committee's Terms of Reference have been incorporated into the Board’s Standing Orders which were last reviewed and approved by the Board in May 2018. Board Members are appointed by Scottish Ministers.

1. **MEETINGS**

In accordance with its agreed Standing Orders and programme of meetings, the Committee met 4 times to consider reports and papers relating to the financial year 2020/21. The dates of the committee meetings were as follows:–

* + 18 May 2020
  + 25 September 2020
  + 27 November 2020
  + 1 March 2021

The Committee meeting on 25 September 2020 was focused to consider the draft annual accounts for 2019-2020, together with routine business. This was later than the normal July schedule due to the delay in the audit process caused by the pandemic.

1. **MAIN ISSUES/ACTIVITIES**

In the year to 31st March 2021, SLAB staff have been predominately working from home, due to the ongoing pandemic. As a result of this and the impact of the pandemic on the profession SLAB has adapted its processes and policies and as a result, changed/updated a number of controls.

The main changes to controls were to provide a package of support to the profession and were approved by the Executive Team. The work of the Audit Committee was to consider the appropriateness of these changes and whether internal audit work was required as a result of them.

The committee approved the new risk Appetite Framework, and were involved in fine tuning the Risk Management Framework (RMF) particularly with reference to the quantification of the risk appetite and its incorporation into our assessment and management of that risk via the risk registers.

The Corporate Governance and Risk Group has helped to provide input on the changes to the risk categories and risk appetite classifications and this has been beneficial in providing greater clarity to allow the business units to better understand the risks they are managing and the role of Internal Audit in helping them.

Also last year the Committee agreed that the focus of the Internal Audit programme be linked directly to the new Risk Management Framework.

The Committee also continued to consider the issues and risks arising from the move of Finance, HR and Payroll systems to the new Oracle cloud system and sought assurance that following the move that these risks would be minimised.

The committee also:

* Considered quarterly reports in May, September, November and March on the activities undertaken by SLAB’s Internal Audit function
* Considered the Internal Audit Annual Assurance Report
* Approved the Internal Audit Quality Assurance plan before considering and approving the linked updated internal audit improvement plan
* Considered the external review of the Information Systems infrastructure (Watersons) report
* Approved a revised internal audit charter
* Approved a revised system of Internal Audit recommendations to make the categorisation more realistic and helpful for SLAB as a whole (Implemented in April 2020);
* Reviewed the Board’s draft Governance Statement for the year;
* Considered and recommended approval of the Board’s Annual Accounts 2019-20 (including management’s letter of representation);
* Provided an Annual Report to the Board;
* Considered quarterly reports on risk management from the Director of Strategic Development, including quarterly reviews of the Strategic Risk Register;
* Considered the external auditor’s Planning Memo;
* Considered periodic reports from the external auditors;
* Met in private with the external auditors;
* Considered the external auditor’s report to those charged with governance as well as their Annual Report to the Board and Auditor General;
* Considered the external auditor’s Key Issues Memorandum;
* Considered the Audit Activity Plan;
* Considered annual reports of the activities of Compliance and Investigations and Assisted Persons Investigations;
* Reviewed action points from previous committee meetings;
* Reviewed outstanding internal audit recommendations;
* Reviewed and provided comments on the draft Internal Audit work plan for 2020-21;
* Completed a detailed Audit Committee self-assessment in line with the Scottish Government’s Audit Committee Handbook (Annex H) and
* Agreed a rolling 12-month agenda programme for committee meetings.

Unfortunately, members training was effectively stopped by the impact of the pandemic, however, during the reporting year there were experienced members on the committee. SLAB has also carried out a skills audit and the results of this will inform training in the year to come.

1. **AUDIT COMMITTEE’S ANNUAL REPORT TEMPLATE**

The guidance in the Handbook recommends that the Committee’s Annual Report should summarise the Audit Committee’s work for the year past, and present the Audit Committee’s opinion about:

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| **Scottish Government Specific Consideration** | **Audit Committee Action/Response** |
| **The comprehensiveness of assurances in meeting the Board and Accountable Officer’s needs** | The Committee considered the Head of Internal Audit’s 2020 Annual Assurance paper which set out her overall opinion on the Board’s system of internal control. In that paper, she set out the results of the audit work undertaken during the year, and provided her assessment of the overall control environment based on that work and the ancillary work undertaken, as part of Internal Audit’s annual assurance review of key controls of those areas not reviewed during the year. Included in that report are certificates of assurance by directors. The Audit Committee was content with the comprehensiveness of those assurances. |
| **The reliability and integrity of these assurances** | The Committee is content with the reliability and integrity of the assurances provided by both internal and external auditors, as well as senior staff. |
| **Whether the assurance available is sufficient to support the Board and Accountable Officer in their decision taking and their accountability obligations** | The Committee is content that the assurance available is sufficient to support the Board and the Accountable Officer in their decision-making and their accountability. The Head of Internal Audit recommendation to the Chief Executive as Accountable Officer was that there is no reason why the Chief Executive should not sign the Governance Statement attached to SLAB’s accounts. |
| **The implication of these assurances for the overall management of risk** | The Committee is content with the Board’s overall  management of risk and that the assurances  available—taken in conjunction with the quarterly  risk management updates—satisfactorily support this. |
| **Any issues the Audit Committee considers pertinent to the Statement on Internal Control and any long term issues to which the Committee thinks the Board and/or Accountable Officer should give attention** | The Committee is content with the various assurances being provided to support the Governance Statement. Long-term issues are covered by the strategic and business plan. |
| **Financial reporting for the year** | The Board’s draft financial statements for 2019-20 were considered in detail at the meeting on 25th September 2020. The draft report to the Board from Audit Scotland stated that they would provide a clean audit opinion on the accounts, and they subsequently did so.  The Audit Committee is consequently of the opinion that the financial reporting arrangements are robust. |
| **The quality of both Internal and External Audit and their approach to their responsibilities** | Internal Audit’s Annual Audit Plan for 2020-21 was approved by the Audit Committee. In accordance with the terms of reference of the Audit Committee, members of the Audit Committee received a written report at each of its meetings from Internal Audit. These reports included an update on the internal audit work undertaken and its conclusions as to the effectiveness of the relevant systems of internal control, the progress of annual assurance work carried out during the year, and the status of implementation of outstanding audit recommendations.  As a function, Internal Audit is subject to regular review. The external auditors carry out an annual review of internal audit and its annual audit plan to see where they can place reliance on its work. Separately, the work of internal audit is reviewed externally against the quality assurance criteria set out in HM Treasury’s publication, Internal Audit Quality Assessment Framework.  An External quality assessment of Internal Audit was conducted in July/August 2019 (as the previous QA had been in 2014) This found the Internal Audit department to be generally compliant with the Public Sector Internal Audit Standards but made several recommendations that were adopted during 2020-21   * That an Information Systems checklist be used during all Internal Audits. * That all IA files are reviewed before any report is issued. * A mission statement was also added to the Internal Audit Charter.   A member of Audit Scotland’s staff normally attends meetings of the Committee. As a matter of course, they receive all of its papers and minutes. The Committee will meet privately with the auditors as the members/auditors deem appropriate.  Overall, the Audit Committee is satisfied with the quality of the work of both internal and external auditors and their overall approach to their respective responsibilities. |
| **The Audit Committee’s view of its own effectiveness, including advice on ways in which it considers it needs to be strengthened or developed.** | The annual assessment of the Audit Committee’s effectiveness based on the checklist contained in the Audit Committee Handbook was discussed and approved by the Committee at its meeting on 25 July 2020. This year’s annual assessment was discussed at committee on 20 September 2021.  No significant issues were raised and the Convener agreed to draft this report for presentation at the Board meeting on 4 October 2021. |

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| **Conclusion and next steps** |
| Members are asked to consider and comment on the report. |

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| **Appendices/Further Reading** |
| Not applicable. |