**BOARD REPORT**

**AGENDA ITEM:9   
REPORT NUMBER: SLAB/2023/25**

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| **Report to:** | The Board |
| **Meeting Date:** | 31 July 2023 |
| **Report Title** | Audit Committee Annual Report to the Board |
| **Report Category** | For Discussion |
| **Issue status:** | Business as usual |

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| **Written by:** | CE Office in consultation with Audit Committee members |
| **Director responsible:** | Linda Ross |
| **Presented by:** | Brian Baverstock |
| **Contact details:** | CEO@slab.org.uk |

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| **Delivery of Strategic Objectives** | |
| Select the Strategic Objective(s) relevant to the issues | 1. Our timely, clear and consistent decisions on legal aid applications and accounts deliver a positive customer experience |

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| **Link to Board or Committee Remit** |
| The Audit Committee is a Standing Committee of the Board. The Committee should formally update the Board on the activities of the Audit Committee each year. |

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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 activity of the Audit Committee during the financial year 2022-23, and the assurances that can be provided from this oversight and scrutiny. The Audit Committee has discussed the issues and considers it to be a true and fair reflection of their activities to 31 March 2023. |

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| **Previous Consideration** |
| The Board considers a report of the Audit Committee’s activities each year. It last did this in September 2022. |

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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](https://www.gov.scot/publications/audit-assurance-committee-handbook/), recommends that an audit committee should provide an annual report on its own activities to the Board and the Accountable Officer. This is a retrospective report on the work of the Committee during the year from 1 April 2022 to 31 March 2023.

1. **AUDIT COMMITTEE MEMBERSHIP**

The Committee’s membership during the 2022-23 year was:

* + Tim McKay (Chair) – appointment ended 31 March 2023
  + Brigid Whoriskey
  + Marieke Dwarshuis – appointment ended 31 March 2023
  + Brian Baverstock

The Chief Executive, as Accountable Officer, the Director of Corporate Services and Accounts, the Director of Operations as required, and representation from Internal Audit attended meetings, as did representatives of SLAB’s external auditors, Audit Scotland. The Chair of the Board also attended meetings as an observer.

The secretariat function was provided by SLAB’s Chief Executive’s Office.

During this financial year the head of Internal Audit has reported to the Director of Corporate Services & Accounts for line management purposes. There is also a direct line of reporting to the Chair of the Audit Committee.

1. **TERMS OF REFERENCE**

The Committee's Terms of Reference have been incorporated into the Board’s Standing Orders. Board Members are appointed by Scottish Ministers and Members of the Committee agreed between the Chair of the Board and the Chief Executive.

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 2022-23. The dates of the Committee meetings were:

* + 06 June 2022
  + 26 September 2022
  + 21 November 2022
  + 06 March 2023

The Committee meeting on 26 September 2023 was focused on consideration of the draft Annual Report and Accounts for 2021-22.

1. **KEY ACTIVITIES**

This was also the final year that Audit Scotland provided external audit to SLAB. Provision of external audit transferred to Mazars from 1st April 2023. The new auditor was introduced to the Committee at the meeting on 6th March 2023.

The 6th March meeting was also the last meeting for committee convener Tim McKay and committee member Marieke Dwarshuis whose terms on the Board ended on 31st March 2023. The committee expressed their thanks to both and wished them well for the future. Gavin Stevenson and Judith Robertson have since been appointed as new board members from 1 April 2023 with both being appointed to the Audit Committee, Gavin as the Chair.

During the year the Committee provided scrutiny over the following :

* Considering reports in June, September, November and March on the activities undertaken by SLAB’s Internal Audit function including audits on 19 different areas of SLAB’s control framework;
* Considering the Internal Audit Annual Assurance Report;
* Approving the Board’s draft Governance Statement for the year;
* Considering and recommending approval of the Board’s Annual Accounts 2021-22 (including management’s letter of representation);
* Providing an Annual Report to the Board;
* Considering reports on risk management at each meeting;
* Considering the external auditor’s Planning Memorandum;
* Met in private with the external auditors;
* Considering the external auditor’s report to those charged with governance as well as their Annual Report to the Board and Auditor General;
* Considering an update in relation to the external auditor’s Key Issues Memorandum from prior years;
* Considering annual reports of the activities of Compliance and Investigations and Assisted Persons Investigations;
* Reviewing outstanding internal audit recommendations;
* Reviewing and providing comments on the draft Internal Audit work plan for 1 April 2023 to 30 Sept 2023, together with an outline plan for the period from 1 October 2023 to 31 March 2024;
* Considering an update on the use of Data Analytics as a tool which supported the ongoing Internal Audit work;
* Considered the Committee’s effectiveness through the completion of an annual (Annex H) and production of this report;
* Considering the 2021-22 changes to the FReM noting there were no significant impact on SLAB’s accounting policies or Annual Accounts disclosures for the year ended 31 March 2022; and
* Agreeing a rolling 12-month agenda programme for committee meetings.

1. **VALUE ADDED BY THE COMMITTEE**

There has been a number of examples during the year where the Committee has added value through its oversight. This has been through the seeking of further information, or providing constructive challenge, and being satisfied with the assurances provided or action committed to. It has also involved asking for, or assisting with, changes in the way that information is presented to the Committee.

Examples of this year have included:

* Constructive challenge around the implementation of previous internal audit findings within the Procurement function;
* Suggesting specific risks to be added to the Corporate Risk Register e.g. pay negotiations;
* Seeking assurances on how the Executive manage risks that cut across both SLAB and the Scottish Government, resulting in an agreement with the Scottish Government to develop a separate shared risk register;
* Asking for a discussion around the use of data analytics in the internal audit function and providing valuable input into that;
* Suggesting improvements to the content of the Applicant Investigations report which has resulted in a different approach being taken to this year’s report;
* Suggesting, and assisting with, improvements to the presentation of the Performance and Assurance report which have been implemented and welcomed by the Committee;
* Requesting the delivery of risk training for the Board based on the training that had been delivered to staff in January 2023;

When compiling this list in consultation with members, it was agreed that a way should be found to capture examples as the year progressed rather than look retrospectively.

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 effectiveness of governance, risk management and control. | The Committee was satisfied that the system of internal control was based on identification and treatment of risks to the delivery of SLAB’s aims and objectives, plus effective decision making.  The Committee was satisfied that the Head of Internal Audit seeks assurance over the system of internal control by conducting a series of audit engagements, considering the results of the previous reviews carried out, discussion with management, review of risk profiles and through membership of the Corporate Governance and Risk Group. |
| The comprehensiveness of assurances in meeting the Board and Accountable Officer’s needs | The Committee considered the Head of Internal Audit’s 2022 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 was 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 was 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’s 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 was 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 was 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 2021-22 were considered in detail at the meeting on 26 September 2022. 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 was 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 2021-22 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/if they can place reliance on its work. Separately, the work of internal audit is reviewed externally every five years against the Public Sector Internal Audit Standards, which includes a Internal Audit Quality Assessment Framework. Progress against the IAQA Action Plan is assessed annually.  The last external quality assessment of Internal Audit was conducted in July/August 2019. This found the Internal Audit department to be generally compliant with the Public Sector Internal Audit Standards.  The external auditor normally attends meetings of the Committee. As a matter of course, they receive all of its papers and minutes. The Committee met privately with the auditors as the members/auditors deemed appropriate.  Overall, the Audit Committee was 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 at the Audit Committee on 19 June 2023.  No significant issues were raised and the Convener agreed to draft this report for presentation at the Board meeting on 31 July 2023. |

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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. |