

Scottish Legal Complaints Commission

2023/24 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Scottish Legal Complaints Commission and the Auditor General for
Scotland

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Key messages

2023/24 annual report and accounts

Audit opinions on the annual report and accounts are unmodified.

Good support was provided by finance staff, particularly the Director of Business Performance who provided prompt responses to audit queries.

Wider-scope

The SLCC recorded a small overspend against its 2023/24 budget. Despite this small overspend, the Scottish Legal Complaints Commission maintained their reserves at the agreed level.

Disclosures in the Governance Statement are consistent with the financial statements and the statement has been prepared in accordance with the relevant statutory guidance.

The Scottish Legal Complaints Commission has a medium-term financial plan covering 2022-2028. This will require updating in light of the recent office move, the likelihood of reform and other changing circumstances. This plan could usefully be linked into the corporate strategy.

The Scottish Legal Complaints Commission has appropriate arrangements in place to secure Best Value.

Potential reform of SLCC is highly likely although no final decisions have been made. The Scottish Legal Complaints Commission recognises a range of risks which may affect the organisation as reform progresses.

Introduction

1. This report summarises the findings from the 2023/24 annual audit of the Scottish Legal Complaints Commission. The scope of the audit was set out in an Annual Audit Plan presented to the April 2024 meeting of the Audit Committee. This Annual Audit Report comprises of:

- significant matters arising from an audit of the Scottish Legal Complaints Commission annual report and accounts
- wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#), which for less complex bodies includes conclusions on financial sustainability.

2. This report is addressed to the Scottish Legal Complaints Commission and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

3. We would like to thank members, the senior management team and particularly staff in finance, for their cooperation and assistance this year. We look forward to working together constructively over the remainder of the five-year appointment.

Responsibilities and reporting

4. The Scottish Legal Complaints Commission has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from Scottish Ministers. The Scottish Legal Complaints Commission is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity.

5. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#) and supplementary guidance and International Standards on Auditing in the UK (ISAs)

6. The report contains an agreed action plan at [Appendix 1](#). The weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

Auditor Independence

7. We can confirm that the audit team comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the audit fee of £18,180 as set out in my 2023/24 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

8. The annual audit adds value to the Scottish Legal Complaints Commission by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice identified.

Part 1. Audit of 2023/24 annual report and accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual report and accounts are unmodified.

Good support was provided by finance staff, particularly the Director of Business Performance who provided prompt responses to audit queries.

Audit opinions on the annual report and are unmodified

9. The Audit Committee approved the annual report and accounts for the Scottish Legal Complaints Commission (SLCC) for the year ended 30 June 2024 on 30 October 2024 (following delegation from the Board). The annual report and accounts were signed by the Accountable Officer on 31 October 2024. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income are regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Overall materiality was revised on receipt of the unaudited annual report and accounts to £88,000

10. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the accounts, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary

threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

11. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

Exhibit 1

Materiality values

Materiality level	Planning	Final
Overall materiality	£85,000	£88,000
Performance materiality	£64,000	£66,000
Reporting threshold	£4,000	£4,000

Source: Audit Scotland

12. The overall materiality threshold was set with reference to gross expenditure, which we judged to be the figure most relevant to the users of the financial statements.

13. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 75 per cent of overall materiality, reflecting the minimal errors identified in prior years and a low level of risk identified during our planning process.

14. It is our responsibility to request that all misstatements are corrected, other than those below the reporting threshold. The final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

15. Under ISA (UK) 260, we communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices.

16. The Code of Audit Practice also requires all audits to highlight key audit matters which are defined in ISA (UK) 701 are those matters judged to be of most significance. These are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
<p>1. Disposal of Property</p> <p>Our audit identified an error in relation to the disposal of Property. These were disposed of in July 2023 but were not accounted for until June 2024. As a consequence:</p> <ul style="list-style-type: none"> depreciation recorded in the Statement of Comprehensive Income and Expenditure (SoCNE) and in note 7 (Furniture, Fixtures & Fittings) were both overstated by £23,000 the SoCNE did not record a loss on disposal of assets and note 7 (Furniture, Fixtures & Fittings) did not include the loss on disposal (£23,000). <p>There was no impact on the SLCC net expenditure for the year.</p> <p>We discussed the accounting for the disposal of assets with SLCC who reviewed their processes.</p> <p>SLCC amended the accounts to reflect the correct accounting for the loss on disposal of assets.</p>	<p>We have reviewed the adjustment and are content that the updated position is reasonable.</p>
<p>2. IFRS 16 Leases Calculations</p> <p>Our review of the IFRS16 lease costs identified that an incorrect HM Treasury discount rate had been applied by SLCC in their calculations for the right of use asset and corresponding lease liability.</p> <p>As a consequence:</p> <ul style="list-style-type: none"> the right of use asset and lease liability were overstated by £166,000, and the corresponding depreciation was overstated by £14,000 the finance costs for the year were understated by £23,000. <p>We discussed the issue with SLCC who reviewed and revised their calculation using the correct discount rate.</p> <p>SLCC amended the accounts to reflect the revised rate. There was a £9,000 increase on the SLCC net expenditure as a result of the adjustments.</p>	<p>We have reviewed the adjustment and are content that the updated position is reasonable.</p>

Issue	Resolution
<p>3. Expenditure incurred during 2023/24</p> <p>Our audit testing identified a payment of £1,300 in respect of a cocktail making class held on SLCC premises in December 2023. We have been advised that the event involved hire of event staff and equipment, to run a team-building style event, as well as soft drinks and food and was a substitute for a traditional meal.</p> <p>We discussed the matter with the Accountable Officer who outlined the circumstances around this particular event.</p> <p>While we agree that there is no specific policy around this activity and its funding, and that SLCC's existing policies do not explicitly prohibit the purchase of alcohol as a business cost, we have recommended that the Accountable Officer review the policies in this regard.</p> <p>As a public body SLCC are required to consider the propriety of any expenditure on staff benefits, in accordance with their staff code of conduct and governance arrangements.</p>	<p>While we accept there are no public funds involved, SLCC as a public body, should ensure it demonstrates the highest standards of financial management and propriety in its business activities.</p> <p>SLCC should consider whether the provision of staff benefits, which include the purchase of alcohol, are a proper use of their funding and the reputational impact this could have on the organisation.</p> <p>Recommendation 1</p>

Source: Audit Scotland

Other Audit Findings

17. SLCC currently aim to pay for goods and services within 30 days and report on their performance against this target. The Scottish Public Finance Manual encourages relevant central government bodies to pay for goods and services in accordance with the Scottish Government target for the payment of invoices within 10 working days of their receipt. We continue to encourage SLCC to apply this going forward.

Our audit work responded to the risks of material misstatement identified in the annual report and financial statements

18. We have obtained audit assurances over the identified significant risks of material misstatement to the annual report and accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements identified in the 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3**Identified significant risks of material misstatement in the annual report and accounts**

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively. This is presumed to be a significant risk in every audit.</p>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Test journal entries and other adjustments throughout the year. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments. 	<p>We undertook a range of audit work including:</p> <ul style="list-style-type: none"> • detailed testing of journal entries, prepayments, accruals, accounting estimates and unusual transactions • cut off testing. <p>Audit testing did not identify any issues and we found no evidence of management override of controls.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>2. Risk of material misstatement due to fraud in expenditure</p> <p>Practice Note 10 extends the requirements of ISA 240 to include consideration of fraud in expenditure for public bodies. SLCC expenditure includes the category ‘other administration expenditure’. In 2022/23, other administration expenditure of £1 million was incurred which consists of a range of expenditure items. As this is in excess of our materiality, there is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p>	<ul style="list-style-type: none"> • Monitoring of the budgetary process and reporting. • Substantive testing of non-pay expenditure transactions across the financial year. • Substantive testing of expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Substantive testing of accruals and prepayments. • Consideration of the process for submitting and approving expenses claims and substantive testing of expenses payments. • Consideration of any relevant internal audit reports. 	<p>We considered the budgetary control process and reporting and consider it to be effective.</p> <p>Apart from the matter raised in Exhibit 2, point 3, above we did not identify any areas of concern around our substantive testing of transactions across the year, and around the year end, and of accruals and prepayments.</p> <p>We reviewed Internal Audit reports in year and did not identify any areas of concern.</p> <p>Audit testing did not identify any instances of fraud in expenditure.</p>

19. We identified one “areas of audit focus” in the 2023/24 Annual Audit Plan. This related to the use of estimates and judgement as they applied to the legal and dilapidations provision. We tested a sample of provisions and reviewed their appropriateness. We concluded that the balances and disclosures within the annual report and financial statements were reasonable

There were no identified misstatements above our reporting threshold

20. The audit team identified a number of misstatements which were corrected by management in the audited accounts. A summary of significant findings can be seen in [Exhibit 2](#).

21. There were no identified misstatements above our reporting threshold.

The unaudited annual report and accounts were received in line with the agreed timetable

22. The unaudited annual report and accounts were received in line with the agreed audit timetable on 28 August 2024 and good support was received from finance staff and in particular from the Director of Business Performance. Working papers were of a good quality which helped the audit process.

Part 2. Wider Scope

For less complex bodies wider-scope audit work considers the financial sustainability of the body and the services that it delivers over the medium to longer term

Conclusion

The SLCC recorded a small overspend against its 2023/24 budget. Despite this small overspend, SLCC maintained their reserves at the agreed level.

Disclosures in the Governance Statement are consistent with the financial statements and the statement has been prepared in accordance with the relevant statutory guidance.

The SLCC has a medium-term financial plan covering 2022-2028. This will require updating in light of the recent office move, the likelihood of reform and other changing circumstances. This plan could usefully be linked into the corporate strategy.

The SLCC has appropriate arrangements in place to secure Best Value

Potential reform of SLCC is highly likely although no final decision has been made. SLCC recognises a range of risks which may affect the organisation as reform progresses.

We have not identified any risks in relation to the wider scope

23. The Code of Audit Practice includes provisions relating to the audit of less complex bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body, then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services.

24. Due to the nature of the Scottish Legal Complaints Commission, we have concluded that the less complex provision can be applied. We have not identified any risks in relation to the wider scope.

The SLCC recorded a small overspend against its agreed 2023/24 budget

25. SLCC does not receive any Scottish Government funding. A budget is set at the start of each financial year. The SLCC is funded by the general levy paid by legal professionals operating in Scotland which is collected by the relevant professional organisation and paid over to the SLCC. In addition, SLCC also receive funding in the form of the approved regulators' levy and the complaints levy, which is charged when a complaint is upheld. In 2023/24, the Board approved a deficit budget having considered the level of reserves held at the end of 2022/23.

26. SLCC has reported a deficit of £169,190 against a planned deficit of £156,424, resulting in a small overspend of £12,766 against budget. The financial performance is shown in [Exhibit 4](#).

Exhibit 4 Financial Performance in 2023/24

Performance	Final budget £	Outturn £	Over/(under) spend £
Income	(4,102,723)	(4,221,156)	(118,433)
Expenditure	4,259,147	4,390,346	131,199
(Surplus)/Deficit	156,424	169,190	12,766

Source: SLCC annual report and financial statements: year ended 30 June 2024

27. SLCC is carrying forward a cash balance of £1.303 million, a decrease of £444,000 from 2022/23. SLCC reserves policy states that three months of operating costs should be held as reserves and this position is achieved at 30 June 2024.

28. SLCC had a 2020-2024 strategy in place which was supported by annual operating plans. Due to the uncertainty around the proposed legislative reform, SLCC agreed to extend the 2020-2024 strategy for a further year up to 30 June 2025. While the operating plan clearly links into the strategic plan there is no financial information included. Looking ahead as SLCC develops its next strategic plan, the financial impact of its development should be assessed and incorporated where appropriate perhaps by extending the medium term financial plan.

29. SLCC produces a detailed annual operating plan and budget. The 2024/25 budget was published in March 2024 and outlines the key proposals and

changes from previous years, all of which has been subject to consultation. The budget takes into account factors driving cost such as the impact of increased pay costs and increasing complaints, while also taking advantage of efficiency savings achieved such as the move to a smaller office space.

30. For 2024/25, the Board has agreed a small budget surplus together with a specific budget set aside in respect of preparing for reform. In addition, sufficient funds are being held in accordance with the SLCC reserves policy.

The SLCC has a medium-term financial plan in place but it does not link into the corporate strategy

31. The SLCC last updated their medium-term financial plan (MTFP) during 2022/2023. The revised MTFP covers the period up to 2027/28 and provides three model budgets based on different levels of levy funding.

32. Each model budget predicts a deficit for the initial years but ends with a surplus position in 2027/28. Under all three scenarios, SLCC has sufficient reserves to meet funding requirements whilst adhering to its reserves policy. Due to a number of factors, including the recent office move, the likelihood of reform, and given the 2024/25 operating budget position of increasing levy funding, the medium term financial plan will need to be reassessed to take account of the changing circumstances. This MTFP could also usefully be linked into the corporate strategy.

The SLCC has appropriate arrangements in place for securing Best Value

33. The Scottish Public Finance Manual (SPFM) notes that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. Ministerial guidance to Accountable Officers for public bodies sets out their duty to ensure that arrangements are in place to secure Best Value in public services.

34. The Accountable Officer continues to review best value as part of the budget process and which is demonstrated in the 2024/25 operating plan where a number of efficiencies are referenced.

35. We are pleased to note that the SLCC has developed a Best Value policy during the year which includes a matrix to reflect how the SLCC have delivered Best Value in their core areas of operation, using the guidance provided in the SPFM. It is anticipated that that will form part of the annual cycle of review and will be incorporated into the 2025/26 budget consultation process and other governance reporting going forward.

The Governance Statement has been prepared in accordance with guidance

36. Our audit opinion considers whether the Governance Statement has been prepared in accordance with the Scottish Public Finance Manual and directions made by Scottish Ministers.

37. A Governance Statement prepared by the Accountable Officer is a key feature of the annual report and accounts. The statement confirms that the SLCC complies with relevant guidance on corporate governance. It also highlights the main risks and opportunities for the organisation. We reviewed these arrangements and concluded that they are appropriate, that the Governance Statement is consistent with the financial statements and has been prepared in accordance with guidance issued by the Scottish Ministers.

Cyber security arrangements continue to improve

38. As part of our 2023/24 planning work on IT service delivery, we again considered the cyber security arrangements within SLCC. A cyber action plan remains in place to track ongoing actions in relation to cyber security. This includes a number of improvement actions based on the findings identified from the cyber attack on the Scottish Environmental Protection Agency. We are pleased to note that 23 of 24 actions are now complete, with one action ongoing which relates to staff awareness and training. This work continues to be taken forward by SLCC.

39. During 2023/24, SLCC entered a Cyber Advance contract with the Cyber and Fraud Centre Scotland. This includes training for both staff and board, as well as a vulnerability assessment and penetration testing of the IT infrastructure which is in progress.

40. We are also pleased to note that during 2023/24 SLCC gained their Cyber Essentials Accreditation, and have since gone on to obtain Cyber Essentials Plus Accreditation.

41. SLCC recognise the risk around failure in cyber security. A cyber security risk is included in the strategic risk register and mitigating controls have been put in place to address this. Actions are followed up through the Audit Committee where cyber security is a standing item on the agenda.

Potential reform of SLCC is highly likely although no final decision has been made

42. An independent review of the regulation of legal services was published in October 2018. Since then, and following consultation with interested parties, the Scottish Government has introduced the Regulation of Legal Services (Scotland) Bill which continues to make its way through the parliamentary process. The Performance Report refers to the process of reform and acknowledges that there is no risk to SLCC's going concern as the SLCC will continue going forwards, albeit with a potential name change. The performance report also recognises a

range of risks which may affect the organisation as reform progresses and depending on decisions made during the Bill's progression.

There is no final Framework Agreement in place

43. All NDPBs in Scotland should have a framework agreement with the Scottish Government which sets out the accountability arrangements and other relevant matters.

44. The SLCC Framework Document remains in draft form and has not been finalised. Discussions have been ongoing with the sponsor department for a number of years. The original draft was revised following the introduction of a new framework template but has not been formally completed due to pressures related to the ongoing reform bill. In order to provide clarity to SLCC, the framework agreement should be finalised and agreed as soon as possible.

Recommendation 2

SLCC should continue to engage with the Scottish Government sponsor department to finalise the framework agreement. This should provide further clarity around the respective roles and should be agreed as soon as practicable.

Appendix 1. Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Propriety of Expenditure</p> <p>Audit testing identified a payment of £1,300 in respect of a cocktail making class held on SLCC premises in December 2023. This formed part of the SLCC contribution towards a Christmas event for staff.</p> <p>We discussed the matter with the Accountable Officer who in turn explained the circumstances around this particular event.</p> <p>There is no specific policy around this activity and its funding, and SLCC's current policies do not explicitly prohibit the purchase of alcohol as a business cost.</p> <p>There is a risk that SLCC expenditure on alcohol for staff benefits, does not demonstrate proper use of their resources.</p>	<p>SLCC should consider whether the provision of staff benefits including whether the purchase of alcohol are a proper use of their funding and the reputational impact this could have on the organisation.</p> <p>Policies should be reviewed and updated.</p> <p>Exhibit 2, point 3</p>	<p>Partially accepted</p> <p>We note this was an unusual circumstance, with a last minute event substitution to avoid staff missing a long standing team-building and social tradition at Christmas. It was a cost of £35 per head, all staff are invited to attend and for this event 37 staff attended.</p> <p>The SMT will review the provision of events for staff and update relevant policies, after a review has taken place.</p> <p>Senior Management Team 31 January 2025</p>
<p>2. Framework Agreement</p> <p>All NDPBs in Scotland should have a framework agreement with the Scottish Government.</p>	<p>SLCC should continue to engage with the Scottish Government sponsor department to finalise the framework agreement. This should provide further clarity around the respective roles</p>	<p>Accepted</p> <p>We would note that the final sign off of a scheme rests with Scottish Government, but that the SLCC has</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>The SLCC Framework Document remains in draft form and has not been finalised. In order to provide clarity to SLCC, the framework agreement should be finalised and agreed as soon as possible.</p> <p>There is a risk that the accountability arrangements between SLCC and Scottish Government lack clarity.</p>	<p>and should be agreed as soon as practicable.</p> <p>Paragraph 44</p>	<p>approved previous drafts proposed.</p> <p>We thank our sponsor team with providing an updated draft for the SLCC.</p> <p>We are proactively working with them to sign off a framework agreement on the new template that has been provided.</p> <p>Chief Executive Officer 31 December 2024</p>

Scottish Legal Complaints Commission

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk