Scottish Legal Complaints Commission

Annual audit report to the Scottish Legal Complaints Commission
and the Auditor General for Scotland

Year ended 30 June 2015

23 October 2015

Contents

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About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the *Code*").

This report is for the benefit of Scottish Legal Complaints Commission and is made available to Audit Scotland and the Auditor General for Scotland (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

Headlines

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice ("the Code")*. This specifies a number of objectives for the audit.

In accordance with ISA (UK and Ireland) 260: *Communication with those charged with governance,* this report also summarises our work in relation to the financial statements for the year ended year ended 30 June 2015.

We wish to record our appreciation of the co-operation and assistance extended to us by Commission staff during the course of our work.

Area	Summary observations	Analysis
Strategic overview		
Key issues and update	Changes in senior staff occurred during the year, the previous chief executive officer left the Commission in March 2015 and the new chief executive officer, Neil Stevenson, started in July 2015. As a result there was a period with no chief executive officer and accountable officer. The Senior Management Team fulfilled the responsibilities of the role during this period, following discussion with Scottish Government and KPMG. We consider that appropriate governance was maintained during this period.	Pages 6 to 8
Financial position	Total expenditure in 2014-15 of £2.780 million compares to a budget of £2.773 million and prior year of £2.757 million. The net operating cost, prior to actuarial movements in respect of the pension scheme, was a deficit of £0.007 million. Reserves as at 30 June 2015 of £0.710 million represent more than three months' budgeted expenditure, the cash balance at the year end was £1.045 million.	Pages 6 to 8
Financial reporting and accounting		
Audit conclusions	We have issued an unqualified audit opinion on the 2014-15 financial statements, following their approval by the accountable officer. The financial statements, governance statement and remuneration report were received by the start of audit fieldwork and were supported by good quality working papers. Changes to the remuneration report were required to reflect the enhanced role of the Senior Management Team during the period where there was no Chief Executive Officer.	Page 10
Significant risks and audit focus areas	We have considered inherent significant risks that the ISAs would require us to raise, covering risks in relation to revenue recognition and management override of controls and have satisfactorily concluded our work in these areas. Our audit strategy overview and plan also identified areas of audit focus in respect of control of operating expenditure and cash balances. We have satisfactorily concluded our work in these areas.	Page 11
Going concern	The financial statements have been prepared under the assumption that the organisation is a going concern, reflecting the relatively high cash balance and management of expenditure within the budget. The 2015-16 budget assumes a small deficit, which will be covered by reserves.	Page 12
Accounting policies	There have been no changes to accounting policy applied by the Commission in 2014-15. No newly effective accounting standards are expected to have a material impact on the 2015-16 financial statements.	Page 12

Headlines (continued)

Area	Summary observations	Analysis
Governance and narrative reporting		
Internals controls	Our testing of the design and operation of financial controls over significant risk points confirms that controls relating to financial systems and procedures are designed appropriately and operating effectively.	Page 15
Governance and narrative reporting		
Governance	Our review of governance arrangements did not identify any issues and we consider the arrangements to be appropriate for the size and operations of the Commission. The governance statement reflects the governance arrangements in operation during the year.	Page 15
Performance management		
Performance management	We consider that there is a robust budget setting process and monthly review of the financial results. The Commission continues to monitor and control its expenditure to make sure procurement provides value for money; accurate forecasting of legal expenses is inherently difficult. Internal audit reviews, conducted as part of the 2014-15 internal audit plan, provided assurance over improved IT security and core financial systems considerations in the year to 30 June 2015 and did not indicate significant weaknesses.	Page 18

Scope and responsibilities

Purpose of this report

The Auditor General for Scotland ("the Auditor General") has appointed KPMG LLP as auditor of Scottish Legal Complaints Commission ("the Commission") under the Public Finance and Accountability (Scotland) Act 2000 ("the Act"). The period of appointment is 2011-12 to 2015-16, inclusive.

Our annual audit report is designed to summarise our opinion and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at the Commission and the Auditor General. The scope and nature of our audit were set out in our audit strategy document which was presented to the audit and risk committee at the outset of our audit.

Responsibilities

Audit Scotland's *Code of Audit Practice* ("the Code") sets out the Commission's responsibilities in respect of:

- preparation of financial statements;
- systems of internal control;
- prevention and detection of fraud and irregularities;
- standards of conduct and arrangements for the prevention and detection of bribery and corruption;
- financial position; and
- Best Value.

This report reflects our overall responsibility to carry out an audit in accordance our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Code.

The Code sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance.

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 identified are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity.

This annual audit report to members and our presentation to the audit committee, together with previous reports to the committee throughout the year, discharges the requirements of ISA 260.

Strategic overview

Our perspective on key business issues and
the financial position of the Commission

Key business issues and financial position

The Commission operates deficit budgets, drawing on reserves and cash generated in prior years. The actual result for 2014-15 was a £0.007 million deficit before actuarial adjustments.

The budgeted deficit was £0.076 million.

Background

The Scottish Legal Complaints Commission ("the Commission") is a body independent of government, set up under the Legal Profession and Legal Aid (Scotland) Act 2007. The Commission's statutory functions include: dealing with complaints about legal practitioners; oversight of complaint handling by the legal profession; and monitoring the effectiveness of the Scottish Solicitor's Guarantee Fund and professional indemnity arrangements maintained by the relevant professional organisations.

The Commission receives no funding from government, its source of income being through a levy from the legal profession in Scotland, collected by the Law Society of Scotland. Its aim is to be independent, impartial and accessible.

Income and expenditure summary

	2014-15 actual £'000	2014-15 budget £'000	2013-14 actual £'000
Total income	**2,773**	**2,696**	**2,757**
Staff costs	1,912	1,940	1,874
Depreciation	126	115	94
Other administrative costs	742	717	789
Total expenditure	**2,780**	**2,772**	**2,757**
Operating surplus/(deficit)	**(7)**	**(76)**	**-**
Actuarial loss	(20)	-	(41)
Net deficit	**(27)**	**(76)**	**(41)**

Financial position

Statement of comprehensive income

Total income of £2.773 million exceeded both budget and the prior year. The majority of the increase reflects greater legal practitioner numbers than expected, giving rise to higher levy income from the Law Society of Scotland.

Annual subscription levy income was £2.709 million and complaint levy income was £0.036 million. Complaint levy income was not budgeted in 2014-15, as in previous years, although will form part of the budget for 2015-16. The £0.028 million balance of income represents bank interest received on the Commission's £1.045 million cash balance.

Actual expenditure was broadly in line with budget and the prior year, at £2.780 million. The key variances to budget were:

- staff costs were £0.028 million lower than budget, reflecting consistent numbers of staff although without a chief executive officer ('CEO') in place for three months of the year. Direct staff costs were underspent compared to budget although recruitment costs were higher, given the CEO vacancy;
- greater depreciation and amortisation (£0.126 million) compared to the budget of £0.115 million. This was a result of the early development of Newpro Phase Two; and
- other administrative expenditure was greater than budget, particularly in respect of legal costs; reflecting the number of appeals in relation to the interpretation of the Legal Profession and Legal Aid (Scotland) Act 2007.

The Commission continues to seek efficiencies and non-staff cost expenditure was lower than the prior year; in respect of mediation, special projects, communications and training

Key business issues and financial position (continued)

Net assets as at 30 June 2015 were £0.71 million, compared to £0.737 million as at 30 June 2014.

Reserves of £0.710 million represents around three months' expenditure.

Financial position

Statement of financial position

- Non-current assets represent fixtures and fittings, IT equipment and software. The decrease over the year reflects additions of £0.071 million less depreciation and amortisation of £0.126 million.
- Other receivables represent outstanding debtors prepaid expenses, principally rent, service charges and maintenance contracts. Complaints levy debtors totalled £0.068 million, although are offset by a £0.063 million bad debt provision. The Commission is obliged to respond to complaints, irrespective of the financial strength of the related legal firms.
- The cash balance of £1.045 million reflects the reserves of £0.710 million, which represents three months' expenditure.
- Trade and other payables include trade creditors, social security costs, pension costs, accruals and the residual balance of the lease settlement. At the year end this was £0.128 million, to be released at £0.04 million per annum until September 2018.
- The £0.02 million actuarial loss gave rise to an increase in the pension scheme liability and primarily reflects the reduction in the discount rate assumption. The pension scheme liability of £0.087 million represents the IAS 19 obligation in respect of five members of the Lothian Pension Fund; either actives, deferred pensioners or pensioners.

Statement of financial position	2015 £'000	2014 £'000
Total non-current assets	**129**	**184**
Other receivables	73	49
Cash and cash equivalents	1,045	1,056
Total current assets	**1,118**	**1,105**
Total assets	**1,247**	**1,289**
Trade payables and other liabilities	(395)	(445)
Pension scheme liability	(87)	(56)
Provision for dilapidations	(55)	(51)
Total liabilities	**(537)**	**(552)**
Net assets	**710**	**737**

Source: KPMG analysis of Commission financial statements

Key business issues and financial position (continued)

2015-16 budget

Reserves brought forward into 2015-16 were £0.710 million. The Commission intends to utilise £83,000 from reserves in 2015-16 and is also considering expenditure to respond to the changing demands of the Commission.

Total expenditure is budgeted at £2.772 million; broadly consistent with the 2014-15 expenditure of £2.780 million.

2015-16 levy income is budgeted to be consistent with 2014-15 at £2.679 million, adjusted for the information provided by the Law Society of Scotland for the expected number of qualifiers and retirees during the year. We understand that actual levy income in 2015-16 will likely be higher than budgeted as a result of a greater number of legal practitioners than originally forecast.

In the past a contingency provision was including within the budget. The Commission has taken the decision to exclude a contingency provision from 2015-16 to reflect the greater accuracy of the forecasting of expenditure. In the event of unforeseen expenditure requirements, the Commission has sufficient reserves.

Complaints handling

Complaints in hand as at 30 June 2015 were 477, being a 2.05% decrease on 30 June 2014; compared to a 1.5% reduction in complaints received. Improvements to the complaints handling process resulted the Commission closing 61.6% of complaints in hand as at 1 July 2014, compared to 57.6% in the prior year.

Change in chief executive officer and accountable officer

On 23 March 2015 the CEO left the Commission in order to take up a post at a different organisation. The CEO of the Commission is also the accountable officer.

Neil Stevenson was appointed as CEO and accountable officer on 13 July 2015, subsequent to the year end. Prior to this role, Neil Stevenson was the director of representation at the Law Society of Scotland.

For the period from 24 March 2015 to 12 July 2015 the roles and responsibilities of the CEO were performed by the Senior Management Team ("SMT") of the Commission. All key responsibilities, such as the laying of the budget before Parliament, had been fulfilled by the previous CEO prior to his departure. No significant matters arose during the interim period and further commentary is included in the governance section of this report on page 15.

Financial statements and accounting

Our perspective on the preparation of the financial statements and key accounting judgements made by management

Audit conclusions

We have issued an unqualified audit opinion on the financial statements and the regularity of transactions reflected in those financial statements.

Audit conclusions

Following approval of the financial statements by the board, we have issued an unqualified opinion on the truth and fairness of the state of the Commission's affairs as at 30 June 2015, and of the Commission's deficit for the year then ended. We also issued an unqualified opinion on the regularity of transactions within the year. There were no matters identified on which we are required to report by exception.

In gathering the evidence for our opinion we have:

- performed controls testing and substantive procedures to ensure that key risks to the financial statements have been covered;
- communicated with internal audit and reviewed its reports as issued to the audit committee to ensure all key risk areas which may be viewed to have an impact on the financial statements have been considered;
- reviewed estimates and accounting judgements made by management and considered these for appropriateness;
- considered the potential effect of fraud on the financial statements through discussions with senior management and internal audit to gain a better understanding of the work performed in relation to prevention and detection of fraud; and
- attended audit committee meetings to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

Financial statements preparation

- In advance of our audit fieldwork, we issued a 'prepared by client' request setting out a list of required analyses and supporting documentation. Draft financial statements and good quality working papers were provided at the start of the audit fieldwork. The strategic report was received in final form on 15 September 2015. In the interests of greater efficiency, the process could be improved by the availability of a greater number of work papers and supporting documentation in electronic format.
- Throughout the course of the year we have had regular communication and discussion with the chief executive and the finance manager, to ensure that disclosure within the financial statements was consistent with the requirements of the FReM. We provided minor feedback to management on the content of the financial statements, annual report and governance statement and we are pleased to report that these were prepared appropriately.
- We report matters in respect of (i) audit differences; (ii) auditor independence and non-audit fees; and (iii) management representation letter in appendix one. One presentational audit adjustment was processed by management, in respect of accounting for pensions.
- We identified numerical and presentational adjustments in respect of pension disclosures and the remuneration report, which were subsequently adjusted by management following the audit fieldwork.
- We consider that management has maintained a robust control environment

Significant risks and audit focus areas

The significant areas of risk identified in our audit strategy document were in respect of:

- **revenue recognition fraud risk; and**
- **management override of controls.**

and other focus areas of:

- **expenditure; and**
- **cash balances.**

We have no changes to the risk or our approach to addressing the assumed ISA risk of fraud in management override of controls; we do not have findings to bring to your attention and no control overrides were identified.

We summarise below the risks of material misstatement as reported within the audit strategy document. We set out the key audit procedures to address those risks and our findings from those procedures, in order that the audit committee may understand the process by which we arrived at our audit opinion.

Other focus area	Our response	Audit findings
Revenue recognition fraud risk Professional standards require us to make a rebuttable presumption that the fraud risk from income recognition is significant. Whilst the income stream is relatively simple, we assessed that the fraud risk from income recognition is a significant risk.	We confirmed the accuracy of the levy presented in the financial statements, by agreement to supporting documentation. Other sources of income generally relate to complaints levies or bank interest which are accounted for on an accruals basis. The amounts recognised are not material and the results of our testing did not identify adjustments.	We are satisfied that income is appropriately stated in the financial statements.
Cash balances Given the value of the cash balance, we considered that there is a risk of misstatement.	Our audit work consisted of: ▪ testing the bank reconciliation controls; and ▪ vouching cash balances to third party bank confirmations and verify that the year end bank reconciliation is appropriately performed.	No exceptions were identified from the testing. We are satisfied that cash balances are appropriately stated.
Expenditure Appropriately controlled and presented expenditure is fundamental to the appropriateness of the Commission’s financial statements.	▪ We performed testing over key controls over expenditure; such as authorisation of routine expenditure and senior management approval of significant expenditure. ▪ We performed a post-period end review of purchase invoices and did not identify cut-off misstatements. ▪ Using our sampling tool to identify items across the population of expenditure, we agreed items to corroborative documentation, without issues.	We are satisfied that expenditure is appropriately stated in the financial statements.

Accounting policies

There have been no changes to accounting policies in the year.

The financial statements have been appropriately prepared on a going concern basis.

Accounting framework and application of accounting policies		
Area	**Summary observations**	**Audit findings**
Accounting policies	■ There have been no changes to adopted accounting policies in the year. ■ We do not consider there to be critical accounting judgements, given the nature of the Commission's activities. The key judgement is in respect of the present value of defined benefit obligations under IAS 19 (as calculated by the Commission's actuary, Hymans Robertson) using agreed financial assumptions.	We are satisfied that accounting policies and critical estimates adopted in the preparation of the financial statements remain appropriate. We have not identified indications of management bias.
Financial reporting framework	■ The Commission prepares financial statements in accordance with the principles of the Government's Financial Reporting Manual 2014-15 ("FReM"). ■ There have been no changes to the financial reporting framework in the year, other than those required under the first-time adoption of updated consolidation standards which does not impact on the Commission. Minor changes were also made to the requirement for disclosure of compensation payments within the remuneration report, however these have had no impact for the Commission.	We are satisfied that the accounting policies adopted remain appropriate to the Commission.
Going concern	■ The financial statements have been prepared under the assumption that the organisation is a going concern. ■ Given the nature of the Commission's activities and the historical agreement of levies with the Law Society of Scotland, which are broadly in line with budget, this is a reasonable assumption. The budget for 2015-16 is broadly balanced and the Commission holds cash of £1.045 million.	We concur with management's view that the going concern assumption remains appropriate.

Management reporting in financial statements

The annual report and remuneration report were prepared on a consistent basis to the prior year.

We are content with the contents of the reports, as revised to reflect the enhanced role of the Senior Management Team during the year.

Area	Summary observations	Audit findings
Annual report, including the strategic and directors' reports	The financial statements form part of the annual report of the Commission for the year ended 30 June 2015. We are required to consider the strategic and statement of accountable officer reports, and provide our opinion on the consistency of these with the financial statements. We are satisfied that the information contained within the strategic report and statement of accountable officer report are consistent with the financial statements. The finalised strategic report was received on 15 September and we have confirmed that the information is consistent with our understanding the Commission.	We are satisfied that the information contained within the strategic and statement of accountable officer reports is consistent with the financial statements.
Remuneration report	The remuneration report was included within the draft financial statements and supported by good quality information and working papers. In accordance with the FReM, the Commission is required to present remuneration disclosures for each director. In previous years the Commission disclosed the information only in respect of the CEO, as well as the Chair and the Board. The FReM provides interpretation of the Companies Act for the Public Sector context and refers to 'directors' as 'having authority or responsibility for directing or controlling the major activities of the entity during the year'. Given the enhanced role of the Senior Management Team in the last quarter of the year, we discussed with management the need to disclose its remuneration to be in accordance with the FReM. The additional disclosures were subsequently included in the financial statements.	We are satisfied that the information contained within the updated remuneration report is consistent with the underlying records and the financial statements, as well as the activities of management during the year.

Governance and narrative reporting

Our overall perspective on narrative reporting, including the annual governance statement

Update on controls findings from our audit

Corporate governance arrangements

Over-arching and supporting corporate governance arrangements remain primarily unchanged and provide a sound framework for organisational decision-making.

Our testing of the design and operation of financial controls over significant risk points identified no issues.

Area	Summary observations	Audit findings
Annual governance statement and governance arrangements	The governance statement for 2014-15 outlines the corporate governance and risk management arrangements in operation in the financial year. It summarises the governance framework, the system of internal control, internal audit, internal financial controls and risk management arrangements and confirms the effectiveness of these elements of the framework. It describes a number of sources of assurance for the accountable officer. The statement, which is made by the accountable officer, considers the effectiveness of the system of internal control based on information provided by the audit committee and internal audit. The statement identifies that there have been no significant risk-related matters. The previous CEO and accountable officer left the Commission on 23 March 2015, with the new CEO joining on 13 July 2015. As a result, there was a period which spanned the financial year end where there was no CEO or accountable officer. The position was foreseen and was discussed between the Chair, Scottish Government and KPMG as external auditor in advance. Whilst the Commission is required to have an accountable officer at all times, this was not possible given required notice periods and recruitment lead times. The role of the CEO was performed by the SMT from 24 March 2015 to 12 July 2015, under the guidance and support of the Chair. The outgoing CEO provided a signed governance statement as at 23 March 2015 to give his assurance in respect of the Commission's risk and control environment for the period 1 July 2014 to 23 March 2015. On commencing employment the CEO met with key stakeholders and the SMT to understand the control and risk environment and satisfy himself on the required contents of the governance statement. The governance statement was updated during the audit to fully reflect the matters noted above.	We discussed the interim governance arrangements with the Chair and head of finance in advance of the CEO departing the Commission and during the period where the SMT was fulfilling the role. We are content that the interim arrangements were appropriate. On an ongoing basis the governance arrangements of the Commission are appropriate. We consider the annual governance statement to be appropriate for the Commission and that the governance statement is in accordance with guidance and reflects our understanding of the organisation.
Internal controls	We identified no control weaknesses during our work and note that management has continued to apply segregation of duties. We performed testing over higher level controls including the preparation of bank reconciliations and testing over process level controls for expenditure and journal authorisation. The internal audit review of core financial systems also did not identify any significant control weaknesses, although noted areas of enhancement.	Our work concluded that that controls relating to financial systems and procedures are designed appropriately and operating effectively.

Corporate governance arrangements (continued)

Area	Summary observations	Audit findings
Prevention and detection of fraud	Procedures and controls related to fraud are designed and implemented effectively. Expenditure is reviewed and authorised by appropriate finance personnel and senior management. In 2014-15 no significant or other fraud or irregularity was identified by management, internal audit or through the course of our external audit work. An employee handbook and code of conduct are in place to document the requirements of staff in conducting their roles.	We consider that the Commission has appropriate arrangements to prevent and detect fraud.
Arrangements for maintaining standards of conduct and the prevention and detection of corruption	We consider that the Commission has appropriate arrangements to prevent and detect inappropriate conduct and corruption. The arrangements include policies and codes of conduct for staff and board members, supported by whistle blowing procedures consistent with the Public Interest Disclosure Act. Board members are responsible for setting the 'tone at the top' and are responsible for abiding by the members' code of conduct and disclosing interests which may be of importance, material or otherwise, to their work at the Commission.	We consider that the Commission has appropriate arrangements to prevent and detect inappropriate conduct and corruption.
Internal audit	We reviewed the work of internal audit in 2014-15 to inform our assessment of risks that need to be considered and addressed during the audit. The content of the internal audit plan is appropriate for the size and nature of the Commission. During the year internal audit submitted the following reports: ■ core financial systems (financial ledger, expenditure and payables and budgetary control); ■ internal audit follow-up 2014-15; and ■ IT security. The internal auditor, Scott Moncrieff, also a risk management workshop for the Commission in October 2014. The Commission subsequently revised the strategic risk register. Internal audit completed its planned audit work for the year and concluded that *" In our opinion SLCC has a framework of controls in place, in the areas which we have reviewed, that provides reasonable assurance regarding the effective and efficient achievement of the organisation's objectives and the management of key risks".* We did not place specific reliance on the reports issued in the year; reports supported our understanding of the Commission's operations and assessment of overall systems of internal control.	We have concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards. Internal audit has concluded that the Commission has an adequate and effective framework of governance, risk management and control to address the risk that management's objectives are not fully achieved.

Performance management

Our perspective on the performance management arrangements, including follow up work on Audit Scotland reports

Performance management

Our work has identified that the Commission's Best Value and performance management arrangements are generally robust.

Area	Summary observations	Audit findings
Performance management and best value	Scottish Government guidance for Accountable Officers on Best Value in public services requires a systematic approach to self-evaluation and continuous improvement. The guidance identifies the themes an organisation needs to focus on in order to deliver the duty of Best Value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business. We reviewed some of the processes management has established to ensure Best Value is achieved throughout the organisation. This includes: ▪ robust budget setting procedures and monthly review of expenditure against budget; ▪ review and authorisation of employee expenses on a monthly basis by the CEO; ▪ review and authorisation of payroll exception report on a monthly basis by the CEO; and ▪ formal tender process required for large items of expenditure in line with Scottish Government procurement requirements. There were no formal tenders undertaken during the year. The most significant cost of the Commission is in respect of salaries. There was a 1% pay rise in October 2014 inline with the Public Sector Pay Policy for Staff Pay Remits 2014-15 Support Guide issued by the Scottish Government. We consider that the Commission has processes in respect of Best Value which are appropriate for the organisation.	We consider that the Commission has appropriate arrangements to effectively manage performance and achieve Best Value in processes.

Performance management (continued)

Area	Summary observations	Audit findings
Financial capacity in public bodies	Through the process of feedback through Annual Audit Reports, current issues reports and sector meetings, Audit Scotland identified that overall reductions in staff numbers in public bodies may be affecting the capacity of back-office functions and specifically finance. Audit Scotland has requested the collation of baseline data across the public sector to inform sector specific overview reports and may inform a follow-up to the joint report on the public sector workforce which was published in November 2013 or support the development of the future performance audit programme. We have completed a return to Audit Scotland in respect of our findings. Our review in response to the request for data collection identified that there is appropriate financial capacity within the organisation to ensure effective management, as supported by the effectiveness of the routine financial management and annual accounts process. The Commission's finance team is relatively small although operates with appropriate segregation of duties. The finance function had appropriate input into the formation of the latest operational plan. Financial planning is performed with a year's horizon and management is currently developing longer-term plans, to enable enhanced strategic considerations of the Commission's activities.	We consider that the Commission has appropriate financial capacity to effectively manage the organisation.

Appendices

Mandatory communications

There were no unadjusted differences to the core financial statements. There was one adjusted audit difference.

Area	Key content	Reference
Adjusted audit differences Adjustments made as a result of our audit	We identified two adjustments, which management subsequently processed. The IAS 19 pension journals relating to the Lothian Pension Fund had not been appropriately recorded. The adjustment was to decrease the actuarial loss by £11,000, and increase staff costs by £11,000. Additional disclosures were required for the remuneration report, these were communicated to management and incorporated into the financial statements.	-
Unadjusted audit differences Audit differences identified that we do not consider material to our audit opinion	We are required by ISA (UK and Ireland) 260 to communicate all uncorrected misstatements, other than those which are trivial, to you. There are no unadjusted audit differences.	-
Confirmation of Independence Letter issued by KPMG to the Audit Committee	We have considered and confirmed our independence as auditors and our quality procedures, together with the objectivity of our audit director and audit staff.	Appendix one
Schedule of Fees Fees charged by KPMG for audit and non-audit services	There were no non-audit fees during the year.	-
Draft management representation letter Proposed draft of letter to be issued by the Commission to KPMG.	There were no other changes to the standard representations required for our audit from last year.	-

Auditor independence and non-audit fees

Auditing Standards require us to consider and confirm formally our independence and related matters in our dealings with the Commission.

We have appropriate procedures and safeguards in place to enable us to make the formal confirmation in our letter included opposite.

Professional ethical standards require us to provide to you at the conclusion of an audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed. This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence.

We have considered the fees paid to us by Scottish Legal Complaints Commission for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards.

As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews

Please inform us if you would like to discuss any of these aspects of our procedures in more detail.

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the Commission or the chief executive.

Confirmation of audit independence

We confirm that as of 23 October 2015, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This letter is intended solely for the information of the Audit Committee and should not be used for any other purpose.

Yours faithfully

KPMG LLP

cutting through complexity