cutting through complexity

Scottish Legal Complaints Commission

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

For the year ended 30 June 2016

28 October 2016

Contents

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 the Scottish Legal Complaints Commission ("the Commission") and is made available to Audit Scotland and the Auditor General (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 introduction and responsibilities 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.

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Andy Shaw, who is the engagement leader for our services to the Commission, telephone 0131 527 6673 email: andrew.shaw@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Alex Sanderson, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6720 or email to alex.sanderson@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

Executive summary

Executive summary

Audit conclusions

- We have issued an unqualified audit opinion on the financial statements of the Scottish Legal Complaints Commission ('The Commission').

Financial position

- Expenditure in 2015-16 totalled £2.8 million compared to a budget of £2.7 million and prior year of £2.78 million. The Commission held cash of £0.9 million as at 30 June 2016, with net assets of £0.6 million. Reserves as at 30 June 2016 of £0.6 million represent more than three months' budgeted expenditure. Pages 6 – 7
- The 2016-17 budget assumes a small deficit of £0.1 million, which will be covered by reserves.

Financial statements and related reports

- We have concluded satisfactorily in respect of each of the significant risks and audit focus areas identified in the audit strategy document. We concur with management's accounting treatment and judgments. We have no matters to highlight in respect of: adjusted and unadjusted audit differences; independence; and changes to management representations. Pages 8 – 14

Wider scope matters

- We considered the wider scope audit dimensions and concluded positively in respect of financial sustainability, governance and transparency, financial management and value for money. Page 16 - 18

Executive summary
Scope and responsibilities

Purpose of this report

The Auditor General for Scotland ("the Auditor General") has appointed KPMG LLP as auditor of the 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 the audit strategy document which was presented to the audit committee at the outset of the audit.

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 management and sustainability, governance and transparency and value for money.

Accountable officer responsibilities

The Code sets out the Commission's responsibilities in respect of:

- preparation of financial statements that show a true and fair view;
- 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.

Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with 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. Appendix three sets out how we have met each of the responsibilities set out in the Code.

Scope

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems.

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

Financial position

Overview

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 primary source of income is a levy from the legal profession in Scotland, collected by the Law Society of Scotland. Its aim is to be independent, impartial and accessible.

During 2015-16, the Commission developed a four year strategy. Whilst the strategy did not formally start until 2016-17, the consultation began to influence the Commission’s delivery of projects immediately. One core theme is ‘greater consumer thinking’, with acknowledgement that whilst the determination function of the Commission must be entirely impartial, consumers need support to engage in the process. The Commission also worked on increasing its profile, publishing ideas as to how the system could be improved, and on increasing transparency.

Financial position: statement of comprehensive income

Total income of £2.7 million is marginally lower than the prior year but higher than budget. The majority of the increase to budget reflects higher legal practitioner numbers than expected, giving rise to higher levy income from the Law Society of Scotland.

Actual expenditure was broadly in line with the prior year and budget, at £2.8 million. The main areas of overspend against budget were direct staff costs, property and legal expenses. Increased legal spend reflects the increased number and complexity of cases being brought in relation to interpretation of the Legal Profession and Legal Aid (Scotland) Act 2007.

Underspend against budget was achieved in relation to member salaries and expenses – reflecting the drive towards earlier resolution of complaints and a reduction in the number requiring determination.

Statement of comprehensive income

	2015-16 Actual £000	2015-16 Budget £000	2014-15 Actual £’000
Operating income	(2,704)	(2,624)	(2,773)
Expenditure			
Staff costs	1,949	1,997	1,912
Other administration costs	802	638	742
Depreciation and amortisation	67	70	126
Net operating cost	**114**	**81**	**7**
Other comprehensive income			
Actuarial (gain) / loss on pension scheme	(212)	-	20
Pension surplus not recognised	133	-	-
Net deficit for the year	**35**	**81**	**27**

Financial position (continued)

Financial position: balance sheet

Net assets as at 30 June 2016 decreased compared to the prior year, as a result of the deficit for the year. Cash balances were £0.1 million lower, and the pension scheme liability fell by £0.087 million as a result of changes in actuarial assumptions and changes in market factors such as gilt yields..

Other receivables represent outstanding debtors and prepaid expenses, principally rent, service charges and maintenance contracts. Complaints levy debtors totalled £0.07 million, offset by a £0.05 million bad debt provision. The Commission is obliged to respond to complaints, irrespective of the financial strength of the related legal firms.

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 £0.09 million, to be released at £0.04 million per annum until September 2018.

Total liabilities decreased as a result of the lower pension liability. This is outlined further at appendix four.

Statement of financial position	2015-16 £000	2014-15 £000	Movement £000
Total non-current assets	**97**	**129**	**(32)**
Trade and other receivables	73	73	0
Cash and cash equivalents	917	1,045	(128)
Total current assets	**990**	**1,118**	**(128)**
Total assets	**1,087**	**1,247**	**(160)**
Trade payables and other liabilities	(353)	(395)	42
Pension scheme liability	-	(87)	87
Provision for dilapidations	(59)	(55)	(4)
Total liabilities	**(450)**	**(537)**	**(13)**
Net assets	**675**	**710**	**(35)**

Going concern

Management considers it appropriate to adopt the going concern basis for the preparation of financial statements. 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 balanced and the Commission holds cash of £0.9 million.

As at 30 June 2016 the Commission had net assets of £0.675 million.

Financial plans 2016-17 and beyond

The proposed budget for 2016-17, set in line with the 2015-16 corporate plan, incorporates expenditure of £2.8 million which is in line with 2015-16.

The most significant area of spend continues to be staff related. The budget for 2015-16 was based on a full time equivalent staff of 44. The budget for 2016-17 is based upon a similar full time headcount but also includes a number of fixed term contracts, reflecting the additional resource changes identified in the second half of the 2015-16 financial year with a focus on more efficient complaints management.

Conclusion

The Commission has maintained a stable financial position in 2015-16. The Commission's cash balance decreased to £0.9 million as a result of the deficit for the year.

We are content that the going concern assumption is appropriate for the Commission.

Financial statements and related reports

Audit conclusions

Audit opinion
We have issued an unqualified opinion on the truth and fairness of the state of the Commission's affairs as at 30 June 2016, and of the deficit for the year then ended. There are no matters on which we are required to report by exception.
Financial reporting framework, legislation and other reporting requirements
The Commission is required to prepare its financial statements in accordance with International Financial Reporting Standards, as interpreted and adapted by the FReM. Our audit confirmed that the financial statements have been prepared in accordance with the FReM and relevant legislation.
Regularity
Our audit work, as outlined on the following pages, has concluded that in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.
Statutory reports
We have not identified any circumstances to notify the Auditor General that indicate a statutory report may be required.
Other communications
We did not encounter any difficulties during the audit. There were no significant matters arising from the audit that were discussed, or subject to correspondence with management that have not been included within this report. There are no other matters arising from the audit, that in our professional judgement, are significant to the oversight of the financial reporting process.
Audit misstatements
There was one audit adjustments required to the draft annual accounts and there are no unadjusted audit differences.
Written representations
There are no changes to the standard representations required for our audit from last year.

Materiality

We summarised our approach to materiality in the audit strategy document. On receipt of the financial statements we reviewed our materiality levels. As total expenditure per the financial statements was higher than that used to calculate planning materiality (£2.82 million per financial statements; £2.78 million prior year), we revised our planning materiality upwards to reflect the increase in activity and as such, materiality was revised upwards to £56,000 (2% of expenditure). We report all misstatements greater than £2,800.

Forming our opinions and conclusions

In gathering the evidence for the above opinions and conclusions we have:

- performed controls testing and substantive procedures to ensure that key risks to the annual accounts have been covered and that the regularity of income and expenditure was in accordance with regulations;
- reviewed the internal audit 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 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 committees to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

Financial statements preparation

High quality working papers and draft financial statements were provided at the start of the audit fieldwork on 15 August 2016. This included the performance report and the accountability report, which encompasses the corporate governance report and the staff report. There was evidence of accountability and ownership of working papers.

Significant risks and other focus areas in relation to the audit of the financial statements

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 on the following pages, in order that the audit committee may better understand the process by which we arrived at our audit opinion.

Significant risks:

- Management override of controls fraud risk.

Other focus areas:

- Retirement benefits;
- Operating expenditure; and
- Fraud risk from income recognition

We have no changes to the assumed ISA risk of fraud in management override of controls. We do not have findings to bring to your attention in relation to this matter. No control overrides were identified.

Other focus areas

OTHER FOCUS AREAS	OUR RESPONSE	AUDIT CONCLUSION
Fraud risk from income recognition Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. As the income stream is relatively simple and agreed in advance of the year we do not regard the risk of fraud from income recognition as significant.	The following substantive testing was performed, with no exceptions identified: ▪ 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 any adjustments.	We concluded that income is correctly recognised in the financial statements.
Operating 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 concluded that expenditure is correctly recognised in the financial statements.

OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
Retirement benefit obligations The Commission accounts for its participation in the Lothian Pension Fund in accordance with IAS 19 *Retirement benefits*, using a valuation report prepared by actuarial consultants. The Commission's actuaries use membership data and a number of assumptions in their calculations based on market conditions at the year end, including a discount rate to derive the anticipated future liabilities back to the year end date and assumptions on future salary increases. IAS 19 requires the discount rate to be set by reference to yields on high quality (i.e. AA) corporate bonds of equivalent term to the liabilities. The determination of the retirement benefit obligation is inherently judgemental and there is a financial statement risk as a result.	Our work consisted of: ■ KPMG specialists reviewing the financial assumptions underlying actuarial calculations and comparison to central benchmarks; ■ testing of scheme assets and rolled-forward liabilities; ■ testing of the level of contributions used by the actuary to those actually paid during the year; ■ testing of membership data used by the actuary to data from the Commission; and ■ agreeing actuarial reports to financial statement disclosures. During the year, management considered the appropriateness of the salary increase assumption. Initially management chose to use a salary increase assumption of 4%. Due to changes in the membership and analysis of expected future salary changes, an assumption of 2% (2014-15: 4.6%) was deemed more appropriate. We discussed and challenged this assumption with management, agreed membership data and obtained an understanding of the expected salary increases for each member. Using this assumption led to the pension scheme being in surplus. Per IFRIC 14, this surplus can only be recognised there is an unconditional right to refund of the surplus. We obtained evidence from Lothian Pension Fund that there is no right to a refund, and therefore that the surplus cannot be recognised.	We are satisfied that the retirement benefit obligation: ■ is correctly stated in the balance sheet as at 30 June 2016; ■ has been accounted for and disclosed correctly in line with IAS19 *Retirement benefits*; and ■ assumptions used in calculating this estimate and management's judgements are appropriate and within the acceptable KPMG range. We set out further information in respect of the defined benefit obligation on page 23. The closing liability decreased by £87,000 compared to 2014-15, primarily from an increase in the discount rate and a decrease in the rates of increase in pensions and salaries. An audit adjustment was raised to account for the change in salary assumption and restriction of the surplus. This is outlined in appendix one.

REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
Performance and accountability report	The annual report is now required to comprise a performance report and an accountability report. We assessed these reports against a disclosure checklist and we are satisfied that these have been properly prepared.	We are satisfied that the information contained within the performance and accountability reports are consistent with the financial statements and in line with requirements. We reviewed the contents of the performance and accountability report against the guidance issued by HM Treasury and are content with the proposed report.
Remuneration and staff report	The remuneration and staff reports were included within the unaudited annual accounts and supporting reports and working papers were provided.	We are satisfied that the information contained within the remuneration and staff report is consistent with the underlying records and the annual accounts. Our independent auditor's report confirms that the part of the remuneration and staff report subject to audit has been properly prepared.
Annual governance statement	Changes were made to the Scottish Public Finance Manual guidance on governance statement requirements for reporting on controls for programme and project management, including compliance with the ICT assurance framework (where applicable) as well as details of any significant lapses of data security. The statement for 2015-16 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on the Commission's governance framework, operated internal controls, the work of internal audit, and risk management arrangements and analyses the efficiency and effectiveness of these elements of the framework.	We are satisfied that the annual governance statement is prepared in line with relevant guidance and is consistent with the governance framework in place at the Commission and our understanding of the organisation.

Qualitative aspects

ISA 260 requires us to report to those charged with governance our views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

We consider the accounting policies adopted by the Commission to be appropriate, and there have been no changes to adopted accounting policies in the year. There are no significant accounting practices which depart from what is acceptable under the FReM.

Significant accounting estimates relate to the present value of defined benefit obligations under IAS 19 (as calculated by the Commissions' actuary, Hymans Robertson) using agreed financial assumptions. We found the assumptions and accounting for pensions to be appropriate, as discussed on page 23. We did not identify indications of management bias.

Financial statement disclosures were considered against requirements of the FReM. No departures from these requirements were identified.

Future accounting and audit developments

There are no significant changes to the FReM for 2016-17.

ISA (UK & Ireland) 700 and 720 have been revised for accounting periods beginning on or after 17 June 2016. These revise the requirements for the structure and content of the independent auditor's report. Audit Scotland is considering whether to early adopt the standards for 2016-17.

Wider scope

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

We carried out audit tests to determine the effectiveness of the financial management arrangements. This included:

- *Assessing the budget monitoring processes.* We found these to be robust, with regular accurate reporting and scrutiny by senior management, Audit Committee and the Commission.
- *Consideration of the finance function and financial capacity.* The Commission's finance team is relatively small, putting inherent constraints on the amount of strategic considerations and modelling performed. However we note there were no audit adjustments and the financial statements were received in line with the agreed timetable.

To consider the controls and processes to support Best Value aims, internal audit performed reviews in 2015-16 over budgetary control with the Commission found to have good arrangements for monitoring and reporting its revenue budget position.

Conclusion:

The Commission's finance department has appropriate financial capacity for current operations. Sound budgetary processes are supported by a strong internal control environment, and no significant control deficiencies were identified.

We are required to provide specific conclusions on the following areas which relate to financial management and support our overall conclusion on this audit dimension.

Internal controls

The Commission's management is responsible for designing and implementing appropriate internal control systems to ensure a true and fair view of operations within the financial statements. Our testing, combined with that of internal audit, 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.

Controls tested around significant risks include payroll exception report review and approval of starters and leavers.

Conclusion: Our work concluded that the above controls relating to financial systems and procedures are designed appropriately and operating effectively.

Arrangements for the prevention and detection of fraud and error

Procedures and controls related to fraud are designed and implemented effectively. Expenditure is reviewed and authorised by appropriate finance personnel and senior management. In 2015-16 no significant or other fraud or irregularity was identified by management, internal audit or through the course of our external audit work.

Conclusion: The Commission has appropriate arrangements to prevent and detect fraud.

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. Entity level controls at the Commission were considered, such as the risk management policy, code of conduct and members register of interests.

Conclusion: The Commission has appropriate arrangements to prevent and detect inappropriate conduct and corruption.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

In considering governance and transparency at the Commission we performed the following work:

- *Reviewing the organisational structure, reporting lines and level of scrutiny within the Commission.* The Commission demonstrates effective scrutiny, challenge and transparency on decision making through various levels of reporting that we reviewed, including the monthly financial management report . Decisions are transparent as actions are documented within the Commission minutes.
- *Reviewing financial and performance reporting within the organisational structure.* Reporting was found to be of a high quality, accurate and transparent. Management reports are comprehensive and enable senior management and those charged with governance good oversight over the Commission.
- *Reading the annual governance statement*; as discussed on page 13.

We are required to provide specific conclusions on the following areas which relate to governance and transparency and support our overall conclusion on this audit dimension.

Corporate governance

We updated our understanding of the governance framework and documented this though our overall assessment of the Commission's risk and control environment. This involved testing entity wide controls, such as procedures around related party declarations and organisational oversight via a review of Audit Committee and Commission minutes.

Conclusion: Governance controls were found to be operating effectively and we consider the governance framework to be appropriate for the Commission.

Internal audit

Internal audit (Scott Moncrieff) completed its agreed plan for the year ended 30 June 2016, with the content of the internal audit plan being appropriate for the size and nature of the Commission.

We considered the activities of internal audit against the requirements of Public Sector Internal Audit Standards ('PSIAS'). This review focused on the public sector requirements of the attribute and performance standards contained within PSIAS - which included a review of reporting lines, independence, objectivity and proficiency and the range of work carried out by internal audit. We also considered the requirements of International Standard on Auditing 610 *(Considering the Work of Internal Audit)*.

Conclusion: We apply internal audit's work to inform our procedures, where relevant. The review of internal audit reports and conclusions did not indicate additional risks and there was no impact on our planned substantive testing.

Conclusion:

The Commission has sound and well-established governance arrangements that ensure effective scrutiny, challenge and transparency on decision making, through high quality reporting.

Wider scope

Financial sustainability and value for money

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

In considering financial sustainability of the Commission we performed the following work:

- *Consideration of key risks over financial sustainability.* The Commission is at the early part of the 2016-20 strategy period. Management monitors performance against budget and seeks to be efficient in the Commission's operations.
- *Reviewing financial forecasting, financial strategies and key risks over financial sustainability.* A five year budget was formed in 2015-16 and management is reviewing this to reflect emerging issues and new powers to change levies. The Commission's primary source of income is a levy from the legal profession in Scotland, collected by the Law Society of Scotland. The Commission has reviewed its operating structure and continues to consider ways to be more efficient. There is a significant cash balance and deficit budgets have been agreed to reduce the cash and ensure value for money for legal practioners.

Conclusion:

The Commission has appropriate long term budgets and due to the nature of its funding can implement changes in advance of decreases occurring. Whilst the main costs the Commission incur are staff costs, a review of the operating structure is enabling management to consider more efficient ways of working. The large cash balance further supports the Commission's financial sustainability. We consider that the Commission is financially sustainable.

Value for money is concerned with using resources effectively and continually improving services.

We consider value for money throughout our testing. Some of the areas where we had a specific focus on value for money are:

- *Reviewing the procurement policy and performing controls testing over the procurement of goods and services.* No exceptions were found through our testing and the procurement policy was found to be in line with best practice.
- *Reviewing the scheme of delegation and financial limits:* The scheme of delegated authority and sets out the roles of the Board, Chief Executive and management team. Financial limits are set by grade for proposing expenditure (e.g. raising a purchase order) and for separately authorising the same.
- *Outsourcing:* SLCC outsources for both internal audit and payroll processes (until April 2016). The use of third parties to provide core services reduces administrative and staff costs within the organisation without impacting on their provision. Whilst payroll services have been brought back in-house during the year, this has been at no extra cost to the Commission, further demonstrating the commitment to value for money.
- *Members' expenses authorisation:* Members expenses' are reviewed by the audit committee on a thematic basis; whilst this ensures strong transparency, we consider that detailed scrutiny could be reduced.

Conclusion:

The Commission strives to achieve value for money in its delivery of services. This has been seen through controls over expenditure authorisation, procurement and the scheme of delegated authority. We are content that the value for money arrangements are appropriate to the Commission.

In November 2013 the Accounts Commission and Auditor General for Scotland published a report on Scotland's public sector workforce. The report highlighted a number of key messages on workforce changes across Scotland in the public sector and made recommendations to the Scottish Government.

We performed follow up work on this report, and submitted a return to Audit Scotland summarising our findings and conclusions. This work concluded on the following key issues:

- Planning: There is no formal workforce plan in place. A predictive model is currently in development, which will look at improving forecasting accuracy based on historic trends and productivity around consumer complaints the Commission handles.
- Service delivery: A review of staff requirements is undertaken regularly and any training or recruitment required is identified. Additionally, the skill set of the Board is reviewed annually.
- Partnership working: This is not relevant to much of the work of the Commission as its adjudicative functions require significant independence from government and the sector. SLCC does have collaborative projects, although in most cases shared staff would not be appropriate.
- Reporting: Efficiency savings are reported, however recent workforce plans have not focussed on cost as the primary driver.
- Challenge and scrutiny: On a monthly basis, the Commission reviews the financial management report comparing the budgeted position to actual for year to date and month. This allows management to make informed decisions on a timely basis.

A number of the points above were considered to be in line with good practice and the Commission continues to demonstrate a commitment towards improvement.

Appendices

Adjusted and unadjusted audit differences

We are required by ISA (UK and Ireland) 260 to communicate all corrected and uncorrected misstatements, other than those which are trivial, to you. There were no unadjusted audit differences and one adjusted audit difference in relation to pensions.

A small number of minor numerical and presentational adjustments were required to some of the financial statement notes.

		BALANCE SHEET		COMPREHENSIVE INCOME AND EXPENDITURE	
CAPTION	**NATURE OF ADJUSTMENT**	**£000 DR**	**£000 CR**	**£000 DR**	**£000 CR**
Adjusted					
Statement of comprehensive income and expenditure – actuarial gain/loss on pension scheme	The initial pension report used 4% for the salary increase assumption; this was deemed inappropriate due to the individual circumstances of the members of the scheme. Adjustments were processed to reduce the actuarial gain/loss and pension liability. This resulted in a surplus on the pension scheme, which could not be recognised as there is no unconditional right to the surplus.	-	-	-	171,000
Balance sheet – pension scheme liability		171,000	133,000	-	-
Statement of comprehensive income and expenditure – pension surplus not recognised		-	-	133,000	-

Appendix one
Auditor independence

To the audit committee members

Assessment of our objectivity and independence as auditor of the Scottish Legal Complaints Commission (the Commission)

Professional ethical standards require us to provide to you at the conclusion of the 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 and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

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 partners 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.

We are satisfied that our general procedures support our independence and objectivity except for those detailed below where additional safeguards are in place.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the Commission and its affiliates for professional services provided by us during the reporting period.

We have detailed the fees charged by us to the Commission and its related entities for significant professional services provided by us during the reporting period in the below appendix, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the year ended 30 June 2016 are analysed as follows:

	Current year £000	Prior year £000
Audit of the Commission	8,883	8,875
Total Audit	*8,883*	*8,875*

Independence and objectivity considerations relating to other matters

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

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the audit partner and audit staff is not impaired.

This report is intended solely for the information of the audit committee and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

Appendix two
Defined benefit obligations

In respect of employee benefits, each of the assumptions used to value the Commission's net pension deficit are within an acceptable range of KPMG's expectations.

We are of the view that this therefore represents a reasonable and balanced approach, in accordance with the requirements of IAS 19.

We set out below the assumptions in respect of defined benefit obligations.

Defined benefit pension liability

2016 £000	2015 £000	KPMG comment
-	(87)	In line with our established practice and in advance of the audit fieldwork, our actuarial specialists reviewed the approach and methodology of the actuarial assumptions used in the IAS19 pension scheme valuation. Details of key actuarial assumptions are included in the table, along with our commentary.

Assumption	SLCC	KPMG central	Comment
Discount rate (duration dependent)	3.0%	3.10%	Acceptable. The proposed assumptions are within the acceptable range.
CPI inflation	2.0% RPI less 1.0%	2.2% RPI less 1.0%	Acceptable. The proposed assumptions are within the acceptable range.
Net discount rate (discount rate – CPI)	1.0%	0.9%	Acceptable. The proposed assumptions are within the acceptable range of +/- 0.3% from the KPMG central range.
Salary growth	2.0%	3.2% -4.7% Typically 0%-1.5% above inflation	Acceptable. The proposed assumptions are appropriate due to the individual circumstances of the members of the scheme.

The overall assumptions applied by management are considered to be reasonably balanced for a scheme with a liability duration of between 17 and 23 years. The closing deficit decreased by £87,000 compared to 2014-15, primarily due to the decreases in the discount rate, return on assets and salary growth. The resultant surplus of £133,000 was not recognised as there is no unconditional right to a surplus in respect of the Lothian Pension Scheme.

Appendix three
Appointed auditors responsibilities

Area	Appointed auditors responsibilities	How we've met our responsibilities
Corporate governance	Review and come to a conclusion on the effectiveness and appropriateness of arrangements to ensure the proper conduct of the bodies affairs including legality of activities and transactions. Conclude on whether the monitoring arrangements are operate and operating in line with recommended best practice.	Page 17 sets out our conclusion on these arrangements.
Financial statements and related reports	Provide an opinion on audited bodies' financial statements on whether financial statements give a true and fair view of the financial position of audited bodies and their expenditure and income. Provide an opinion on whether financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements. Provide an opinion on the regularity of the expenditure and income.	Page 9 summarises the opinions we expect to provide.
Financial statements and related reports	Review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports and grant claims.	Page 13 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report.
Financial statements and related reports	Notify the Auditor General when circumstances indicate that a statutory report may be required.	Page 9 sets out any notifications we have made to the Auditor General.
Financial statements and related reports	Review and conclude on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.	Page 16 sets out our conclusion on these arrangements.
WGA returns and grant claims	Examine and report on WGA returns Examine and report on approved grant claims and other returns submitted by local authorities.	The Commission is below the threshold for the completion of audit work on the WGA return.

Appendix three

Appointed auditors responsibilities (continued)

Area	Appointed auditors responsibilities	How we've met our responsibilities
Standards of conduct – prevention and detection of fraud and error	Review and conclude on the effectiveness and appropriateness of arrangements for the prevention and detection of fraud and irregularities, bribery and corruption and arrangements to ensure the bodies affairs are managed in accordance with proper standards of conduct. Review National Fraud Initiative participation and conclude on the effectiveness of bodies engagement.	Page 16 sets out our conclusion on these arrangements. The Commission did not participate in the National Fraud Initiative.
Financial position	Review and conclude on the effectiveness and appropriateness of arrangements to ensure that the bodies financial position is soundly based.	Pages 6 and 7 set out our conclusion on these arrangements.
Financial position	Review performance against targets	Page 6 summarise our review of how the body has performed against it's financial targets.
Financial position	Review and conclude on financial position including reserves balances and strategies and longer term financial sustainability.	Page 6 sets out our conclusion on the bodies financial position including reserves balances. Page 7 sets out our conclusion on the bodies financial strategies and longer term financial sustainability.
Best Value	Review and conclude on the effectiveness and appropriateness of arrangements of accountable officers specific responsibility to ensure that arrangements have been made to secure Best Value.	Page 18 sets out our conclusion of the bodies arrangements.

cutting through complexity

The contacts at KPMG in connection with this report are:

Andy Shaw

Director

Tel: 0131 527 6673

andrew.shaw@kpmg.co.uk

Sarah Burden

Manager

Tel: 0131 527 6611

sarah.burden@kpmg.co.uk

Amie Louden

Audit in-charge

Tel: 0131 527 6613

amie.louden@kpmg.co.uk