

## Scottish Legal Complaints Commission

2010-11 Audit  
Annual Report to the Commission and the Auditor General for Scotland

27 October 2011



## Contents

<b>1</b>	<b>Executive Summary</b>	<b>1</b>
<b>2</b>	<b>Financial results</b>	<b>3</b>
<b>3</b>	<b>Financial statements</b>	<b>5</b>
<b>4</b>	<b>Governance and performance</b>	<b>9</b>

### Appendices

<b>A</b>	<b>Action Plan</b>	<b>11</b>
<b>B</b>	<b>The small print</b>	<b>12</b>

# 1 Executive Summary

## **Purpose of the report**

- 1.1 We have audited the financial statements of the Scottish Legal Complaints Commission (SLCC) for 2010-11, and examined aspects of SLCC's performance and governance arrangements. This report sets out our key findings.
- 1.2 This report meets the mandatory requirements of the Code of Audit Practice and International Standard on Auditing 260 (ISA 260) to report the outcome of the audit to 'those charged with governance', designated as the Audit Committee. The requirements of ISA260, and how we have discharged them, are set out in more detail at Appendix B.

## **Audit conclusions**

### **Financial results**

- The Statement of Comprehensive Income and Expenditure for the year recorded a net deficit of £167,000.
- SLCC reported reserves of £1.8 million at 30 June 2011 (2010: £1.9 million).
- SLCC plans to utilise £1 million of the current reserve balance to reduce the levy charged to the Law Society of Scotland the Faculty of Advocates in 2011-12.

### **Financial Statements**

- We intend to issue an unqualified audit report on both the financial statements and the regularity of transactions for the year ending 30 June 2011.
- Three audit adjustments with a net impact of £2,676 on the reported financial position have been processed to the draft accounts relating to missed accruals. We have recommended that SLCC improve procedures for identifying and recording accruals at the year end and that all transactions are accounted for on an accruals basis.
- The remaining three audit adjustments are for the release of an element of the holiday pay accrual that included staff whose employment did not commence until post year end; the cancelling of an income transaction that was updated on the ledger after the draft accounts were prepared; and recalculation of a prepayment.

### **Governance and Performance**

- The financial planning and budgetary processes are well developed and effective.
- SLCC has responded to the findings of Audit Scotland's report on the 'Role of Boards' and completed a review of the effectiveness of the Commission's governance arrangements during the year. An action plan has been produced from this exercise, and progress against the actions is being monitored closely by the Commission.
- SLCC has responded to the Public Services Reform (Scotland) Act 2010 by drafting a statement of expenditure as required by the Act. This will be published on SLCC's website.

### **Next Steps**

- 1.3 Matters arising from the financial statements audit have been discussed with the Chief Executive and the Finance and Corporate Services Manager. We have made a number of recommendations, which are set out in the action plan at Appendix A.

### **Use of this report**

- 1.4 This report has been prepared solely for use by SLCC to discharge our responsibilities under the Code of Audit Practice, and should not be used for any other purpose. This report is part of a continuing dialogue between SLCC and Grant Thornton and is not, therefore, intended to cover every matter which came to our attention. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in SLCC's systems and work practices.
- 1.5 The report is not intended for use by third parties and we do not accept responsibility for any reliance that third parties may place on it. The report will be submitted to the Auditor General for Scotland and will be published by him on his website at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

### **Acknowledgements**

- 1.6 This is the final year of our appointment as the auditors to SLCC. We would like to record our appreciation for the assistance and co-operation provided to us during the period of our appointment by the members of staff of SLCC, in particular to the Chief Executive of the Commission and the Finance and Corporate Services Manager.

**Grant Thornton UK LLP**

**27 October 2011**

## 2 Financial results

### Statement of Comprehensive Income and Expenditure

- 2.1 For the year ending 30 June 2011, the net deficit of SLCC was £167,000. Table 1 highlights the financial results for the year.

**Table 1: Financial Results for 2010-11 (£'000)**

	2011	2010
Operating income	(2,232)	(2,492)
Staff costs	1,415	1,292
Other administration costs	989	804
Depreciation	4	3
Pension interest costs / return on assets	(1)	(1)
Actuarial (gain) / loss on pension scheme	(8)	15
<b>Net (surplus) / deficit</b>	<b>167</b>	<b>(379)</b>

Source: 2010-11 financial statements

- 2.2 Operating income has decreased by £260,000 (10.4%). This is due to a reduction in levy income collected from both the Law Society of Scotland and the Faculty of Advocates (£350,000, 15.4%) as a result of a decrease in the annual levy charged.
- 2.3 Complaints levy income rose by £11,000 (163.8%). This is mainly due to an increase in activity as the Commission's role and profile becomes more known and we would expect this trend to continue. There were also increases in the Scottish Legal Services Ombudsman recharge from the Scottish Government of £70,000 (34.6%) and in bank interest income of £12,000 (85.2%).
- 2.4 The net deficit has increased by £546,000 (144.0%). The main cost increase in the year was staff costs which increased by £156,000 (9.5%). The increase in staff costs reflects the increase in the number of staff (FTE increase of 2), the effect of redundancies in the year and an increase in employer's pension contributions of £18,000.

### Looking forward

- 2.5 For the year ending 30 June 2012, SLCC has set an expenditure budget of £2.8 million. Table 2 analyses the expenditure budget and how it will be funded.

**Table 2: SLCC budget for 2011-12 (£'000)**

	2011
Staff costs	1,776
Non staff costs	837
Contingency	217
<b>Total budgeted expenditure</b>	<b>2,830</b>
Income from levy	(1,837)
Reserves	(1,000)
<b>Net (surplus) / deficit</b>	<b>(7)</b>

Source: SLCC 2011-12 budget

- 2.6 Total levy income of £2.8 million to cover the expenditure for the year is reduced to £1.8 million by utilisation of the reserve balance to support expenditure. This will reduce reserves towards the target level of reserves agreed by the Board in January 2011.

## 3 Financial statements

### Introduction

- 3.1 This section provides a summary of findings arising from our audit of the financial statements. This includes matters arising from our evaluation of key controls and comment on SLCC's overall financial position.
- 3.2 We audit the financial statements and give an opinion on whether:
- they give a true and fair view, in accordance with the Legal Profession and Legal Aid (Scotland) Act 2007 and directions made thereunder by the Scottish Ministers, on the state of affairs of SLCC as at 30 June 2011 and of its net deficit and cash flows for the year then ended
  - they, and the part of the Remuneration Report to be audited, have been properly prepared in accordance with the Government Financial Reporting Manual (FRoM) and directions made thereunder by the Scottish Ministers
  - in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.
- 3.3 We also review the Statement on Internal Control by:
- considering compliance with Scottish Government guidance
  - considering the adequacy of the process put in place by the Accountable Officer to obtain assurances on systems of internal control
  - assessing whether disclosures in the Statement are consistent with the information emerging from our normal audit work.

### Key risks

Key risk from the AAM	Work completed
<p><b>Financial position and reserves</b> SLCC is funded from a levy collection by the Law Society of Scotland, the Faculty of Advocates and the Association of Commercial Attorneys. The main items of expenditure are staff costs, legal costs and office and administration costs. Legal costs can be difficult to predict as they correlate to the volume and complexity of case work.</p> <p>SLCC maintain cash reserves to fund operations, with a reserves balance of £1.9 million as at 30 June 2010. Reductions in the levies charged to the three legal bodies are in place for 2010-11 to reduce the amount of cash reserves, with a target level equivalent to 4 months expenditure.</p>	<p>The reserves policy was revised during the year, with a target level of 3.5 months of running costs set at the target level. For the 2011-12 financial year, this equates to £825,000.</p> <p>Reserves at 30 June 2011 total £1.8 million and £1 million is to be released to the 2011-12 budget to support a reduction in the levy collection for that year.</p> <p>The release of £1 million from reserves in 2011-12 should reduce the level of reserves to the target level by the end of the 2011-12 financial year.</p>

Key risk from the AAM	Work completed
<p><b>Restructuring</b></p> <p>During the year, the acting Chief Executive was formally appointed to the post, and a restructuring of the organisation and senior management team is being brought forward to better meet the needs of the Commission's operations.</p> <p>There are audit risks arising from restructuring, in particular:</p> <ul style="list-style-type: none"> <li>ensuring relevant restructuring costs are properly identified and accounted for</li> <li>ensuring compliance with the Scottish Public Finance Manual and other relevant guidance on redundancies and severance pay.</li> </ul>	<p>The process for implementing the redundancies in the year was reviewed in accordance with guidance issued by the Scottish Government in the Scottish Public Finance Manual and in Audit Scotland's Note for Guidance on Severance Schemes.</p> <p>Our audit confirmed that relevant restructuring costs were properly identified and accounted for in line with accounting standards.</p> <p>The disclosure of redundancy payments was reviewed in accordance with the Government's Financial Reporting Manual which requires bodies to follow the Cabinet Office's guidance note EPN 296. SLCC has provided a disclosure of severance payments in the remuneration report in line with the guidance note's requirements for a body of its size.</p>

### Audit conclusions

- 3.4 We intend to provide an unqualified opinion on the financial statements, and on the regularity of transactions undertaken during the year, following approval of the accounts by the Audit Committee and the Board.

### Matters arising from the financial statements audit

- 3.5 We were presented with draft accounts on 22 August 2011, in line with the timetable. The working papers provided continue to be of good quality.
- 3.6 There are no unadjusted audit differences to report. Audit adjustments processed following our audit are shown in Table 2 below:

**Table 2: List of adjusted misstatements**

Adjustments affecting reported results	Statement of Comprehensive Income and Expenditure		Statement of financial position	
	Dr £	Cr £	Dr £	Cr £
<b>Missed accruals</b> To recognise 3 missed accruals for solicitor's fees, IT support and electricity.	2,774			2,774
To adjust for a cancelled complaint levy transaction that was adjusted in the ledger after the draft accounts had been prepared.	502			502



Adjustments affecting reported results	Statement of Comprehensive Income and Expenditure		Statement of financial position	
	Dr £	Cr £	Dr £	Cr £
To release the portion of the holiday pay accrual that related to staff whose employment commenced post year end		600	600	
To reanalyse other professional fees and staff training and recruitment from outsourced staff costs	33,281	33,281		
<b>TOTAL</b>	<b>36,557</b>	<b>33,881</b>	<b>600</b>	<b>3,276</b>

3.7 The impact of the adjustments on the Statement of Comprehensive Income and Expenditure is to increase the net deficit by £2,676.

3.8 We also recommended a number of minor changes to the presentation of the financial statements, and these have also been processed by management.

### Evaluation of key controls

3.9 We have undertaken sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of SLCC's key financial control systems did not identify any control issues that present a material risk to the accuracy of the financial statements.

3.10 We have 2 recommendations relating to controls arising from our substantive audit procedures:

- SLCC missed three accruals at the year end, resulting in audit adjustments of £2,774 to the Statement of Comprehensive Income and Expenditure. We would recommend that management review the close down procedures for the 2011-12 accounts to ensure all relevant accruals are identified and processed in the draft financial statements.
- We noted that SLCC currently has no formally documented policies and procedures for processing journals.

### Action plan points 1-2

3.11 We carried out a high level review of the general IT control environment as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that could adversely impact on our audit of the accounts.

### Statement on Internal Control (SIC)

3.12 The Statement on Internal Control sets out the arrangements established and operated by SLCC for reviewing the effectiveness of the system of internal control and the identification and management of risk. We have examined SLCC's arrangements and processes for compiling the SIC. In addition, we read the SIC and considered whether the statement is in accordance with our knowledge of SLCC.

- 3.13 We reviewed the draft SIC and are satisfied that it complies with guidance contained in the Scottish Public Finance Manual that the process put in place by the Accountable Officer to obtain assurances on systems of internal control is adequate, and that the contents of the Statement are consistent with the information obtained from our normal audit work.

### **Annual report**

- 3.14 We considered SLCC's arrangements for compilation and submission of the annual report and received a complete draft annual report in sufficient time to undertake the required audit procedures prior to reporting to the Audit Committee.
- 3.15 We reviewed the draft annual report and are satisfied that the content of the annual report, including the remuneration report, is in accordance with the Government Financial Reporting Manual, and our knowledge of SLCC.

## 4 Governance and performance

### Governance

- 4.1 Corporate governance is the system by which organisations direct and control their functions and relate to their stakeholders, and incorporates the way in which an organisation manages its business, determines strategy and objectives and goes about achieving those objectives. It is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation.
- 4.2 As part of our 2010-11 audit, we assessed the adequacy of SLCC's governance arrangements against good practice standards for the public sector. Overall, we found that SLCC's governance arrangements operated well and within a generally sound control environment. SLCC complies with the good practice guidance in relation to governance, as outlined in the Scottish Public Finance Manual, in so far as it is relevant to the role of SLCC.

### Performance

- 4.3 Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. As part of our annual audit we are required to plan reviews of aspects of the arrangements to manage performance, as they relate to economy, efficiency and effectiveness in the use of resources.
- 4.4 The Accountable Officer has a duty to ensure public resources are used economically, efficiently and effectively. These arrangements were extended in April 2002 to include a duty to ensure best value in the use of resources.

### Work completed in the year

- 4.5 As part of our 2010-11 audit, we assessed the adequacy of SLCC's governance and performance arrangements. Our Audit Approach Memorandum for 2010-11 set out the key risks relating to the governance aspects of our audit, the work completed against each risk area is highlighted below.

Key risk from the AAM	Conclusions
<p><b>Audit Scotland – Board effectiveness outcome</b></p> <p>Audit Scotland published their report on the Role of Boards in 2010. The study aims to assess the role and effectiveness of boards in public bodies.</p> <p>The general points raised by the report include:</p> <ul style="list-style-type: none"> <li>• Chief executives and their boards have parallel lines of accountability and this can cause confusion over who leads the organisation unless the separate roles are well defined and understood</li> <li>• There are concerns about the recruitment of board members, including the falling number of applicants, the length of the recruitment process and the diversity of applicants.</li> <li>• How Board's monitor and manage risk.</li> </ul>	<p>From discussions with the Chief Executive of the Commission, the report has been utilised by during the year as part of a process to improve how the effectiveness of how the Commission works and operates.</p> <p>During the year, the Commission held two 'away days' to discuss how to improve their effectiveness, and the checklist in the national report was utilised to assist in this task.</p> <p>An action plan has been produced from this exercise, and progress against the actions is being monitored closely by the Commission.</p>

Key risk from the AAM	Conclusions
<p><b>Public Service Reform Act</b></p> <p>The Public Services Reform (Scotland) Act 2010 received Royal Assent on 28 April 2010. Part 3 of the Act will require SLCC to publish a statement of expenditure which has been incurred during the financial year in relation to: public relations, overseas travel, hospitality and entertainment, external consultancy. In addition, disclosures of persons earning over £150,000 will be required</p> <p>Draft guidance has been published by the Scottish Government on how public bodies should respond to Part 3 of the Act.</p>	<p>SLCC has enacted the requirements of the Act during 2010-11, and will publish all relevant expenditure categories and all payments over £25,000 on a monthly basis on their website.</p> <p>An annual statement will also be prepared and published to comply with the requirements of the Act.</p>
<p><b>Audit Scotland national reports.</b></p> <p>Audit Scotland periodically undertakes national studies on topics relevant to the performance of central government bodies. While the recommendations from some of the studies may have a national application, elements of the recommendations are also capable of implementation at local level, as appropriate.</p> <p>During 2009-10, we are required to follow up SLCC's response to the report, <i>Improving public sector purchasing</i>, (published July 2009)</p> <p>The follow up work will be directed by Audit Scotland's Performance Audit Group.</p>	<p>SLCC is below the thresholds for a procurement capability assessment, and there have been no major procurement exercises in the year.</p> <p>SLCC maintains procurement regulations in the finance manual, and the process is overseen by the Chief Executive.</p>

## A Action Plan

No.	Finding	Risk	Recommendation	Management response	Implementation date and responsibility
1	<p><b>Accruals</b></p> <p>We noted 3 missed accruals at the year end, relating to solicitors fees, IT support and electricity. There is a risk that the accounts are misstated if accruals are not identified and recognised as required.</p>	<b>Medium</b>	Management should review procedures for ensuring accruals are promptly identified and recognised in the financial statements.	<b>In future accruals will be reviewed on a monthly basis as a part of the monthly accounts preparation routine.</b>	Finance & Corporate Services Manager – December 2011
2	<p><b>Journals</b></p> <p>The Commission currently does not have formally documented policies and procedures over the input of journals to Sage.</p>	<b>Medium</b>	Management should formalise the journal entry process to ensure that all journal entries are subject to documented review.	<b>A revised procedure for recording and authorising all journal entries will be implemented which includes a review process. This will include review of accruals to be posted as journals.</b>	Finance & Corporate Services Manager – December 2011

## B The small print

### Purpose of memorandum

This Report has been prepared for the benefit of discussions between Grant Thornton and the Scottish Legal Complaints Commission (SLCC).

The purpose of this memorandum is to highlight the key issues affecting the results of SLCC and the preparation of the organisation's financial statements for the year ending 30 June 2011.

This document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We would point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of the organisation.

This memorandum is strictly confidential and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to the organisation arising under the Code of Audit Practice.

The report will be submitted to the Auditor General for Scotland and will be published by him on his website at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

### Responsibilities of the Accountable Officer and auditors

The Accountable Officer is responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider necessary. Therefore, it is essential that the Accountable Officer confirms that our understanding of all the matters in this memorandum is

appropriate, having regard to their knowledge of the particular circumstances.

### Clarification of roles and responsibilities with respect to internal controls

SLCC's management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Accountable Officer that it has done so.

The Accountable Officer is required to review the organisation's internal financial controls. In addition, they are required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

The Accountable Officer should receive reports from management as to the effectiveness of the systems they have established as well as the conclusions of any testing conducted by internal audit or ourselves.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you.

In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We would be pleased to discuss any further work in this regard with the Accountable Officer and the Commission.

### Independence and robustness

Ethical standards require us to give you full and fair disclosure of matters relating to our independence.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

In accordance with best practice, we analyse our fees below:

	£ incl VAT
Grant Thornton UK LLP	12,000
Audit Scotland fixed charge	900
Total	12,900



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