

# Scottish Legal Complaints Commission

Report on the 2008-09 Audit

17 December 2009

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# 1 Executive Summary

## **Introduction**

As a public body, the Scottish Legal Complaints Commission (the "Commission") has auditors appointed to it by the Auditor General for Scotland. We were formally appointed as auditors to the Commission when it assumed its legislative powers in October 2008.

We have audited the financial statements of the Commission for the 2008-09 financial year and examined aspects of the Commission's performance and governance arrangements. This report summarises the key issues identified during our audit.

## **Financial Statements**

We intend to give an unqualified opinion on the 2008-09 financial statements of the Commission and on the regularity of transaction undertaken during the year.

We note that the accounts record a significant underspend of £1.1 million against the Commission's agreed budget of £2.6 million. This reflects uncertainty when setting the budget with regard to the potential costs of setting up the Commission's offices and the timing of staff recruitment. We have received an assurance from management that this level of underspend is unlikely to be repeated in future years.

The Commission held significant cash balances of £3.9 million at the financial year and general fund reserves of £1.6 million. The Commission should bring forward plans to reduce cash balances and apply reserves as part of its business planning process.

Our audit of the Commission's financial systems confirms that it operates in a satisfactory control environment.

## **Governance and Performance**

The Commission formally took up its legislative powers in October 2008 and the 2008-09 accounts, therefore, cover the first part year of its operations. During this year, the Commission has faced a significant task to set up a new office, implement a wide range of operational systems and processes, recruit and train staff and ensure it continues to deal with its caseload efficiently and effectively.

The Commission has managed this challenging task well, and we have concluded that the Commission's governance and performance management arrangements are satisfactory commensurate with the scale of its operations.

Looking forward, we think there is scope for the Commission to further consider how it could improve its arrangements for monitoring and reporting its performance.

## **Next Steps**

Our findings and recommendations are summarised in an Action Plan (Appendix A) that accompanies this report.

The report includes some specific recommendations to strengthen internal controls. It is the responsibility of the Commission to decide the extent of the internal control system appropriate to the organisation.

### **Acknowledgements**

We would like to take this opportunity to thank the Commission's staff who have been involved in the audit for their assistance and co-operation.

This report is part of a continuing dialogue between the Commission 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 the Commission's systems and work practices.

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).

**Grant Thornton UK LLP**

**17 December 2009**

## 2 Financial Statements

### **Our Responsibilities**

We audit the financial statements and give an opinion on whether:

- they give a true and fair view, in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made there under by the Scottish Ministers, on the state of affairs of the Commission as at 30 June 2009 and of the net expenditure, recognised gains and losses 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 (FReM) and directions made there under 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
- information which comprises the management commentary, included with the Annual Report, is consistent with the financial statements.

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.

### **Overall Conclusion**

We are able to conclude that the Commission's financial statements give a true and fair view of the financial position for the period from 1 October 2008 to 30 June 2009 and that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and relevant guidance.

We confirm that information which comprises the management commentary, included with the Annual Report, is consistent with the financial statements.

### **Standard of accounts and supporting papers**

The Commission's draft financial statements and supporting working papers as presented for audit were of a high standard. This meant that only a small number of adjustments were required to be made to the financial statements.

### **Financial Performance**

The Commission receives cash funding by way of levy from the Law Society of Scotland, the Faculty of Advocates and Conveyancing and Executry Practitioners. In addition, start up costs were met by the Scottish Parliamentary Corporate Body (SPCB). Expenditure during the year was £1.1m lower than the budget of £2.6m allocated to the Commission.

The Commission's budget assumed a that a full complement of staff would be in place for the whole financial year. In the first year of the Commission's operations this outcome was unlikely, and this explains the majority of the large recorded underspend. This budget also incorporated a £349k contingency which was not required. We have received assurances from management that performance against budget will improve in future years as the Commission's operations start to bed down.

Staff costs are the main area of the Commission's expenditure and account for 55% of total costs during the period, costs associated with the property accounted for 22% of total costs, with legal & other professional fees accounting for 8% of total costs. The remaining 15% of costs relate to the supply of services.

### **Review of systems of financial control**

As part of our 2008-09 audit, we reviewed the Commission's systems of financial control covering the following key systems:

- General Ledger
- Creditors
- Cash and Bank
- Income
- Payroll
- Fixed Assets

### **General Ledger**

The Commission operate the SAGE accounting system. The only individuals with access to the accounting system are the external accountant, and the office manager. The system can only be accessed with a unique log-in and is password protected. The password on the PC's must be changed every 60 days, however passwords on SAGE do not have to be changed.

#### *Action Point 1*

The Commission employs an accountant on a part-time consultancy basis to assist with the accounting function. The accountancy consultant is responsible for preparing the annual accounts and monthly management accounts.

We note that the accountant is responsible for preparing and processing all journals, and there is no authorisation of these journals by another member of staff.

#### *Action Point 2*

### **Income**

The majority of the Commission's income is received from the statutory "levy". The levy rate is set annually based on the budgeted expense for the period, spread over the number of practitioners. The Law Society inform the Commission of the number of Practitioners and are responsible for collecting the levy from its members. The Law Society are required to pay the levy to the Commission in advance of collection from their members.

We also found segregation of duties control weaknesses in the system for preparing and processing invoices, as the same individual reviews levy returns, prepares invoices and checks payment with no supervisory review. It is our understanding that this arrangement is temporary until sufficient staff are recruited.

*Action Point 3*

### **Creditors**

The trade creditors of the Commission mainly relate to spend on legal advice, marketing and communications. Prior to a purchase being made, a purchase order should be raised and signed by the relevant department manager. The invoice will be reviewed by the individual raising the purchase order for accuracy but will not be approved by them.

The Commission has set various authorisation limits with regards to the purchase of goods and the payment of suppliers, within the scheme of delegation. Our audit of the purchase invoices and payments system, found that the authorisation limits are working correctly.

It is possible, however, that invoices are received that have no purchase order number as none was originally raised. We understand that invoices in this category are unlikely to involve significant amounts.

*Action Point 4*

In addition, we found a segregation of control weakness in the system as the same member of staff posts invoices to the ledger, can change supplier details on the system, and processes payment runs.

*Action Point 5*

### **Payroll**

Processing and payment of payroll is outsourced to Moorepay, a Northgate Company providing payroll services for customers of The Royal Bank of Scotland. Commission employees are all salaried and paid monthly. The HR manager administers the payroll system, and Moorepay processes the BACS (salary) listing each month for payment.

This arrangement creates a segregation of duties weakness as the same individual can create new employees, amend payroll details including their own, sign contracts and authorise the payroll payment. The Accountant relies on the HR manager to explain any movements in payroll.

Going forward the Office Manager will carry out spot checks of the monthly payroll. We recommend that this check also includes a check of the HR manager's payroll, that all employee contracts are only signed by the Chief Executive, and that formal payroll procedures are established in order to improve internal control arrangements.

*Action Point 6*

### **Cash/Bank**

The Commission use both manual cheque books and online banking facilities (BACS) and authorisation limits are in operation to ensure that purchases are appropriately made.

The online banking facilities are password protected and a handheld device is required to make payments. As noted from our review of the creditors system above, a similar segregation of duties control weakness exists for the cash and bank system, as the same individual is authorised to both make payments, and post them to the ledger.

The Commission's accounts records high cash balances and over £1.5 million in general reserves. The Commission has developed a treasury management policy, but should act to reduce levels of reserves held as cash. We recommend that the Commission develops a reserves policy which sets out the 'target' level of reserves required to be held to meet contingencies and unforeseen events or to fund identified capital projects or future service developments.

*Action Point 7*

### **Fixed Assets**

The Commission has minimal fixed assets, with only computer equipment and furniture, fixtures and fittings recorded in the management accounts at June 2009. All assets were purchased at start up by the Scottish Government and these are included in the donated assets reserve. The Commission maintains a fixed asset register. As yet there have been no disposals.

The Commission has not yet formalised its policy for depreciation. In addition procedures will be required for the authorisation of fixed asset disposals.

*Action Point 8*



## **Conclusion**

The overall conclusion from our work is that financial systems operate in a satisfactory control environment and can be relied for the purposes of our audit of the financial statements.

The findings and recommendations from our review are summarised as an Action Plan at Appendix A. The action plan has been agreed with management and incorporates the management response.

This report contains some specific recommendations to strengthen internal controls. It is the responsibility of management to decide the extent of the internal control system appropriate to the Commission.

## **Statement on Internal Control**

The Statement on Internal Control sets out the arrangements established and operated for risk identification and management, proposed future development of internal control arrangements, and review of effectiveness of the current system of internal control.

We are satisfied that the Statement complies with Scottish Government guidance, that the processes put in place by the Accountable Officer to obtain assurances on systems of internal control are adequate, and that the contents of the Statement are consistent with the information emerging from our normal audit work.

## **ISA 260: Communication of Audit Matters to Those Charged with Governance**

Our responsibilities in relation to the communication of audit matters to those charged with governance are covered in the International Standard on Auditing 260. Outcomes against the requirements of the Standard are reported in Appendix B to this report.

## 3 Governance and performance

### **Introduction**

Sound corporate governance is central to demonstrating Best Value, 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. Good governance means:

- focusing on the organisation's purpose and on outcomes for citizens and service users
- performing effectively in clearly defined functions and roles
- promoting values for the whole organisation and demonstrating the values of good governance through behaviour
- taking informed, transparent decisions and managing risk
- developing the capacity and capability of the governing body to be effective
- engaging stakeholders and making accountability real.

### **Overall Conclusion from our 2008-09 audit**

As the Commission is a public organisation, it is required to meet expectation on best value and efficiency. As a result the Commission should evaluate its current corporate practices against best value guidance issued by the Scottish Government and ensure it can demonstrate that it is operating economically, efficiency and effectively.

Our audit found that the Commission has yet to carry out a self-assessment review of its performance against best value principles and does not yet have a performance management system in place that can demonstrate efficiency in its operations. We recognise that this area has correctly not been a priority in the first year of the Commission's operations.

### ***Action Point 9***

### **Governance arrangements**

The Commission's governance arrangements are largely provided by legislation and ensure involvement of stakeholders, including Commission Lawyer Members on the Commission's Audit and Remuneration Advisory Committee.

Our audit included a review of the Commission's governance arrangements against the principles contained within the Scottish Public Finance Manual. We are satisfied that the Commission has good governance arrangements in place. We note in particular that the Commission has had internal audit services in place since December 2008 as part of a shared service agreement. The Commission has recently begun to review this and is currently considering the provision of internal audit services in line with best value services.

### **Budgetary Control**

The Commission prepare an annual budget which is based on the expected income and forecasted expenditure. All senior department managers are involved in the initial budget process. The Chief Executive will submit the budget for approval at Board level. Throughout the year on a regular basis the department heads and CEO to review the actual income/spend compared to budget. Board meetings are held at least six times in a financial year and all discussions regarding the budgets are minuted.

We noted earlier in this report that the accounts record a significant underspend against budget for the financial year. However, we are satisfied with management assurances that this position will be addressed in future years and we are satisfied overall that the controls surrounding the budgeting and monitoring process adopted by the Commission are adequate.

### **Freedom of information (Fol)**

During the year it was identified that the Commission failed to comply with Part 1 of the Freedom of Information (Scotland) Act 2002 (FOISA) in dealing with an information request. The Commission failed to respond to the request for information within the relevant legislative timescale in the Freedom of Information (Scotland) Act 2002. However, as the Commission has responded to the request for information and provided details of the right of application to the Commissioner in that response, the Commissioner does not require to take any action in relation to this breach.

In response to the above, the Commission asked their internal auditors to help them undertake a complete programme of active steps to respond faster and smarter to FoI requests. This programme is now complete and internal audit have confirmed that the FoI process is now operating effectively and efficiently.

## 4 Audit and financial reporting issues

### **Pension Schemes**

There are two pension schemes that are in operation at the Commission, these being the SLCC Pension Scheme administered by Standard Life, which is a money purchase scheme, and the Local Government Pension Scheme (Scotland) administered by Lothian Pension Fund, which is a final salary scheme.

The Commission has confirmed that it is unable to quantify its share of the assets and liabilities of the Lothian Pension Fund and therefore for accounting purposes, the multi employer defined benefit pension scheme has been treated as a defined contribution scheme. We have asked the Accountable Officer to confirm this in the Letter of Representation.

### **Harmonisation Costs**

The Commission has 15 transfer staff involved in harmonisation. The Commission estimates that there is an additional cost to its existing pay bill to move transfer staff into the Commission pay bands. A harmonisation cost was anticipated and planned for when the Commission set its 08-09 budget.

We have reviewed the calculation of harmonisation costs for the year ended 30 September 2009 which include salary, NI and pension costs, arrears due for hours worked in pre transfer terms and conditions and gad compensation which includes death in service cover and additional holiday costs.

We are satisfied that the harmonisation costs are reasonable and have been provided in the financial statements at a total cost of £54,000 which reflects the potential liability to June 2009.

### **Double Counted Legal Fees**

Our audit found that legal fees of £12,000 from a legal service provider had been processed twice in error through the Commission's ledger. The error will be corrected through the 2010-11 accounts. This amount has not been adjusted in the 2008-09 accounts due to materiality, but has been included within the unadjusted items table in Appendix B.

### **Prepayments Errors**

Our audit testing of prepayments highlighted 2 errors:

- no prepayment had been processed for insurance, resulting in an understatement of £9,000
- the rent prepayment was recalculated and was found to be overstated by £2,000.

Both these items have not been adjusted through the accounts on the grounds of materiality, but have been included within the unadjusted items table in Appendix B.

### **Employment Status Of Board Members**

During 2009, the HR Manager highlighted the need to review the employment status of Board Members and began to progress this matter. We note that two of the Commission's Board Members currently have contractor status as opposed to employee status within the HR system. Whilst the amounts involved are not material, it should be noted that if HMRC judge the members' as having

employee status then the Commission could be liable for payroll taxes/fines, with the members deemed to have been paid net. We have recommended, therefore, that the Commission review its current treatment of Board Members as contractors.

*Action Point 10*

## 5 Looking Forward

### **International Financial Reporting Standards**

All public sector bodies will be required to prepare accounts on the basis of International Financial Reporting Standard (IFRS) for accounting periods from 1 April 2009.

The Commission will be required to prepare 2008-09 full IFRS 'shadow accounts' by end November 2009 in compliance with the Scottish Government's timetable and should ensure that effective arrangements in place to prepare full IFRS based 2009-10 accounts. In particular, this will require a review of the format of accounts and accounting policies and disclosures.

The IFRS conversion cannot be completed until the 2008-09 accounts are signed. We have agreed with management that we will accept restated 2008-09 IFRS accounts by an end of December 2009 deadline.

*Action Plan 11*

**Grant Thornton UK LLP**

**17 December 2009**

## Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
<b>General Ledger</b>					
1	<p>Passwords on SAGE are not changed frequently.</p> <p>There is an increased risk of unauthorised access to systems.</p>	Low	<p>Consideration should be given to requiring SAGE passwords to be changed at the same frequency that PC passwords are changed.</p>	<p>This advice has been taken on board and the practice of changing passwords on Sage will be put in place the next time PC passwords are changed and thereafter as ongoing practice.</p>	<p>By the end of January 2010</p>
2	<p>Journal preparation and processing is done by the accountant. No one authorises her work.</p> <p>There is a segregation of duties control risk.</p>	Low	<p>Journals should be authorised by a senior member of staff. Given the size of the Commission, a documented review could be done at frequent intervals.</p>	<p>The SLCC Management Team is currently reviewing and where appropriate updating all operating procedures in relation to the processing of financial resources. This recommendation will be addressed as part of that ongoing review.</p>	<p>By the end of March 2010</p>
<b>Income</b>					
3	<p>There are segregation of duties control weaknesses in the system for preparing and processing invoices as the same individual reviews levy returns, prepares invoices and checks payment with no supervisory review. There is a risk of unauthorised payments being processed.</p>	Medium	<p>The Commission should improve segregation of duties controls within the levy invoicing process.</p>	<p>As part of the ongoing Management Team review of financial resource management an Office Administrator has been recruited. The Office Administrator will report directly to the Office Manager and enable the SLCC to achieve the segregation of duties recommended. Please note this action had already been taken before this action plan was issued.</p>	<p>Start date for Office Administrator is 11 Jan 10 other work will follow the timetable of the internal review</p>

## Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
<b>Creditors</b>					
4	Purchase orders are not always generated prior to goods or services being purchased. Such procedures could lead to unauthorised purchases being made.	Low	The Commission should implement procedures whereby no purchase of goods or services can be made prior to a purchase order being made raised. This would ensure that all purchases made are for the benefit of the Commission, with the correct authorisation in place.	This matter had already been identified as part of the ongoing Management Team review and systems put in place to address it.	Already implemented
5	<p>The same member of staff posts invoices to the ledger, can set up a supplier on the system, change supplier details, and processes payment runs.</p> <p>There is a risk that unauthorised payments could be processed.</p>	Medium	When additional staff are taken on, different staff should be used to process payment and raise invoices. As an interim measure all payment runs should be reviewed by another member of staff, and exception reports should be run to view changes to supplier details.	As explained in points 2 and 4 the ongoing review of procedures and the appointment of an Office Administrator will address this issue. It is envisaged that the Office Administrator will post invoices and the Office Manager check and audit the process to ensure compliance and financial probity.	Ongoing and a priority within the current review. This specific issue will be addressed by the end of January 2010



## Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
<b>Payroll</b>					
6	<p>The HR manager can create new employees, amend payroll details including her own, sign contracts and authorise the payroll payment. The Accountant relies on the HR manager to explain any movements in payroll.</p> <p>There is a risk that unauthorised payments are made through payroll.</p>	High	<p>The Office Manager should carry out spot checks of the monthly payroll. This check should include a check of the HR director's payroll, that all contracts are only signed by the Chief Executive, and that formal payroll procedures are drafted, in order to address these segregation of duties control weaknesses.</p>	<p>Changes to the payroll process were made in Sept 09 to include an independent check by another member of staff. The SLCC believes the system put in place is robust and introduces the required level of security that would stand up to external scrutiny. The measures introduced also include:</p> <ul style="list-style-type: none"> <li>• provision for when checking officers are absent</li> <li>• random audits of the payroll</li> <li>• random audit of actions of the individuals involved in the payroll process</li> </ul>	<p>Already implemented (September 2009)</p>
<b>Cash and Reserves</b>					
7	<p>The Commission's accounts records high cash balances and over £1.5 million in general reserves.</p>	High	<p>The Commission should develop a reserves policy which sets out the 'target' level of reserves required to be held to meet contingencies and unforeseen events, or to fund identified capital projects or future service developments.</p>	<p>This recommendation is being considered by the SLCC Board of Commissioners on 21 December 2009.</p>	<p>Expected by end of March 2010</p>

## Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
<b>Fixed Assets</b>					
8	Fixed asset policy documents have not yet been finalised.	Low	The depreciation policy is currently in draft form and should be finalised. In addition, a disposal policy is required.	<p>The policy is in draft form due to be discussed by Members on 11 January 2010.</p> <p>The disposal policy is in the process of being drafted for discussion and approval by Members.</p>	<p>Mid January 2010</p> <p>March 2010</p>
<b>Best Value and Efficiency</b>					
9	The Commission has not yet considered its performance against best value principles and does not yet have a performance management system in place to assess its operational efficiency.	Medium	The Commission should evaluate its current corporate practices against best value guidance issued by the Scottish Government and ensure it can demonstrate that it is operating economically, efficiency and effectively.	<p>With regard to best value principles, the SLCC intends reviewing provision of goods and services in a range of areas, building best value principles into general processes.</p> <p>Before responding directly on this action in relation to performance management, it might be helpful to set out the SLCC's understanding of KPIs and targets as these are the basis of the performance management system being developed.</p> <p>A target refers to a direct numerical measure that represents a piece of business data, for example the time taken to investigate and where appropriate determine a complaint.</p>	2010_2011 Operating Year

## Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
				<p>A KPI is the metric tied to a target, which also refines that target. For example, we will investigate X% of complaints within A working weeks, Y% within B working weeks and Z% within C working weeks. The purpose of the KPI is to measure how we are performing against a set target. Considered in the context of other business data this enables the organisation to take a view about operational efficiency.</p> <p>The SLCC has already set a number of internal targets in relation to general operations, such as the time taken to respond to correspondence. It is in the process of gathering information to inform us what realistic targets should be in other operational areas. Gathering of data is essential to this as the complaints process being followed is new and also derived from new legislation which is largely untested.</p> <p>The SLCC has not yet defined its KPIs because the data does not exist to enable us to say what is realistic in terms of key operational performance areas. The advice from our internal auditors supported this approach, recognising that during set-up and</p>	

## Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
				<p>transition it would be difficult to develop and set meaningful KPIs until a view could be taken about realistic target setting.</p> <p>The SLCC is committed to developing and publishing KPI's based on stretching targets, and the work to do this remains ongoing. It is anticipated that KPIs will be set for the coming operational year.</p>	
<b>Board members</b>					
10	Two of the Commission's Board Members currently have contractor status as opposed to employee status within the HR system. Whilst the amounts involved are not material, it should be noted that if HMRC judge the members' as having employee status then the Commission could be liable for payroll taxes/fines, with the	Medium	The Commission should review its current treatment of Board Members as contractors.	<p>The HR Manager made recommendations in relation to this issue in April 2009. As a consequence the SLCC's internal auditors were requested to review the matter as part of its internal audit.</p> <p>The recommendations of the internal audit are being considered and taken forward by the Chair of the Commission directly with the Members concerned.</p>	March 2010

## Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
<b>IFRS</b>					
11	The Commission is required to prepare 2008-09 full IFRS 'shadow accounts' by end November 2009 and should ensure there are effective arrangements in place to prepare full IFRS based 2009-10 accounts.	Medium	The Commission should review its arrangements for complying with the Scottish Government's timetable for re-stating the 2008-09 accounts and preparing 2009-10 accounts under IFRS.	This issue is being actively pursued with SG.	January 2010

## Appendix B- Communication of audit matters to those charged with governance

### ISA 260 – Communication of audit matters to those charged with governance

Under ISA 260, we are required to consider matters of governance interest that arise from the audit of the financial statements and communicate them with those charged with governance. The areas considered are as follows:

- a) Relationships that may bear on Grant Thornton’s independence and the integrity and objectivity of the audit engagement lead and audit staff;
- b) The overall approach to the audit including any limitations thereon, or any additional requirements;
- c) The selection of, or changes in, significant accounting policies and practices that have, or could have a material effect on the entity’s financial statements;
- d) The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements;
- e) Audit adjustments, whether recorded or not by the entity that have, or could have a material impact on the entity’s financial statements; and
- f) Those uncorrected misstatements aggregated by the auditor during the audit that were determined by management to be immaterial both individually and in aggregate to the financial statements as a whole.

### Key Findings

We summarise our key audit findings in relation to the above areas.

Area	Key Messages
A: Independence	<p>We are able to confirm our independence and objectivity as auditors and note the following:</p> <ul style="list-style-type: none"> <li>• we are independently appointed by Audit Scotland</li> <li>• we comply with the Auditing Practices Board’s Ethical Standards</li> </ul>

## Appendix B- Communication of audit matters to those charged with governance

Area	Key Messages
B: Approach to the audit	<p>Our approach to the audit was set out in our 2008-09 audit plan. We have planned our audit in accordance with International Auditing Standards and the Code. Other key factors included:</p> <ul style="list-style-type: none"> <li>• we consider the materiality of items in the financial statements both in determining the approach to audit them and in determining the impact of any errors</li> <li>• we have been able to place appropriate reliance on the key accounting systems operating at the Commission for final accounts audit purposes only.</li> </ul>
C: Accounting policies and practices	<p>We consider that the Commission has adopted appropriate accounting policies in the areas covered by our testing. Accounting policies adopted were in accordance with the Government Financial Reporting Manual (FRM).</p> <p>The Commission has considered and confirmed that it remains a going concern. The Commission is asked to confirm this through the Letter of Representation.</p>
D: Material risks and exposures	<p>The Commission has considered and confirmed that it has no material risks and exposures which should be reflected in the financial statements. The Commission is asked to confirm this in the Letter of Representation.</p>
E: Audit adjustments and unadjusted errors	<p>We identified some errors during the audit, listed below, these items were not adjusted on materiality grounds. No significant accounting issue arose during the audit.</p> <p>There are no material unadjusted differences.</p>

