

Key Issues Memorandum

Scottish Legal Complaints Commission

For the year ended 30 June 2010

FINAL

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To the Management and Audit Committee of the Scottish Legal
Complaint Commission (SLCC)

The purpose of this memorandum is to highlight the key issues affecting the results of the SLCC and the preparation of the financial statements for the year ended 30 June 2010. It is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We take responsibility for this memorandum, which has been prepared on the basis of the limitations set out in 'The small print'.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

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1 Executive Summary

Financial Statements	
Audit Opinion	<ul style="list-style-type: none">• We intend to give an unqualified opinion on both the financial statements of SLCC for 2009-10 and on the regularity of transactions undertaken during the financial year.
Financial Statements	<ul style="list-style-type: none">• The draft Financial Statements and supporting working papers were presented for audit on the 2 August 2010 and were at a draft stage. This meant that various audit adjustments were required to be made to the accounts.
IFRS Conversion	<ul style="list-style-type: none">• We carried out a comprehensive review of the draft 2009-10 IFRS accounts against the requirements of the 2009-10 FReM. The annual accounts submitted for audit are IFRS compliant.
Governance issues	
Audit Committee Role	<ul style="list-style-type: none">• The Commission's review of the effectiveness of the Audit and Remuneration Committee has resulted in a number of key changes that strengthen overall governance arrangements.
Budget Monitoring	<ul style="list-style-type: none">• We concluded that budget monitoring arrangements are robust.
Performance issues	
Best Value	<ul style="list-style-type: none">• SLCC's corporate governance arrangements are developing well. The Commission has approved a Corporate Plan for 2010-13, which demonstrates how they will deliver the Scottish Government's strategic priorities. A performance management framework has been developed which includes the use of Key Performance Indicators.

2 Financial Reporting

2.1 Financial Statements

	2010 £'000	2009 £'000
Operating income	2,493	3,119
Operating costs	(2,099)	(1,574)
Operating surplus	394	1,545
Actuarial loss	15	nil

Operating Cost Statement

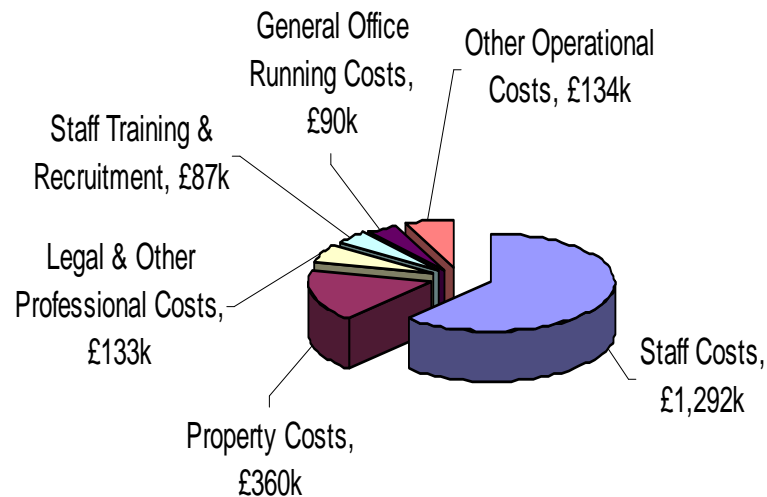
SLCC reported an operating surplus on its operating cost statement of £394k, a reduction on 2009 of £1,151k. This variance mainly arose as a result of an increase in staff costs totalling £421k, an increase in IT costs totalling £49k, and an increase in depreciation totalling £3k. In addition there was a decrease in levy income totalling £347k, decreased bank interest totalling £14, and decreased start up funding totalling £265k.

Expenditure in 2009-10

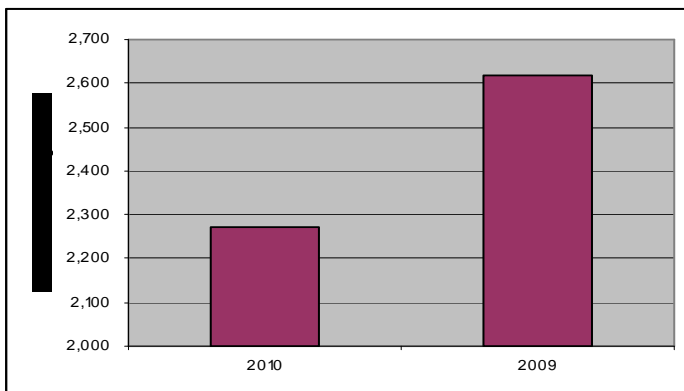
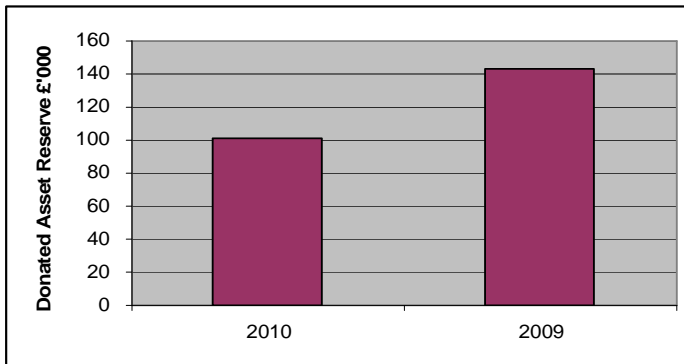
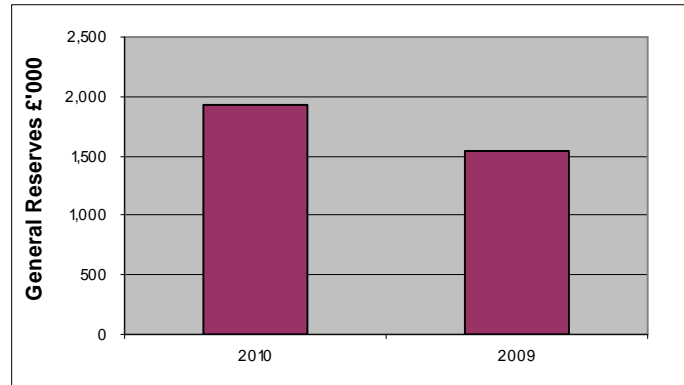
The largest area of spend (62%) is on staff costs. Staff costs have increased in the current year due to the outcome of the staff harmonisation process which resulted in upward salary adjustments and back pay being awarded. Additionally, staff numbers have increased due to the appointment of additional key staff, such as the office manager post.

The second largest area of spend was property costs which totalled £360k. This expenditure ranking is consistent with the prior period (2009: £339k). Expenditure in this category is predominantly rental costs for the office building lease.

We noted that the cost of legal services increased on the prior period by £30k. This reflects the organisation's growth and increased volumes of complaint handling.



2.2 Financial Position as at year end 31 June



General Fund Reserves

Our Audit Approach Memorandum identified SLCC's accounts record over £1.5 million in general reserves.

General fund reserves have increased to £1,924k during the year. The balance is held to meet specific expenditure commitments. A Reserves Policy was developed in the year by the acting CEO and approved by the Board. The policy is based on an agreed reserves level of approximately 4.5 months. This level is generally agreed as an appropriate contingency for any winding up costs in addition to unquantifiable pension costs.

Movement in the donated asset reserve in the year relates solely to depreciation of donated assets.

SLCC's income from the statutory levy has fallen over the current year. The most significant factor in the decline is the £339k decrease in levy income from the Law Society of Scotland. From our Board minute review, it was further noted the Faculty of Advocates are seeking a 50% reduction in levy income for 2010-11. SLCC will have to monitor the level of levy income closely to ensure they continue to generate sufficient income to cover operating costs, therefore ensuring reserves are maintained at a level sufficient to satisfy the reserves policy.

3 Financial Statements

3.1 Introduction

In the conduct of our audit, we have not had to alter or change our audit plan, which we communicated to you in our Audit Approach Memorandum dated 26th February 2010.

Our response to the matters identified at the planning stage are detailed below.

Status of audit

The draft Financial Statements and supporting working papers were presented for audit on the 2 August 2010 and were at a draft stage. This meant that some audit adjustments were required to be made to the accounts.

3.2 Audit opinion

We intend to conclude that SLCC's financial statements give a true and fair view of the financial position for the period from 1 July 2009 to 30 June 2010 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.

3.3 Matters identified at the planning stage and throughout the fieldwork

	Issue	Auditor response
1	<p>Financial position SLCC's accounts records high cash balances and over £1.5 million in the general reserves. SLCC has developed a treasury management policy, but should act to reduce levels of reserves held as cash and 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>We understand this recommendation has been considered by the SLCC Board and the reserves policy has been agreed at the Board meeting of 15 March 2010. The reserves policy agreed by the Board is version 1.00. The intention is to reduce to return the reserve balances to policy target levels. Ideally this would be by the end of the 2010-11 financial year, subject to mitigation of the underlying business risks that contributed to the current levels.</p>

	Issue	Auditor response
2	<p>International Financial Reporting Standards (IFRS) Central government bodies are required to prepare their accounts on the basis of IFRS from 2009-2010. In readiness for this, SLCC prepared full shadow IFRS accounts for 2008-09.</p>	<p>We have carried out a comprehensive review of the draft 2009-10 IFRS accounts against the requirements of the 2009-10 FReM. There were various disclosure points to be amended and no material errors were identified.</p>
3	<p>Donated assets reserve A donated asset reserve was set up in 2009 to represent the assets donated to SLCC from the Scottish Government. This reserve is released to the operating cost statement in line with the depreciation charged on these assets.</p>	<p>We identified that there had been no release from the reserve in the year. We proposed an adjustment of £43k to account for the depreciation charge on the donated asset. This adjustment has been processed through the financial statements.</p>
4	<p>Harmonisation costs In 2009, a harmonisation provision totalling £54k was set up to account for the costs to be incurred in respect of 15 staff transfers. This provision included 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.</p>	<p>We understand that this harmonisation process is now complete and the provision has therefore been released to the operating cost statement.</p>
5	<p>FRS 17: Pension costs 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.</p>	<p>We have obtained a copy of the actuarial report as at June 2010 in respect of the money purchase scheme, and this has been incorporated in to the financial statements, showing a liability of £3,000 and an actuarial loss totalling £15,000.</p> <p>We have reviewed the relevant disclosure requirements and are satisfied that the financial statements have correctly recorded the liability.</p>
6	<p>Ex gratia payment to former CEO Rosemary Agnew was appointed the role of Acting CEO in November 2009 and the former CEO, Eileen Masterman departed from the post in February 2010, with Rosemary Agnew continuing in her role.</p>	<p>We understand that an ex-gratia payment was paid to the former CEO. The amount of this payment was determined through consultation between the former CEO, the Board and the respective lawyers. The payment was then authorised and approved by the Board and the payment approved by the Scottish Government.</p>

4 Best Value and Performance

4.1 Introduction

All public bodies in Scotland have a duty to secure Best Value and continuous improvement. The public sector is facing a period of significant financial austerity, with budget cuts likely to be in the region of 12-20% in real terms by 2013-14.

SLCC is not in the same position as most other bodies in the public sector because they are funded via a levy on the legal profession. The Commission is, however, accountable to key stakeholders and public pressure to deliver services as efficiently and cost effectively as possible means that being able to demonstrate that the organisation delivers Best Value is more important than ever.

4.2 Corporate Planning Processes

The SLCC is in the process of developing its corporate planning arrangements, to link performance against the national framework and strategic objectives with the organisation's resource management and budgets. The Corporate Plan 2010-13 ensures that everything the organisation does is aligned to the strategic aim: *to deal with its responsibilities independently, impartially and to be accessible to all who need to use the Commission's services.*

Key performance indicators (KPIs) have been developed, based on timescales for response for each stage of complaint. The KPIs will become operational in 2010-11 and must be kept under review to ensure that they are challenging but realistic. Good performance information will be critical to the Commission's ability to demonstrate Best Value in its activities.

Refer to Action Plan Point 1

We understand that SLCC has committed to reviewing its performance using the Scottish Government's Best Value Self Assessment toolkit. We will review progress against areas for development in 2010-11.

4.3 Governance

In our Audit Approach Memorandum, we planned to review the Audit and Remuneration Committee (ARAC) arrangements against the requirements within the Scottish Government's *Audit Committee Handbook* to ensure that the Commission is following best practice in this area. Since then, the Commission has undertaken a facilitated self-evaluation of the role of the Committee, supported by internal audit.

The ARAC demonstrated a number of key features recommended by the Audit Committee Handbook, including access to internal and external audit and a significant role in relation to risk management. However, internal audit highlighted that the ARAC was an advisory committee to the Commission, and therefore did not have the status of a full audit committee. The self-evaluation therefore resulted in a number of key changes, including:

- removing the potentially executive functions such as salary review from the Committee's terms of reference. The ARAC has also been reconstituted as a full Audit Committee
- revised terms of reference give the Committee authority to appoint another external member should the need arise. This will allow the Committee to address the lack of specific financial expertise within Committee members, if this is regarded as an issue at a future date.

The role of the Board

The SLCC is unusual for a public board, in that it has a decision-making role on complaints received in addition to its other board functions. This means that the Board has an element of operational role in the fulfilment of the Commission's objectives. In their recent report¹, Audit Scotland note that for boards of public bodies to operate well they must:

- provide leadership to their organisations
- set the organisation's strategic direction within the context of Scottish ministers' policies and priorities
- scrutinise and monitor the organisation's performance
- display integrity in how they behave and how they make decisions
- be open and transparent
- regularly review how they operate
- not become involved in the daily running and operation and running of the organisation.

The Board should use the report's self assessment checklist to review whether they are meeting best practice and operating as effectively as possible.

Refer to Action Plan Point 2

¹ *The Role of Boards*, Audit Scotland, September 2010.

5 Action Plan

	Issue and risk	Assessment	Recommendation
1	<p>Outcome focused indicators</p> <p>The Commission has developed a number of Key Performance Indicators (KPIs) for each stage of complaints. The KPIs are based on timescales and therefore there may be scope to review the limits set, or whether outcome based indicators would give a more realistic picture of performance overall.</p>	Medium	<p>SLCC must keep the current KPIs under review to ensure that they are challenging but realistic. Consideration should be given to developing outcome based indicators that demonstrate how the Commission is delivering its Strategic Aim.</p> <p>Management response:</p> <p>The SLCC recognises the importance of KPI and other outcome focused targets. It will review the KPIs set in relation to complaint handling with a view to implementing appropriately revised (or confirmed) indicators for the 2001/12 operating year. The SLCC will continue to develop and implement indicators across other areas of business including Human Resources, Oversight and Handling Complaints and Communications.</p> <p>Additionally, work already undertaken by the SLCC in relation to Board and Audit Committee development has resulted in output focused reporting and monitoring; an approach that will be strengthened and which will evolve over the coming months.</p>

	Issue and risk	Assessment	Recommendation
2	<p>Role of the Board Checklist</p> <p>Audit Scotland's <i>The role of boards</i> report notes that there is a lack of clarity about the roles of the boards of public bodies, particularly about the extent to which they provide leadership and strategic direction.</p> <p>Audit Scotland has produced a good practice checklist designed to help boards review how effectively they are fulfilling their role.</p>	Medium	<p>The Board should use the report's self assessment checklist to review whether they are meeting best practice and operating as effectively as possible.</p> <p>Management response:</p> <p>The SLCC Board's circumstances are notably different from Boards of many other public bodies. The SLCC Board Members have both executive/governance responsibilities, and operationally based duties in relation to determination of complaints. This means the function of the SLCC's Board is not always directly comparable with other public bodies.</p> <p>The Board has carried out a lot of work on its role and function over the last six months. In response to the initial External Audit Review and again in October 2010 the Board reviewed and reassessed its functioning with a particular focus on its strategic planning, policy development, resource allocation, leadership and performance monitoring duties.</p> <p>Progress will be assessed in February 2011 using the Audit Scotland checklist. The results of this will inform future action and Board development.</p>

6 The small print

Purpose of memorandum

This Key Issues Memorandum has been prepared for the benefit of discussions between Grant Thornton, the Accountable Officer and the Board.

The purpose of this memorandum is to highlight the key issues affecting the organisation's results and the preparation of the financial statements for the year ended 30 June 2010.

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 SLCC.

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 SLCC arising under our audit engagement letter.

The contents of this memorandum should not be disclosed to third parties without our prior written consent.

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

The Accountable Officer 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 Board that she has done so.

The Board is required to review the body's internal financial controls. In addition, the management is 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 Board 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 management.

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:

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	£
Audit 2010	12,000

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected