

# Scottish Legal Complaints Commission

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Scottish Legal Complaints Commission

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# Introduction

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## Summary of planned audit work

**1.** This document summarises the work plan for our 2022/23 external audit of Scottish Legal Complaints Commission (SLCC). The main elements of our work include:

- an assessment of the key controls within the main accounting systems
- an audit of the annual report and accounts, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Governance Statement and the Remuneration and Staff Report
- consideration of arrangements in relation to wider scope areas: financial sustainability; and governance.
- consideration of Best Value arrangements

## Audit Appointment

**2.** We are pleased to be appointed as the external auditor of SLCC for the period 2022/23 to 2026/27.

**3.** In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

**4.** The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

## Adding value

**5.** We aim to add value to SLCC by being constructive and forward looking, by attending meetings of the Audit Committee and by recommending and encouraging good practice. In so doing, we will help the SLCC promote improved standards of governance, better management and decision making and more effective use of resources.

## Respective responsibilities of the auditor and Audited Body

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and the SLCC. Key responsibilities are summarised below.

### Auditor responsibilities

7. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

8. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at the SLCC. In doing this, we aim to support improvement and accountability.

### SLCC responsibilities

9. SLCC is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. SLCC has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

# Financial statements audit planning

## Introduction

**11.** The annual report and accounts are an essential part of demonstrating the SLCC's stewardship of resources and its performance in the use of those resources.

**12.** We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

## Materiality

**13.** The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance that the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

## Materiality levels for the 2022/23 audit

**14.** We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for SLCC are set out below in [Exhibit 1](#).

## Exhibit 1

### 2022/23 Materiality levels for Scottish Legal Complaints Commission

Materiality	Amount
<p><b>Planning materiality:</b> This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been based on our assessment of the needs of the users of the financial statements and the nature of the SLCC's operations.</p> <p>For the year ended 30 June 2023 we have set our materiality at 2 per cent of forecast gross expenditure based on forecast expenditure in the SLCC 2022/23 Levy and Budget.</p>	£77,000
<p><b>Performance materiality:</b> This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be</p>	£54,000

considered. Using our professional judgement, we have assessed performance materiality at 70 per cent of planning materiality.

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<b>Reporting threshold (ie clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£4,000
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Source: Audit Scotland

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## Significant risks of material misstatement to the financial statements

**15.** Our risk assessment draws on our cumulative knowledge of SLCC gained to date, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, and a review of supporting information.

**16.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. As noted in paragraph 3 above, where such changes occur, we will advise management and where relevant, report them to those charged with governance.

**17.** Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. Significant risks are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

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### Exhibit 2

#### 2022/23 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> <li>Assess the design and implementation of controls over journal entry processing.</li> <li>Enquire about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</li> <li>Test journals at the year-end and post-closing entries and focus on significant risk areas.</li> <li>Test journal entries and other adjustments during the period.</li> </ul>

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Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>otherwise appear to be operating effectively.</p>		<ul style="list-style-type: none"> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Assess the controls in place for identifying related party relationships and transactions</li> <li>• Assess the methods and underlying assumptions used to prepare accounting estimates.</li> <li>• Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>• Focussed testing of accounting accruals and prepayments.</li> </ul>
<p><b>2. Risk of material misstatement due to fraud in expenditure</b></p> <p>Practice Note 10 extends the requirements of ISA 240 to include consideration of fraud in expenditure for public bodies.</p> <p>SLCC expenditure includes the category 'other administration expenditure'. In 2021/22, £1.1 million was incurred and consists of a range of expenditure items. As this is in excess of our materiality, there is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Annual Budget approved by Board</li> <li>• POs raised and approved in line with Scheme of Delegation</li> <li>• Monthly Financial Monitoring Reports and reviewed</li> <li>• Limited access to the PO system</li> <li>• Dual Authorisation for all Payments</li> </ul>	<ul style="list-style-type: none"> <li>• Monitoring of the budgetary process and reporting.</li> <li>• Substantive testing of transactions across the financial year, particularly those in the 'other administration category'.</li> <li>• Substantive testing of expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>• Substantive testing of accruals and prepayments.</li> <li>• Consider any relevant internal audit reports.</li> </ul>

Source: Audit Scotland

**18.** As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for the SLCC as the majority of income (97%) is in the form of Levy funding. This is collected by the relevant professional bodies (Law

Society of Scotland, Faculty of Advocates) according to the member numbers on their roll, and predetermined levy bands. We have concluded there is limited opportunity or incentive to manipulate the recognition of income in the financial statements.

**19.** We have not, therefore, incorporated specific work into our audit plan in this area over and above our standard audit procedures.

### Other areas of audit focus

**20.** As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

**21.** The areas of specific audit focus are:

- **Implementation of IFRS 16.** The impact of implementing IFRS 16 is to reclassify leases that were previously treated as operating leases, requiring capitalisation of the underlying assets. All future lease payments will need to be recognised as a Right of Use Asset together with a corresponding lease liability in the Statement of Financial Position. An adjustment will also be required in respect of the opening balance.
- **Estimates and judgements relating to provisions.** The financial statements include accounting estimates in the form of provisions, in particular the legal provision and the dilapidations provision. There is a level of uncertainty attached to these balances due to the degree of estimation involved. As at 30 June 2022 these were valued at £145,000 which is material.

### Wider scope

**22.** The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit and requires auditors to consider the adequacy of the arrangements in place.

**23.** The four wider scope areas are:

- Financial management
- Financial sustainability
- Vision, leadership and governance
- Use of resources to improve outcomes.

**24.** The Code of Audit Practice includes provisions relating to the audit of less complex bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services.



**25.** Due to the nature of the Scottish Legal Complaints Commission, we have concluded that the less complex provision can be applied. We have not identified any risks in relation to the wider scope.

**26.** [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value. We will be carrying out a high-level review to confirm that such arrangements are in place within SLCC.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**27.** Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 3](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**28.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

**29.** We will provide an independent auditor's report to SLCC, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide SLCC and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

**30.** [Exhibit 3](#) outlines the planned dates for our audit outputs.

## Exhibit 3 2022/23 Audit outputs

Audit Output	Planned date	Audit and Risk Committee Date
Annual Audit Plan	31 March 2023	17 April 2023
Independent Auditor's Report	30 November 2023 *	To be confirmed
Annual Audit Report	30 November 2023*	To be confirmed

Source: Audit Scotland

\* These dates represent the date for the independent auditor's report to be signed and the final annual audit report issued. We will provide copies to those charged with governance in advance of the Audit Committee to enable them to be considered.

## Timetable



**31.** To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 4](#) that has been discussed with management.

**32.** Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to return the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

**33.** We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. Progress will be discussed with management and finance officers over the course of the audit.

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### Exhibit 4 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	31 August 2023
Latest date for final clearance meeting with the SLCC	10 November 2023
Agreement of audited and unsigned annual report and accounts	14 November 2023
Issue of Annual Audit Report to those charged with governance	30 November 2023
Independent Auditor's Report Signed	30 November 2023

Source: Audit Scotland

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## Audit fee

**34.** In determining the audit fee, we have taken account of the risk exposure of the SLCC and the planned management assurances in place. The agreed audit fee for 2022/23 is £17,150.

**35.** Audit fees have increased in 2022/23 and this is a reflection of the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

**36.** In setting the fee for 2022/23 we have assumed that SLCC has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes

there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

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# Other matters

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## Internal audit

**37.** It is the responsibility of the SLCC to establish adequate internal audit arrangements. In 2022/23, we are not planning to place formal reliance on the work of internal audit, however we shall review all internal audit reports and assess the impact of the findings on our audit approach.

## Independence and objectivity

**38.** Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

**39.** Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

**40.** The engagement lead for SLCC is Helen Russell, Senior Audit Manager. Auditing and ethical standards require the engagement lead to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of SLCC.

## Audit Quality

**41.** Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

**42.** Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

**43.** Audit Scotland is committed to delivering high quality audits. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supplementary guidance) issued by Audit Scotland and approved

by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

**44.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

# Scottish Legal Complaints Commission

## Annual Audit Plan 2022/23

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

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