External Audit Report 2015/16

LGSS Law Limited

January 2017

Contents

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Section one: Introduction

Introduction

This document summarises the key issues identified during our audit of the financial statements for the year ended 31 March 2016 for the Company.

Scope of this report

This report summarises the key findings arising from our audit work at LGSS Law Limited ('the Company') in relation to the Company's 2015/16 financial statements.

Financial statements

Our *External Audit Plan 2015/16*, presented to you in August 2016, set out the four stages of our financial statements audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

This report focuses on the third and fourth stages of the process: substantive procedures and completion of the audit. Our on site work for this took place during August and September 2016.

We have now completed the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Company.

Our recommendations are included in Appendix one.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

KPMG

Section two: Headlines

Headlines

This table summarises the headline messages for the Company. Sections three and four of this report provide further details on each area.

Audit opinion	We issued an unqualified audit opinion on the Company's financial statements on 14 December 2016.
Audit adjustments	Our audit identified one significant audit adjustment to recognise the Local Government Pension Scheme obligation and the corresponding reimbursement asset. The impact of this adjustment and other non-material adjustments led to the following amendments being made: — decrease in total comprehensive income as at 31 March 2016 of £13k; — recognition of the Provision for Liabilities and Charges for the pension fund liability of £466k; — recognition of reimbursement asset in current assets of £466k; and — recognition of pension costs, actuarial gains and corresponding indemnity reimbursements which netted to nil impact in total comprehensive income. We have included a full list of audit adjustments above our reporting threshold at Appendix two. All of these were adjusted by the Company. We have raised a number of recommendations in relation to the matters highlighted above, which are summarised in Appendix one.
Key financial statements audit risks	We identified the following key financial statement audit risks in our 15/16 External Audit Plan issued in August 2016, in addition to the risks required by professional standards: — completeness of income; and — first year accounting period. We have worked with officers throughout the year to discuss these key risks and our detail findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in these key risk areas.

Headlines (cont.)

This table summarises the headline messages for the Company. Sections three and four of this report provide further details on each area.

Accounts production and audit process	We received an initial set of draft accounts on 08 July 2016. However these accounts had not applied the appropriate accounting standards. We received revised accounts compliant with FRS 102 accounting standards on 22 July 2016. The accounting for the LGPS obligation added further delays to finalising the financial statements as it required amended actuary reports and significant adjustments to the accounts. We received revised financial statements on 22 November 2016 that included the LGPS recognition and disclosures, as well as supporting actuarial reports. As a first year accounting period a number of financial reporting issues were identified. We have worked with management to amend these areas for the final financial statements, although this contributed to the delay in completion of the accounts and the audit process. We have detailed in Appendix two our recommendations to improve financial reporting and the efficiency of the audit process. We will debrief in more detail with the Practise Manager (Finance) to also share views on the final accounts audit.

Section three: Financial Statements

Audit opinion and audit differences

Our audit has identified one audit adjustments to recognise the Pension Fund obligation and asset.

A number of smaller non material audit adjustments have been identified and have been corrected by management.

Audit opinion

On 14 December 2016 we issued an unqualified audit opinion on the Company's financial statements following approval of the Financial Statements by the Board at the Annual General Meeting held on 28 November 2016.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix two for more information on materiality) level for this year's audit was set at £100,000. Audit differences below £5,000 are not considered significant and are not be reported to those charged with governance.

Our audit identified one significant audit difference, which we set out in Appendix two in relation to the recognition of the LGPS Pension Liability and Asset. This was adjusted in the final version of the financial statements.

We did not identify further material misstatements. We identified a number of issues above our reporting threshold which have been corrected by management in the final version of the financial statements. These have also been detailed in Appendix two.

The tables on the right illustrate the total impact of audit differences on the Company's Statement of Comprehensive Income for the year and Balance Sheet as at 31 March 2016.

Statement of Comprehensive Income 2015/16			
£m	**Pre-audit**	**Post-audit**	***Ref (App.2)***
Profit/Loss on ordinary activities before taxation	18	(181)*	1&2
Other comprehensive income	-	187*	
Total Comprehensive Income for the Period	**18**	**5**	

Balance sheet as at 31 March 2016			
£m	**Pre-audit**	**Post-audit**	***Ref (App.2)***
Tangible Assets	1	1	
Current assets	3,493	3,981*	*1*
Current liabilities	(2,526)	(2,561)	*2*
Long term liabilities	(950)	(950)	
Provision for Liabilities	-	(466)*	
Net assets	**18**	**5**	
Profit and loss accounts	18	5*	*1&2*
Total reserves	**18**	**5**	

* These balances have been impacted by the recognition of the LGPS liability and reimbursement asset as detailed on Page 21 of this report.

Significant audit risks

We have worked with the Company throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were the Fraud risk of revenue recognition and Management override of controls.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

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Fraud risk from revenue recognition

— Risk

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

There are some contracts which LGSS Law Ltd is required to deliver services on and therefore a fraud risk from revenue recognition has been identified as significant in this area.

— Findings

We have undertaken substantive testing over income, including income with shareholders and third parties. We have agreed income to supporting invoices and cash receipts. We have also separately considered the risk over the completeness of income and have performed substantive procedures to mitigate the risk detailed on page 12.

Management override of controls

— Risk

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We have not identified any specific additional risks of management override relating to this audit.

— Findings

Due to the change in systems and finance staff during the financial year we have not placed reliance on any controls in place at the company and have therefore taken substantive approach in our audit testing.

Significant audit risks (cont.)

We have worked with the Company throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16*, presented to you in August 2016, we identified the significant risks affecting the Company's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Company.

Completeness of Income

— Risk

In addition to the Fraud risk of revenue recognition we have also identified a risk over the completeness of income. LGSS Law has used several accounting systems during the year as well as a separate case management system. From this we have identified a risk over the completeness of income recognised in the year. We have identified the following key elements to the risk:

– Income is not recognised from all systems used during the year and therefore not complete.

– Income from cases worked on but not invoiced at 31 March 2016 are not recognised in the year.

— Findings

In order to mitigate the risk we have performed additional substantive testing for cases worked during October and November, the months following Agresso and prior to the implementation of the Quill system. These were deemed as being the higher risk cases which may not have been billed. No issues were identified from this testing.

We also performed 'cut-off' testing over cash received following the year-end to verify it was included in the appropriate financial year.

Significant audit risks (cont.)

We have worked with the Company throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

First year accounting period

— Risk

This is the first year company accounts have been required. Management will need to identify the appropriate accounting standards applicable to the company and produce the Financial Statements under those standards. The standards will be those required under Companies Act 2006 which will be less familiar to management. Management will also need to consider and adopt appropriate accounting policies for the company and ensure all relevant disclosures are included as per the elected accounting standards.

— Findings

We have undertaken in-depth Assistant Manager, Manager and Director reviews of the financial statements and worked with the company's management to make changes required in order to meet FRS102 financial reporting standards and Companies Act 2006 requirements. We also used a separate team member to undertake a full disclosure checklist review of the accounts to ensure compliance with these standards. Finally, we consulted with our technical team over the accounting for the pension liability and reimbursement asset, given the complex and unusual nature of the pension arrangement. All changes identified through these processes have been amended by management in the final Financial Statements.

Accounts production and audit process

Issues and delays were identified in relation to the financial reporting process and the recognition of the LGPS obligation and reimbursement asset. A recommendation has been raised in Appendix two.

We found some variation in the quality of client working papers and a recommendation has been raised in Appendix two to improve this process.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Company's accounting practices and financial reporting. We also assessed the Company's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	This was the Company's first trading year and therefore the first year they are required to produce audited financial statements. There were a number of issues identified in the financial reporting process and a number of significant amendments required to the first draft accounts received. These included: – Application of FRS102 financial reporting standard; – Consideration of Pension obligation accounting; and – Presentation of Financial Statements. We received an initial set of draft accounts on 08 July 2016. However these accounts had not applied the appropriate accounting standards. Revised accounts were received on 22 July 2016. The accounting for the LGPS obligation added further delays to finalising the financial statements as it required amended actuary reports and revised accounts to be produced. We received revised financial statements on 22 November 2016 that included the LGPS recognition and disclosures. Despite the delays, the accounts were signed prior to the statutory deadline. We have raised a recommendation (Recommendation one) in Appendix two regarding the accounting practises and financial reporting process to aid the Company in making improvements for future years .
Quality of supporting working papers and response to audit queries	Our *Accounts Audit Protocol*, which we issued on 08June 2016 and discussed with Practise Manager (Finance), set out our working paper requirements for the audit. We found the working papers could not always be clearly reconciled to the financial statements. In addition, the quality of working papers provided was variable and we needed to request certain information a number of times. Officers resolved the majority of audit queries in a reasonable time. In some cases, however, we experienced delays, specifically where further evidence required input from the shareholding authorities relating to transactions prior to the Practise Manager (Finance) being in post and implementation of LGSS Law's Quill system. We have raised a recommendation (Recommendation three) in Appendix two to improve efficiency and reduce the time taken to conduct the audit.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Company's financial statements.

A signed management representation letter was received prior to us providing our opinion.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of LGSS Law Limited for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and LGSS Law Limited, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix four in accordance with ISA 260.

Management representations

The Board are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. The Management representation letter was signed by the LGSS Law Limited Executive Director on 14 December 2016.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.

Appendices

Appendix 1: Key issues and recommendations

Appendix 2: Audit differences

Appendix 3: Independence and objectivity

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Company should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations					
❶	***Priority one***: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷	***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸	***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	❶	**Financial Reporting process** During the audit we identified the following issues with the company's financial reporting process: – Failure to consider applicable financial reporting standards in producing the draft accounts; – Senior officer review of the draft financial statements occurred after their submission to external audit; and – Late consideration of significant accounting issues. **Recommendation** The company should undertake a review of the financial reporting process for 2015/16 and incorporate 'lessons learnt' into the process for the 2016/17 financial year. In particular this should incorporate the use of the new system to be implemented during 2016/17.	**Management response** A full review will be undertaken of the 2016-17 financial reporting process. The LGSS Law Practice Manager (Finance) will engage with the Head of Business Planning & Finance and the Integrated Closedown Team in this review. Closer working between the LGSS Law Practice Manager (Finance) and LGSS Finance has taken place across the 2015/16 audit process and will continue to be built on for 2016/17 and future years. **Responsible Officer** LGSS Law Practice Manager (Finance) **Due date** 30/04/2017

Key issues and recommendations (cont.)

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
2	1	**Tax considerations for the Company** As part of our audit we identified a number of potential tax risks. Although, we were informed that advice had been taken there was no formal documentation of the risks considered and mitigations put in place. In future years LGSS Law is expected to make profits and therefore the potential for more significant tax liabilities to arise will be greater. It is therefore important that management considers all relevant tax legislation and puts appropriate measures in place to ensure compliance. We have audited the corporation tax provision in the Financial Statements and verified it is materially correct. However, we have advised management that further work is required for submission of the annual return to HMRC. **Recommendation** The company should ensure that they take appropriate advice where applicable to ensure an accurate return is submitted to HMRC that complies with all legislative requirements. Management should also ensure they regularly consider relevant tax risks to the Company to ensure they continue to maintain compliance and have a supporting trail to support their decisions in case of HMRC investigation.	**Management response** Tax Planning advice was taken and although there was no formal documentation, the risks were considered and mitigations put in place. At the same time issues such as Tekal were considered. More formal tax planning will take place in future years as the company grows. It is reassuring that the KPMG tax experts consider the 2015/16 tax calculation to be materially correct and consider their timely submission to be important. **Responsible Officer** LGSS Law Executive Director, LGSS Law Practice Manager (Finance) & LGSS Finance Director **Due date** 31/03/2018
3	2	**Audit working papers** During the course of the audit we found difficulties in following some working papers and reconciling the working paper to the value in the Financial Statements. Due to the Finance team's knowledge of the system there were breakdowns in working papers provided that we were unable to follow as a third party and therefore required further explanation by management. **Recommendation** The Company should ensure that a second finance team member reviews the working papers produced to ensure their accuracy and that they can clearly be followed and reconciled to the Financial Statements.	**Management response** See 1 above. The LGSS Law Practice Manager (Finance) will be working more closely with the LGSS Finance team and this will extend to the approach to working papers including quality assurance. **Responsible Officer** LGSS Law Practice Manager (Finance) & LGSS Close Down team **Due date** 31/05/2017

Key issues and recommendations (cont.)

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
4	2	**Accuracy of Payroll recognition** When we performed a reconciliation of the payroll values recognised in the General Ledger and the value paid to employees we identified a difference of £31k. This was corrected in the Financial Statements however highlighted an underlying issue between the data provided by the LGSS Payroll team and the value journaled into the General Ledger. **Recommendation** The Company should undertake a monthly reconciliation between the employee payroll data and the information journaled into the General Ledger. This will identify errors on a timely basis and allow the company to investigate these with LGSS Payroll.	**Management response** The Company has been working with the payroll department to increase the frequency and accuracy of the information provided to process and this work will continue. **Responsible Officer** LGSS Law Practice Manager (Finance) & LGSS Payroll Team **Due date** 31/03/2017
5	2	**Approval of Accounting Policies** The Company's accounting policies have not been approved by the Board during the year or during the accounts production process. This should be carried out to ensure there is appropriate challenge to the policies used as well as the key judgements made by management. **Recommendation** The Board should approve the company's accounting policies annually, including any changes made to the accounting policies or judgements.	**Management response** As noted in Recommendation 8 the company has increased its administrative resource and formalised the Board Meeting process. During its first year of operation the company faced and overcame many challenges in which the Board were actively involved. It is anticipated that the environment in which the Company is operating will stabilise in the Company's third year when the Board will be able to consider in more detail both the Accounting policies and wider Governance issues. **Responsible Officer** LGSS Law Board **Due date** 31/03/2018

Key issues and recommendations (cont.)

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
6	2	**Services provided by shareholding authorities** As part of the set up of LGSS Law there was an agreement between the Company and the two shareholding authorities that they would provide use of the authority buildings, IT infrastructure and licenses. However, there is no agreement in place that confirms the cost of these services to the Company as well as the level of service expected under this agreement. **Recommendation** The Company should put in place signed Service Level Agreements between the company and the authorities that states the level and quality of service expected and also the price to be paid by LGSS Law. This will also provide more robust audit evidence to support intercompany costs.	**Management response** Agreed. The company and LGSS Finance are working together to ensure that proper Service level agreements are in place. Care is being taken to determine the appropriate level of service required and cost of the service, together with continuity arrangements should the service not be delivered. **Responsible Officer** LGSS Law Practice Manager (Finance) & LGSS Finance Director **Due date** 31/03/2017

Key issues and recommendations (cont.)

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
7	❸	**Accuracy of year-end calculations** During the audit we identified two errors in the Bad Debt Provision as well as an error in the reporting used to accrue Work in Progress ('WIP') at the year-end. Although the error in the WIP reporting did not identify a material issue it was a deficiency that could lead to a more significant error in the future. **Recommendation** The Company should review their closedown process to ensure the appropriate WIP report is used. This will lead to the correct value being recognised in accrued income at the year-end. This process should also include a review by a second finance team member of key judgemental areas, such a bad debt provision, to ensure the accuracy of the calculation.	**Management response** Agreed. Group training on the Financial Processes has been introduced for all Fee Earners which emphasises the importance of prompt time recording. The Company has also produced two weekly reports circulated to all staff showing fee earner recorded hours and expect the Company's Management to act upon those who are not recording on a prompt basis. The company will work with the LGSS Finance on those matters which need additional review outside of the LGSS Law Ltd team, please see the comments to Recommendation 1. **Responsible Officer** LGSS Law Practice Manager (Finance) & LGSS Close Down team **Due date**
8	❸	**Board Papers and Minutes** As part of our audit we review the minutes and papers that are submitted to the Board. We understand from management that there were regular Board meetings after the Company commenced trading on 01 April 2015 however the first set of Board papers and minutes available were for the August 2016 Board meeting. **Recommendation** The Company should ensure that all Board meetings are minuted and these should be held along with the Board Papers to provide robust evidence of the Company's governance.	**Management response** An increase in the administration staff within the company has enabled a formalisation of the Board Meeting process to take place. Agendas papers and minutes are tabled and recorded and all are readily available for relevant parties to view. **Responsible Officer** LGSS Law Executive Director **Due date** Completed

Audit differences

This appendix sets out the audit differences.

The financial statements have been amended for all of the errors identified through the audit process.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Uncorrected audit differences

We are pleased to report that there are no uncorrected audit differences.

Corrected audit differences

Material misstatements

Recognition of Pension Fund Obligation and Asset

Following the TUPE of staff from Northamptonshire County Council and Cambridgeshire County Council LGSS Law also took on the liability of these employees from 1 April 2015. An indemnity agreement was signed by both authorities which then created a Pension Asset for the same value as the liability, recognising the fact that both authorities would meet all obligations arising from the pension schemes. As a result of this, the following IAS19 Defined Benefit Pension Scheme transactions were recognised:

- ‘Provision for liabilities’ representing the liability of the two funds;
- ‘Pensions Asset’ in current creditors representing the indemnity provided by the two authorities;
- Actuarial Gains/Loss in Statement of Other Comprehensive Income (‘OCI’) representing the changes in underlying assumptions; and
- Interest and current service costs in the Statement of Comprehensive Income (‘SOCI’).

Note: All IAS 19 entries were reversed through OCI due to the indemnity provided by the shareholding authorities.

Net impact on financial statements						
No.	**Profit/loss**	**OCI**	**Assets**	**Liabilities**	**Reserves**	**Element of Pension recognition**
1				Cr £466k	Dr £1,066k	Pension deficit.
2	Dr £225k	Cr £825k				Remeasurement of the Pension Deficit
3			Dr £466k		Cr £1,066k	Council indemnity
4	Cr £38k	Dr £638k				Remeasurement of Council indemnity
	Dr £187k	**Cr £187k**	**Dr £466k**	**Cr £466k**	**nil**	**Total impact of adjustments**

Audit differences (cont.)

This appendix sets out the audit differences.

The financial statements have been amended for all of the errors identified through the audit process.

Non material audit differences

The following table sets out the significant audit differences identified by our audit of LGSS Law Limited's financial statements for the year ended 31 March 2016.

Impact						
No.	**Income**	**Expenditure**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
1		Cr Administrative expenses £31k	Dr Trade Debtors £31k			The general bad debt provision incorrectly included VAT and double counted the debt for Northampton Partnership Homes.
2		Dr Cost of Sales £23k		Cr Current Liabilities £23k		The payroll costs value recorded in the Financial Statements did not reconcile to the value per the payroll records.
		Cr £8k	**Dr £31k**	**Cr £23k**		**Total impact of adjustments**

Materiality and reporting of audit differences

For 2015/16 our materiality is £100,000 for the Company's accounts.

We have reported all audit differences over £5,000 for the Company's accounts.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2015/16, presented to you in August 2016.

Materiality for the Company's accounts was set at £100,000 which equates to around 2 percent of total turnover. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Company Board and Joint Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Company Board and Joint Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Company, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £5,000 for the Company.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Company Board and Joint Committee to assist it in fulfilling its governance responsibilities.

Declaration of independence and objectivity

Communicate all significant facts and matters that bear on KPMG LLP's independence and objectivity and to inform you of the requirements of ISA 260 (UK and Ireland) Communication of Audit Matters to Those Charged with Governance.

Integrity, objectivity and independence

Professional ethical standards require us to communicate to you in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgment, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of Andrew Cardoza and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of LGSS Law Limited for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP, LGSS Law Limited, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards requirements in relation to independence and objectivity.

Audit Fee

Our audit fee for 2015/16 was £24,500 plus VAT (£22,900 in 2014/2015, in addition to £33,000 fees billed to date with regards to work undertaken in order to respond to the objection raised in 2014/15).

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