



NORTHERN IRELAND
Legal Services
Commission

Annual Report and Financial Statements
For the year ended 31 March 2010



Northern Ireland Legal Services Commission

Annual Report and Financial Statements for the year ended 31 March 2010

Report presented to Parliament pursuant to Schedule 1 paragraph 15(3),
Accounts presented to Parliament pursuant to Schedule 1, paragraph 17(5),
of the Access to Justice (Northern Ireland) Order 2003.

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Our Mission and Aim

The Commission will promote fair and equal access to justice in Northern Ireland in its provision of publicly-funded legal services.

Our aim is to provide high quality, customer focussed services that target those in greatest need and demonstrate value for money.

Foreword

On behalf of the Board of the Northern Ireland Legal Services Commission (the “Commission”), we are pleased to present the Annual Report and Accounts for 2009/10 which record the operational and financial targets achieved in that year.

The Commission remains committed to the provision of publicly funded legal advice, assistance and representation to those who could not otherwise afford such services and in circumstances where such help is most needed. It is also clear that decisions on whether to grant legal aid in particular cases should be taken on a fair and impartial basis, independently of government or any sectional interest. We believe this approach to be of central importance in a modern democracy.

The Commission believes that the Access to Justice (NI) Order 2003 (AJO) provides a framework for the reform of civil legal aid that will enable priorities to be determined and will enhance our ability to secure the delivery of quality, targeted services within a finite budget. Reforms of criminal legal aid which are under way and planned have similar objectives.

The Commission welcomes the devolution of policing and justice. We look forward to working with our sponsor, the Department of Justice (DoJ), in reforming and delivering publicly funded legal services thereby contributing to an effective, efficient justice system and to the Programme for Government of the Northern Ireland Executive.

Devolution will provide real opportunities for joint working across organisational and departmental boundaries. We will continue to work closely with those whom we pay to provide legal services, primarily the private sector legal profession, but also the voluntary sector.

Devolution will also present a number of challenges which the Commission will endeavour to address, drawing on the professionalism and dedication of both staff and Commissioners.

i) Response to challenge

The Commission is committed to embracing the opportunities and challenges that will be presented by the devolution of responsibility for justice to a local administration. While budgetary challenges will be evident in the next few years, the need for greater efficiencies in the way the Commission works and meets its responsibilities, will result in a complete re-engineering of certain functions within the Commission and a fundamental review of the use of resources.

ii) Access to Justice Review

On 15 November 2010, the Minister of Justice published two consultation documents by the review team carrying out the Review of Access to Justice in Northern Ireland. The documents titled “the Agenda” and “the Discussion Paper” were the basis for a consultation exercise in which views were sought, through written submissions and meetings, by the end of January 2011. A Progress Report was published in March 2011 while the aim of the review is to produce a final report by the end of September 2011.

The Commission will also seek to enhance its co-operation with those public bodies that instigate and respond to legal proceedings and those that provide or fund advice services. This will help ensure that, where possible, issues that might result in legal aid being granted are avoided or resolved at an early stage, to the benefit of the individuals concerned and the public purse.

While it is important to look back and review the achievements throughout 2009/10 it is also important to look to the future and rise to the challenges ahead.

iii) NI Executive budgets 2011/2015

The DoJ announced on 23 December 2010 its draft (Resource and Capital) budget allocation for the four year period 2011/12 to 2014/15. The proposed draft budget was issued for consultation. Following this consultation process a further budget report was published on 15 March 2011 with the following allocations:

NILSC	2010/11	2011/12	2012/13	2013/14	2014/15
Budget Allocation	£104.2m	£83.9m	£83.4m	£75.2m	£75.0m

The savings established for the period 2013 to 2015 will present significant challenges to the overall work of the Commission.

Management Commentary

1. The Commission's Business

The Commission was established on 1 November 2003 through the commencement of certain articles in the AJO 2003. The Commission assumed responsibility for the administration of Legal Aid in Northern Ireland from the Legal Aid Department of the Law Society of Northern Ireland. Since its creation and throughout 2009/10 the Commission was a Non Departmental Public Body (NDPB) sponsored by the Northern Ireland Court Service (NICtS).

When policing and justice functions in Northern Ireland were devolved to the Northern Ireland Assembly (NIA) on 12 April 2010, the Commission became a NDPB of the DoJ. While the newly constituted Northern Ireland Courts and Tribunals Service (NICTS), which replaced the NICtS, is now an agency of the DoJ, it continues to act as the sponsor body for the Commission. The Commission is responsible for applying statutory tests to determine whether an individual should receive civil legal aid; it also pays for the legal services provided. While the judiciary are responsible for granting individuals criminal legal aid, the Commission pays for the legal services provided. In addition to administering the legal aid scheme, the Commission is tasked with reforming civil legal aid, which is currently heavily focused on securing court based resolution to issues. The Commission is taking forward the reform of civil legal aid to ensure that legal aid expenditure is more focused on priority areas, delivering the right solutions to individual problems. The Commission continues to work closely with the NICTS on the reform of criminal legal aid.

The Commission will seek to provide demand-led access to the civil and criminal

justice systems within its budget allocation. In 2009/10 the Commission and the Courts authorised some 84,100 approvals for assistance funded by legal aid. In 2008/09 the corresponding figure was some 80,800 approvals.

2. The Board

The work of the Commission is overseen by a Board of Commissioners. The Board Members, as set out below have experience in or knowledge of providing services in civil and criminal matters, the work of the courts, consumer affairs, social conditions and governance, including financial accounting.

The following members served on the Board during the year to 31 March 2010.

Mr Jim Daniell
(Chairman, resigned 13 September 2010)

Mr Les Allamby

Mrs Fiona Donnelly

Mr Joseph Donnelly

Ms Breidge Gadd CBE

Dr Jeremy Harbison CB

Mr Wilson Matthews

Mrs Hilary McCartan

Mr Micheal McCoy

Mrs Gillian McGaughey

Mr Ronald Spence CB
(appointed Interim Chair 13 September 2010)

The Commission works to a Corporate Governance Framework which sets out the Commission's committee structure and Scheme of Delegation. During 2009/10 the Commission worked through the Access to Justice Committee, the Service Delivery Committee, the General Purposes Committee and the Audit and Risk Committee.

These committees, chaired by members of the Commission and attended by management, are charged with overseeing the operational, policy development and administrative functions of the Commission.

3. Senior Executives

Mr Gerry Crossan was Chief Executive of the Commission until 31 July 2009. Mr Paul Andrews served as Interim Chief Executive of the Commission (and Commission's Accounting Officer) from 24 August 2009 to 31 January 2010. On 1 February 2010 Mr Andrews was appointed as Chief Executive of the Commission through an external competition. The day to day work of the Commission is managed by the Chief Executive and its Executive Directors. The three Executive Directors, are the Director of Policy and Civil Service Delivery, the Director of Criminal Defence Services and the Director of Corporate Services.

4. Statutory Background

The Accounts of the Commission for the financial year ended 31 March 2010 have been prepared in accordance with paragraph 17 of Schedule 1 to the AJO 2003.

The Commission is required to keep separate financial statements for the Legal Aid Fund (the Grant) and for the net expenditure of the Commission (the Grant-in Aid). The financial statements have been prepared on the

accruals basis of accounting. The Commission is a body corporate as set out in paragraph 1 of Schedule 1 to the AJO 2003.

5. Devolution of policing and justice functions

On 9 March 2010, the political parties in Northern Ireland agreed that policing and justice functions should devolve to the Northern Ireland Assembly (NIA) on 12 April 2010. During the period up to the date of devolution, the Commission complied with the corporate governance and accountability framework arrangements issued by HM Treasury, including Managing Public Money.

The Annual Report and Accounts of the Commission for the year ended 31 March 2010 relate entirely to the period before devolution and will be laid in Parliament. References continue to be made in this report to the NICTS as it then was, and the office of the Lord Chancellor as the parent organisations of the Commission during the reporting period.

When policing and justice functions in Northern Ireland were devolved to the NIA on 12 April 2010, the DoJ was established as a new Northern Ireland Department by the Department of Justice Act (Northern Ireland) 2010. From this date, the Commission became a NDPB of the DoJ. As such, it now complies with the corporate governance and accountability framework arrangements issued by the DoJ and also guidance issued by the Department of Finance and Personnel (DFP), including Managing Public Money Northern Ireland. The Annual Report and Accounts for years ending 31 March 2011 and onwards will be laid in the NIA.

6. Principal Activities

Since its establishment, the Commission and NICtS have been engaged in preparations for the commencement of the remaining articles in the AJO 2003, which provides the statutory basis for further reform of publicly-funded legal services in Northern Ireland.

Publicly-funded legal services help those people who need assistance to deal with problems that affect them most. Civil legal aid funds legal services for people of small or moderate means who could not otherwise afford to litigate, provided that they can show sufficient cause for being party to proceedings, and it is not reasonable to expect them to proceed unrepresented. It also funds the provision of legal advice and assistance to eligible people, either free at the point of service, or upon payment of a contribution. Criminal legal aid provides legal advice, assistance and representation to people who face criminal charges and funds legal advice from a solicitor at police stations. There are no contributions payable in Criminal cases.

NICtS funds the running costs of the Commission through a Grant-in-Aid allocation and the expenditure of the Commission on criminal and civil legal aid through a Grant.

The key activities of the Commission are:

- (a) considering applications for civil family and non-family legal aid;
- (b) assessing claims for civil and criminal legal aid, including advice and assistance;
- (c) developing and implementing a programme of reform in civil legal aid, and in conjunction with the NICtS, implementing reformed procedures in criminal legal aid;
- (d) making payments and reporting on the expenditure in relation to civil and criminal legal aid;
- (e) maintaining and developing the systems, procedures and relationships which support these key activities; and
- (f) an appeals function comprising:
 - An Appeals Committee dealing specifically with appeals against the refusal of civil legal aid.
 - A Fees Assessment Committee advising on appeals against the assessment of claims for work done under civil legal aid certificates.
 - The Appropriate Authority, a Committee established under the Legal Aid in Criminal Proceedings (Costs) Rules (NI) 1992, which continues to determine claims made for work done in criminal proceedings and related appeals where the Criminal legal aid certificate was granted prior to April 2005.

(g) an audit and risk function comprising:

- The Commission's Audit and Risk Committee is supported in its statutory oversight role by an internal audit service provided by a firm of recognised and approved practitioners and also by the range of work undertaken by the external auditors. The Committee provides an effective challenge function to the work of the Commission and ensures appropriate reporting of all relevant risk and assurance matters to both the Board and other agencies as necessary. Audit areas included within the internal audit reporting remit are, procurement procedures, debt control, budgetary control, provisioning and bank and cash controls. The Committee also provides a corporate oversight of all of the Commission's activities, and through its activities, provides an overarching level of corporate governance.

During 2009/10 the Commission further developed procedures for processing claims under the Legal Aid for Crown Court Proceedings (Costs) Rules (NI) 2005. Under these rules the Commission may grant certificates in relation to Very High Cost Cases (VHCC) and where it does, the assessment of any claims in relation to these certificates is carried out by the Taxing Master (an independent judicial officer) and the Commission makes payment on foot of the Master's determination.

In addition to the key activities above the Commission continues to address the following issues:

- Ongoing budgetary challenges;

- Responding to the Access to Justice Review; and
- Implementing the Policy Reform Programme.

7. Research & Development

During 2009/10, the Commission continued to progress key elements of the reform programme in pursuance of the objectives set for the Commission by the Lord Chancellor on its establishment. This included:

- (a) further research and consultation into potential alternatives to the current arrangements for funding money damages cases under civil legal aid;
- (b) the development of evidence-based research to underpin the development of the Northern Ireland Funding Code and revisions to the financial eligibility tests for applicants for legal aid; and
- (c) a consultation was undertaken on the development of Community Legal Services in December 2007, ending in March 2008. The responses to the paper will form the basis for development of legal advice and information services provided through pilots funded by the Commission under the AJO. This work is a vital step on the path of the implementation of the AJO 2003. The development of Community Legal Services (along with other reforms the Commission is developing) will help achieve the objective of ensuring that within the resources made available to the Commission, the people of Northern Ireland will have access to Civil Legal Services.

The Commission continued to develop its business assurance model during 2009/10, developing its corporate and business risk registers in support of improvements in service delivery and the development of the reform programme.

8. Future Developments

During 2009/10, the Commission made further progress in preparing for commencement of the remaining articles of the AJO 2003 namely the implementation of the Northern Ireland Funding Code and revised financial eligibility tests for applicants. It is expected that the legislation to commence these articles will come before the Assembly during 2011/12. In relation to the reform of Criminal Legal Aid, the Commission continues to work closely with, and support, NICTS with this project.

On 13 September 2010, the Minister of Justice published two consultation documents “the Agenda” and “the Discussion Paper” which set out the scope of a review into Access to Justice in Northern Ireland. The Commission provided a positive and constructive response to this Review in respect of both documents on 3 February 2011.

9. Events after the Reporting Period

On 12 April 2010, the Commission became a NDPB of the DoJ, reporting to the DoJ through the newly established NICTS. Point 5 of the Annual Report on the Devolution of Policing and Justice functions refers.

The 2009/10 financial statements have been prepared on the basis that the Commission was a NDPB of the NICTS for the entire financial year and these accounts will be laid in Parliament. There is no impact on the

2009/10 financial statements arising from the transfer of functions to the NIA on 12 April 2010.

The Government announced in the Emergency Budget on 22 June 2010 that future pension increases in public sector schemes will be linked to the Consumer Price Index (CPI), rather than the Retail Price Index (RPI). Traditionally the actuarial method of calculating the NILGOSC scheme has utilised RPI. The change to CPI, which is traditionally lower than RPI, will be reflected in the accounting treatment in the 2010/11 financial statements.

The provisional assessment by the Taxing Master in respect of the legal representatives involved in the Omagh Civil action was notified on 21 June 2011. This initial assessment has reduced the provisions balance by £3.68m at the Statement of Financial Position date. The Commission has restated its provision balances to reduce same by this value to reflect this provisional assessment. The provisional assessment has been appealed.

10. International Financial Reporting Standards (IFRS) adoption

The Commission has prepared these accounts in compliance with the IFRS guidance issued by HM Treasury. This is the first year of reporting the Commission’s accounts under IFRS.

11. Equality of Opportunity

The Commission is fully committed to ensuring that there is equal opportunity of employment in its service, and that individuals are recruited, trained and promoted on the basis of their ability, aptitude for the work and the requirements

of the job. The Commission recognises equality of opportunity between:

- persons of different religious belief, political opinion, racial group, age, marital status or sexual orientation;
- between men and women generally;
- between persons with a disability and persons without; and
- between persons with dependents and persons without.

12. Employee Involvement

The Commission formally communicates and negotiates with its staff on issues and changes to terms and conditions of employment through the Joint Consultative and Negotiating Committee. This committee is made up of management and members of the Northern Ireland Public Service Alliance, which is the recognised union representing the interests of staff.

Senior management meet regularly to contribute to the corporate planning process, and discuss any other aspects of business arising. Managers hold regular section and team meetings with staff to communicate the Commission's plans, receive feedback, and give staff the opportunity to contribute to the planning process. The Commission is committed to improving communications with staff.

During 2009/10 the Commission published weekly staff bulletins and held a communications forum with a view to quality assure the communication processes within the Commission.

13. Training

In 2009/10, 98 (2008/09: 87) training events representing 211 (2008/09: 284) training days were attended by staff. The Commission not only focuses on "on-the-job" training, specific to a job role, but also on the broader skills required to work in and manage a modern, challenging environment. Training opportunities have been taken up by all grades and across all directorates.

14. Health & Safety

The Commission is committed to providing for staff an environment that is, as far as possible, safe and free from risk to health. In line with this commitment, the Commission has complied with the relevant legislation.

15. Managing attendance

The average day's sick absence per employee for the year 1 April 2009 to 31 March 2010 was 14.4 days (12.2 days in 2008/09). This is further broken down over long term and short term absence as follows:

- Long Term (a spell of 28 days or longer) - An average of 4.7 days per employee (2.8 in 2008/09)
- Short Term (less than 28 days) - An average of 9.7 days per employee (9.4 in 2008/09)

The increase in average days' sick absence from 2008/09 was mainly due to the increase in long term absence. The Commission is working to address this.

16. Pension Schemes and Liabilities

The Commission contributes to the Northern Ireland Local Government Officers' Superannuation Scheme (NILGOSC), membership of which is optional for employees. In line with the requirements of International Accounting Standard (IAS) 19: Employee Benefits, the 2009/10 financial statements reflect the Commission's proportion of the pension deficit in the NILGOSC scheme.

A small number of retired members of staff remain on a legacy pension scheme; the Law Society of Northern Ireland Retirement Benefits Scheme, the National Provident Life (NPI) pension scheme. The NPI scheme was established to provide pensions for staff of the Legal Aid Department but was closed to new entrants in 1998 when the majority of members transferred to the NILGOSC Scheme. The assets within the NPI scheme are considered adequate to fully fund the accrued rights of remaining members. The Commission continues to progress the winding up of this fund.

Details of these pension schemes and the impact of applying IAS 19 are disclosed in note 4 to the grant in aid account.

17. Going Concern

The Commission operates as a going concern, in spite of significant net liabilities. The liabilities of the Commission relate to its obligation to pay legal costs against legal aid certificates issued. The Commission is financed from resources voted by Parliament up to 12 April 2010 and in the future will be financed from resources voted by the NIA.

18. Non-current Assets

The movement of non-current assets during the year is set out at notes 9 and 10 to the Grant in Aid account. There were no significant changes during the year.

19. Prompt Payment

With respect to grant in aid costs, the Commission aimed to pay all properly authorised invoices in accordance with the terms of the relevant contracts or within 30 days. Reviews conducted to measure how promptly the Commission paid its bills found that 89% of bills were paid within this standard, (2008/09:83%).

On 8 October 2008, the then Prime Minister indicated that all central Government Departments should pay suppliers as soon as possible with the aim of bringing forward all payments to within 10 days. Following the guidance issued by Gus O'Donnell (Cabinet Secretary) on 17 November 2008, the Commission commenced the process of revising internal timescales for the processing and payment of invoices. Additional payment cycles were introduced from April 2010 and the Commission is aiming to report against the 10 day target in the 2010/11 accounts.

Payment of legal aid grant is exempt from the Better Payment Practice Code.

20. Receipts

Applicants for legal aid funding by the Commission may be required to make a contribution towards their legal costs. Generally, these are paid in instalments. They are shown as contributions by assisted persons in the financial statements.

Under Article 12 of the Legal Aid, Advice and Assistance (Northern Ireland) Order 1981, the Commission has a first charge on money or property recovered or preserved during civil proceedings for which a certificate has been issued, where the expenditure incurred on legal aid exceeds any contributions made and costs paid. Statutory Charge and Exemptions are commented on fully at point 4 on page 35.

21. Charitable Donations

As a public body, the Commission has not made any charitable donations.

22. Board Member Responsibilities

The responsibilities of the Board Members are set out in the Management Statement which was issued by the NICtS in March 2007. They have corporate responsibility for ensuring that the Commission complies with any statutory requirements for the use of public funds.

23. Auditors

The financial statements up to and including 2009/10 have been audited by the Comptroller and Auditor General (C&AG) in accordance with the AJO 2003. He is Head of the National Audit Office (NAO). He and his staff are wholly independent of the Commission and he reports his findings to Parliament. The audit of the financial statements for 2009/10 resulted in an audit fee of £70,000 (2008/09 £70,000). This fee is included in grant in aid administration costs, as disclosed in note 5 in the grant in aid account. The C&AG did not provide any non-audit services during the year.

24. Disclosure of Audit Information

So far as the Accounting Officer is aware, there is no relevant audit information of which the Commission's auditors are unaware. The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information, and to establish that the Commission's auditors are aware of that information.

25. Risk Management and Register

The Commission has maintained a risk register for a number of years. This is continually updated and monitored throughout the year.

26. Statement on Information Risk

The Commission monitors and assesses its information risks, in order to identify and address any weaknesses and ensure continuous improvement of its systems. A Project Team, established in April 2009, has taken forward a review of the internal systems to ensure compliance with the Cabinet Office Frameworks and the development of best practice. From the work of this Project Team an action plan has been developed to address any weaknesses and recommended improvements. This action plan is being taken forward by a cross organisational group, which has been formed to address all aspects of information risk. The group meets on a quarterly basis and is chaired by the Director of Corporate Services. There is a particular emphasis on IT information risk with the letting of the new Managed Services Contract. Guidance thereon is being provided by the DOJ.

An incident occurred involving the incorrect e-mailing of a limited number of remittance advices to several solicitor firms. At no stage were actual payments at risk. The Director of Corporate Services apologised to the firms involved and met with the systems supplier to ensure revised processes were implemented to prevent any reoccurrence. The issue was identified promptly and remedial action taken immediately to address the error.

There were no incidents of loss of protected personal data during 2009/10 which required reporting to the Information Commissioner's Office.

27. Commission Members Interest

Details of company directorships and other significant interests held by Commission members are set out within the related party disclosures at note 17 in the Grant account and note 20 in the Grant in Aid account. The Commission maintains a Register of Interests which is updated as required, and in addition, any conflicts of interest are declared by the Board members at each meeting. Access to the Register of Interests may be gained by contacting the Secretary to the Commission.

28. Environmental and Sustainability Initiatives

The Commission remains committed to the purchase of services that are environmentally friendly, and goods which can be recycled where possible, in an energy-efficient way. The recycling of significant numbers of printer and copier toner cartridges is an example of this ongoing commitment. During the reporting period, an Environmental & Sustainability working group was formed amongst staff members, to examine initiatives for waste recycling, purchase of

recycled paper products, paper reduction through greater use of double-sided printing, wider use of e-mail to external stakeholders and opportunities to conserve energy.

29. Social and Community Issues

The Commission continues to develop and implement a communications strategy in support of the transformation programme. The main purpose of this strategy is to ensure that access to justice is available to those in greatest need, but who cannot afford legal assistance, while simultaneously ensuring that the Commission can live within its budget allocation and deliver a range of public services fit for today's needs.

Under its programme of transformation and reform, the Commission has targeted the following areas;

- Implementation of a Funding Code;
- Simplified and transparent financial eligibility framework;
- Improved administration of applying the Statutory Charge;
- A registration scheme for providers of legal services;
- The development of a network of civil legal service providers and advisers;
- Development of alternative dispute resolutions;
- Arrangements for managing money damages cases; and
- Introduction of Standard Fees.

Operating and Financial Review

1. Funding

The Commission was funded by Grant and Grant in Aid funding provided by the NICtS.

2. Results for the Year

For the financial year to 31 March 2010 the Commission received Grant funding of £95,490k (2008/09:£80,022k) and Grant in Aid funding of £7,510k (2008/09:£6,961k). Net Grant expenditure after the cost of capital charge and interest for the year totalled £83,343k (2008/09:£69,899k) and Net Grant in Aid expenditure after the cost of capital charge and interest totalled £8,099k (2008/09:£7,170k restated). The increase in Net Grant Expenditure in 2009/10 of £13,444k has arisen from an increase in Civil Legal Aid expenditure of £6.7m (21%) and Criminal Legal Aid expenditure of £6.7m, (16.0%). The number of cases progressed in 2009/10 also increased by 3,300 (4.1%) over 2008/09. In addition to the increase in activity there were substantial increases in the number and value of Very High Cost Cases (VHCCs) and interim payments. Expenditure in VHCCs increased from £17.5m in 2008/09 to £28.4m in 2009/10. At 31 March 2010, the Commission also had outstanding Provisions for Liabilities and Charges of £107,357k (31 March 2009: £115,459k) in respect of grant. This is the Commission's estimate of the cost of the work completed at the year end but not yet billed. In terms of resource, the difference between Grant Funding of £95,490k and Grant Expenditure of £83,343k derives, in the main, from a Cost of Capital figure of £3,921k and a decrease in Provisions of £8,102k.

3. Operating Performance in the Year

The Grant funding received from the NICtS is used in a variety of ways. There are 5 main strands of legal aid which cover both civil and

criminal cases. Outlined below are the various ways in which legal advice, assistance and representation is provided under the existing legal aid scheme; namely:

(a) Legal Advice and Assistance (LAA)

This scheme is popularly known as the "Green Form" scheme and allows an individual to obtain legal advice from a solicitor on a point of Northern Ireland law. This scheme requires the individual applicant's financial eligibility to be assessed by a solicitor and can involve the applicant paying a contribution. While it covers a significant volume of cases (there were 32,300 approvals for assistance in 2009/10), the average costs are relatively small, in 2009/10 Green Form accounted for 4% of total legal aid expenditure (i.e. £3.9m in 2009/10).

(b) Assistance By Way of Representation (ABWOR)

This is an extension of the Advice and Assistance scheme and allows the solicitor to institute proceedings on behalf of the assisted person in court (normally civil matters or matters relating to children). This scheme involves individual applicant's financial eligibility being assessed, and can involve the applicant paying a contribution. There were 3,600 approvals for assistance in 2009/10. In 2009/10 ABWOR accounted for 2% of total legal aid expenditure (i.e. £1.9m in 2009/10).

(c) Children Order

This is a form of ABWOR dealing exclusively with cases brought under the Children Order, primarily in the Family Proceedings Court. This scheme involves individual applicant's financial eligibility being assessed and can involve the applicant paying a contribution.

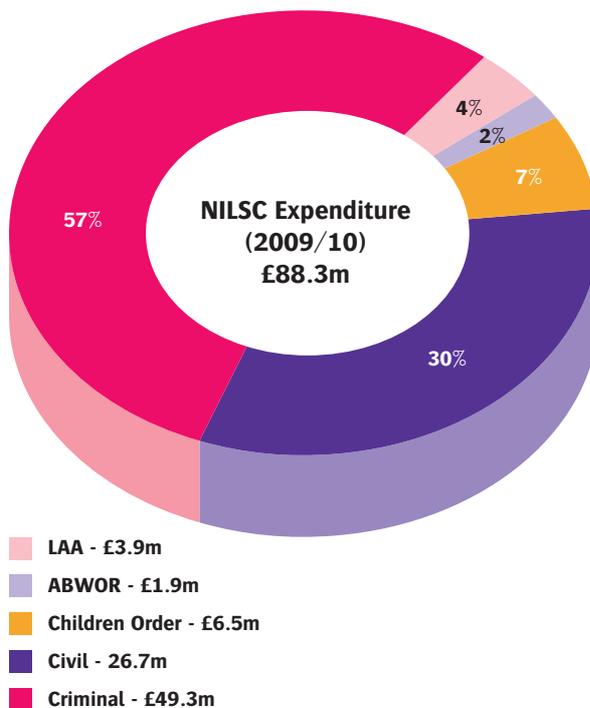
There were 6,500 approvals for assistance in 2009/10. In 2009/10 Children Order costs accounted for 7% of total legal aid expenditure (i.e. £6.5m in 2009/10).

d) Civil Legal Aid

Civil Legal Aid provides legal representation in civil court proceedings, primarily in the County Court and High Court. Civil Legal Aid allows someone to obtain legal representation by a solicitor and barrister, either to bring, or to defend a court case. This scheme involves individual applicant’s financial eligibility being assessed, and can involve the applicant paying a contribution. There were 8,400 approvals for assistance in 2009/10. In 2009/10 Civil Legal Aid was the second largest area of legal aid expenditure accounting for 30% of total expenditure (i.e. £26.7m in 2009/10).

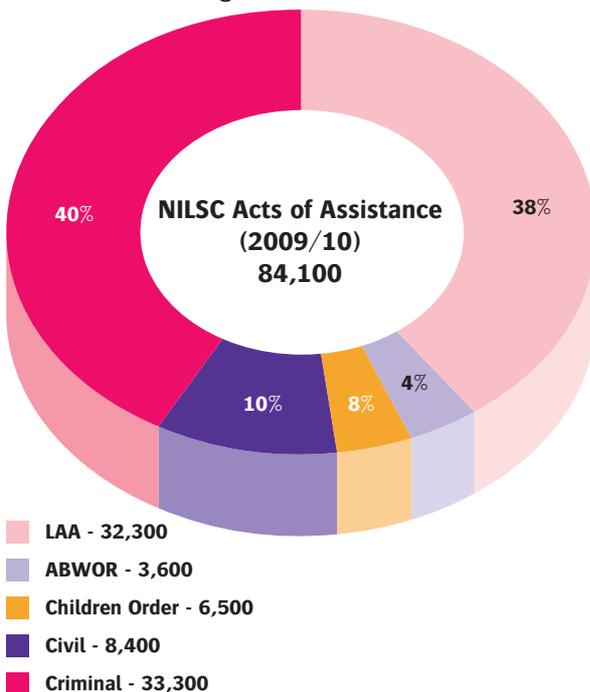
(e) Criminal Legal Aid

Criminal Legal Aid provides free legal representation by a solicitor and barrister to defend someone charged with a criminal offence in the Magistrates’ Court or the Crown Court. Individual financial eligibility is assessed by the judiciary, who grant criminal legal aid if it is in the interests of justice to do so. There were 33,300 approvals for assistance in 2009/10. In 2009/10 this was the largest area of legal aid expenditure, accounting for 54% of the total legal aid budget (i.e. £49.3m in 2009/10).



The above diagram provides an illustration of the operating expenditure on legal aid in 2009/10.

The diagram below provides an illustration of the volume of legal aid cases in 2009/10.



4. Business Plan

The financial year 2009/10 is the sixth full year since the Commission came into existence. This commentary will begin by highlighting the key achievements in this period under three strategic themes as set out in the 2009/10 Business Plan.

Strategic Theme 1 **Improving the delivery of existing services**

The Commission exists to provide access to justice to those most in need, when they need it most. Access to justice is provided mainly by a network of solicitor practices located throughout Northern Ireland and by members of the Bar Council in Northern Ireland instructed by solicitors in legally aided cases.

Since its establishment on 1 November 2003, staff within the Commission have continued to adjudicate on applications for civil legal aid, provide authorities for disbursements in civil and criminal cases and process claims for payment in both civil and criminal cases. The importance of prompt accurate payment to the legal profession is well understood by staff within the Commission, and this is one of the main drivers for the introduction of standard fees. It is important to note that where standard fees have been introduced, the processing and payment backlogs, which have been a feature of the legal aid environment in Northern Ireland, have diminished.

In order to improve processing times, challenging targets were set by the Commission for civil and criminal legal aid in 2009/10. These targets did not include parallel work streams undertaken by staff to reduce service delivery backlogs. It is

important to note that targets set were met in most instances.

Strategic Theme 2 **Reform of publicly funded legal services**

In addition to improving the efficiency of service delivery processing, the Commission was charged by the Lord Chancellor with developing and delivering a challenging reform programme, in order to bring control and predictability to the civil legal aid fund. The legal aid budget is currently demand-led, and increases in costs are not specifically volume driven. The reform programme, led by the Commission, is mainly focused on civil legal aid with reforms to criminal legal aid being led by the NICTs. In 2009/10, the Commission made continued progress with key elements of the reform programme including:

- (a) Publication of the Northern Ireland Funding Code.

Four papers were input to the NILSC internet portal (www.nilsc.org.uk). The papers addressed:
 - (i) The procedures relating to the Northern Ireland Funding Code.
 - (ii) The criteria relating to the Northern Ireland Funding Code.
 - (iii) The findings of the Equality Impact Assessment carried out to support the development of a Northern Ireland Funding Code.
 - (iv) The findings of the Regulatory Impact Assessment carried out to support the development of a Northern Ireland Funding Code.

(b) Application of the Statutory Charge.

Three papers were input to the NILSC internet portal (www.nilsc.org.uk). The papers addressed:

- (i) Statutory Charge Draft Equality Impact Assessment.
- (ii) Statutory Charge Consultation Overview.
- (iii) Substantive changes to the operation of the Statutory Charge as defined in the Legal Aid (General) Regulations (Northern Ireland) 1965

In June 2010, an Initial Regulatory Impact Assessment paper in support of applying the Statutory Charge was input on the NILSC internet facility.

(c) Application of proposed miscellaneous amendments to the Legal Aid (General) Regulations (Northern Ireland) 1965.

(d) Application of the Legal Aid (General) (Amendment No.2) Regulations (Northern Ireland) 2010.

During 2009/10 the Commission continued to fund a contract with the Law Centre (NI) that covered the provision of assistance and services in relation to immigration and asylum issues in Northern Ireland, deal with some related casework, and provide training and support to other service providers in this specialised and complex area. The funding of the Law Centre in this way has been an important step in giving effect to the Commission's commitment to a mixed model (legal services provision by providers from the private and voluntary sectors) of service delivery for legal aid in Northern Ireland.

In addressing both a reform and service delivery challenge the Commission introduced a non- statutory standard fee regime to facilitate prompt payment for Children Order cases processed in the Family Care Centre. This payment mechanism addressed a long standing absence of a remuneration mechanism that could deal with a significant backlog of cases in a short timescale. This was the earliest example of a standard fee in civil legally aided cases and has provided a template that will be drawn upon as the payment of standard fees increases in the civil jurisdiction.

During 2009/10, the Commission made further progress in the preparations for commencement of the remaining articles in the AJO 2003. The commencement date is likely to be 2011.

The Commission is very aware of the importance of communication with the legal profession, and to this end continues to work closely with the Law Society and Bar Council. Specific consultative forums have also been established with representatives from the not for profit advice sector such as the Law Centre, Housing Rights Service, Advice Northern Ireland and Citizens Advice. A Civil Legal Services Stakeholder Forum has also been established, which includes representation from the judiciary, Law Society, Bar Council, Children's Law Centre, Children's Commissioner and Northern Ireland Guardian Ad Litem Agency.

During 2009/10, the Commission kept a watching brief on the issues leading to the devolution of justice powers in Northern Ireland which took place on 12 April 2010. On this date justice powers were transferred as planned from Parliament to the NIA.

Strategic Theme 3 **Strengthening Governance Arrangements**

The Commission continued to develop all aspects of its corporate governance and business assurance models during 2009/10. The Commission also continued to develop its corporate and business risk registers in support of improvements in service delivery and the development of the reform programme.

The Commission faced a number of fundamental challenges to its key corporate governance processes. During 2009/10 and post year end, in line with its corporate governance objectives, the Commission achieved the delivery of the following results:

- (a) The Business Plan for 2009/10 was published in June 2009.
- (b) Accounts for 2003/04 and 2004/05 were laid before Parliament in June 2009
- (c) Accounts for 2005/06 were laid in March 2010.
- (d) Accounts for 2006/07 were laid in July 2010 and 2007/08 in November 2010.
- (e) Accounts for 2008/09 were certified on 18 March 2011 and laid 5 April 2011.
- (f) NILSC maintained its ISO 9001 registration status.
- (g) The Commission also received from Internal Audit a satisfactory, independently assessed Annual Assurance status.

The Commission continued the review of its overall risk management policy throughout 2009/10. The Commission took action under this policy to analyse and define the risk to financial management posed by unreformed legal aid legislation, and also to develop a joint financial risk management approach between the Commission and the NICtS, in its role as the sponsoring body for the Commission, and as the body responsible for criminal legal aid policy. The Commission continued to develop its project management processes around the reform programme, and to identify the risks to this programme. These risks were, and continue to be, mainly around resourcing the reform programme and ensuring that the Commission has the skills and experience, in a relatively small organisation, to deliver on fundamental reform of the legal aid provision in Northern Ireland.

The funding of legal aid in year and the forecasting of it for future years remained a challenge during 2009/10, and the Commission worked closely with the NICtS throughout the year, to manage the Comprehensive Spending Review process.

The Commission has an Audit and Risk Committee, which also acts as the business assurance and risk management committee. The Commission has received detailed reports, together with recommendations for the improvement of the Commission's system of internal control and risk management. A key issue for the Audit and Risk Committee was the late completion of the financial accounts and annual reports. Significant advances in 2009/10 have resulted in a position where the financial reporting of NILSC should return to more timely reporting timeframes for 2010/11.

5. Financial Review and Landscape Review

The Commission received the Landscape Review report in the final quarter of 2007/08 and prepared a detailed action plan to address the recommendations in the review. During 2009/10 the Action Plan continued to be reviewed and monitored by the Board. The Review and Action Plan are available for review on the Commission's website.

6. Key Performance Indicators

Each year the Commission sets a series of Key Performance Indicators (KPIs). These are designed to help the Commission work towards meeting its Strategic Objectives, and ensure that the Commission maintains fair access to justice.

While the KPIs will vary from year to year, there are some which will remain as constant measures, thereby ensuring a sustainable legal aid scheme, through targets on the Commission's finances.

The following tables illustrate the Commission's performance against the pre-defined key performance indicators for the 2009/10 financial year.

Target description	Target performance	Actual performance achieved
Criminal		
Make payment on claims paid under Crown Court Rules (excluding claims citing exceptionality)	75% within 6 weeks 90% within 16 weeks	81% within 6 weeks 96% within 12 weeks
Make authorisations of payment for claims paid under Magistrates Court 1992 Rules	75% within 12 weeks 90% within 20 weeks	1992 Rules- 77% within 6 weeks 91% within 12 weeks

Target description	Target performance	Actual performance achieved
Civil		
Make a decision on applications for (non-emergency) civil legal aid	50% within 12 weeks 80% within 20 weeks	46% within 12 weeks 65% within 20 weeks 80% within 36 weeks
Make a decision on applications for emergency civil legal aid	90% within 3 days	87% within 3 days 91% within 5 days
Make payment on non direct authority claims in civil legal aid	75% within 12 weeks	88% within 6 weeks 91% within 12 weeks
Make payment on direct authority claims in civil legal aid	75% within 6 weeks	96% within 6 weeks 98% within 12 weeks

Target description	Target performance	Actual performance achieved
Assistance by Way of Representation (ABWOR)		
Make a decision on applications for ABWOR	95% within 3 days	94% within 3 days 96% within 6 days
Make payments on claims for ABWOR	75% within 6 weeks	88% within 6 weeks

Target description	Target performance	Actual performance achieved
Children Order		
Make a decision on applications in relation to Children Order proceedings	95% within 3 days	93% within 3 days 96% within 7 days
Make payments on claims under time and line assessment	75% within 12 weeks	75% within 14 weeks
Make payments on claims under standard fee remuneration	75% within 6 weeks	51% within 6 weeks 61% within 12 weeks 75% within 53 weeks

Target description	Target performance	Actual performance achieved
Legal Advice and Assistance (LAA)		
Make payment on claims for Legal Aid and assistance (Green Form)	75% within 6 weeks	37% within 6 weeks 76% within 11 weeks

In a number of the KPIs above, the Commission's performance in registering and adjudicating on cases, in general, took longer than the target timeframes envisaged by the Commission. The different degrees of complexity in cases mean that in some categories, it is not realistic to provide for 100% achievement within a particular target time. However, management information on the longer running cases is kept under review, in order to ensure that these cases are processed as quickly as possible.

Payment performance by comparison was slightly ahead of the thresholds established by the Commission in almost all of the categories listed above.

In addition to the performance indicators above, the Commission also publishes additional performance statistics on its website www.nilsc.org.uk.

Remuneration Report

Remuneration Policy

Unless otherwise stated below, officials employed by the Commission hold appointments which are open-ended until they reach the normal retiring age. Staff members are appraised annually against a set of competencies and individually targeted objectives. Bonuses, which form only a small percentage of total salaries, are the only form of remuneration subject to performance conditions. In the financial year to 31 March 2010, Board members' remuneration was determined by the Lord Chancellor.

Committee Members

Committee members are remunerated for time spent on Commission duties. They receive fees and reimbursements of expenses only, with no pension contributions and no other benefits. Committee members form a pool of advisors that support corporate governance and independence of decision making by the Commission in respect of the provision of Legal Aid. Their primary purpose is to service the appeals function within the Commission.

During 2009/10, 37 Committee Members provided professional oversight across a range of the Commission's activities, which covered both civil and criminal cases. The following committees were in operation throughout 2009/10:

- Civil Appeals;
- Special Committee;
- Criminal Defence Services Advisory Panel;
- Appropriate Authority Committee; and
- Fees Assessment Committee

Commissioners (Audited)

Commissioners are remunerated for time spent on Commission duties. They receive a salary and reimbursements of expenses. Commissioners do not receive bonuses. The Commissioners operate as a non-executive board. Total remuneration for Commissioners during the year is given below.

Commissioners		2009/10 £'000 Salary	2009/10 £'000 Benefit in kind	2008/09 £'000 Salary	2008/09 £'000 Benefit in kind
Mr Jim Daniell (Chairman)	Appointed 12 Nov 2007; Resigned 13 Sep 2010	65-70	10-15	65-70	10-15
Mr Les Allamby*	Appointed 28 July 2003; Resigned 31 July 2011	10-15	0-5	15-20	0-5
Mrs Fiona Donnelly	Appointed 1 Sep 2006; Re-appointed 1 Sep 2009	15-20	0	15-20	0
Mr Joseph Donnelly	Appointed 1 Sep 2006; Re-appointed 1 Sep 2009	10-15	0-5	10-15	0-5
Ms Breidge Gadd CBE*	Appointed 28 July 2003; Re-appointed 1 Aug 2011	10-15	0-5	10-15	0-5
Dr Jeremy Harbison CB*	Appointed 28 July 2003; Re-appointed 1 Aug 2011	15-20	0-5	15-20	0
Mr Wilson Matthews	Appointed 1 Sep 2006; Re-appointed 1 Sep 2009	15-20	0-5	10-15	0-5
Ms Hilary McCartan	Appointed 1 Sep 2006; Re-appointed 1 Sep 2009	10-15	0-5	10-15	0
Mr Miceal McCoy*	Appointed 28 July 2003; Re-appointed 1 Aug 2011	20-25	0-5	20-25	0-5
Mrs Gillian McGaughey	Appointed 10 Feb 2009	10-15	0	0-5	0
Mr Ronald Spence CB (Interim Chair)*	Appointed 28 July 2003; Re-appointed 1 Aug 2011	15-20	0-5	10-15	0-5

* Five Commissioners were re-appointed on 1 February 2011 for a further period of 6 months. (Their previous appointments were extended by 18 months from 1 August 2009).

Four of the five Commissioners have now been re-appointed from 1 August 2011.

Salary

Salary costs are stated on an accrued basis and include basic remuneration and also remuneration in respect of additional days worked.

During 2009/10 and 2008/09 basic remuneration for the Chairman was £40k - £45k and for the Commissioners was £10k to £15k.

Benefits in Kind (Commissioners)

The monetary value of benefits in kind paid to Commissioners covers any benefits provided by the Commission and treated by HM Revenue and Customs as a taxable emolument. Approved expenses on Commission business include mileage claims, parking, taxis, flights and trains.

Chief Executive and Directors (Audited)

Details are given below of salary and pension entitlement of the Chief Executive and other senior management.

			Real increase in pension and related lump sum at age 65 years	Accrued pension and related lump sum at age 65 years			Real increase in CETV after adjustment
Name and title	Salary 2010	Salary 2009			CETV at 31/03/10	CETV at 31/03/09	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Mr Paul Andrews, Chief Executive	10-15 (75-80 full year equivalent)	-	0-2.5 plus 0-2.5 related lump sum	0-5 plus 0-5 related lump sum	2	-	2
Dr Theresa Donaldson, Director of Policy & Civil Service Delivery	65-70	70-75	0-2.5 plus 0-2.5 related lump sum	10-15 plus 35-40 related lump sum	241	226	10
Mrs Sheila McPhillips, Director of Criminal Defence Services	45-50 (50-55 full year equivalent)	-	0-2.5 plus 0-2.5 related lump sum	20-25 plus 65-70 related lump sum	462	431	35
Mrs Josephine Kelly, Director of Corporate Services	45-50 (55-60 full year equivalent)	-	0-2.5 plus 0-2.5 related lump sum	5-10 plus 10-15 related lump sum	74	-	74
Mr Gerry Crossan, Chief Executive	25-30 (85-90 full year equivalent)	85-90	0-2.5 plus 0-2.5 related lump sum	25-30 plus 75-80 related lump sum	467	452	6

Mr Paul Andrews served as Interim Chief Executive of the Commission (and Accounting Officer) from 24 August 2009 to 31 January 2010. While on secondment from NICtS, Mr Andrews total salary costs were £48k. On 1 February 2010, Mr. Andrews was appointed as Chief Executive of the Commission through an external competition.

Dr. Theresa Donaldson was appointed Director of Policy and Service Development on 13 September 2004. On 1 September 2007 Dr. Donaldson took up the combined role of Director of Policy and Service Delivery. On 24 August 2009 Dr. Donaldson was appointed Director of Policy and Service Delivery and Civil Service Delivery. Dr. Donaldson left the Commission on 30 November 2010.

Mrs Sheila McPhillips was appointed as Director of Criminal Defence Services from 21 September 2009.

Mrs Josephine Kelly was appointed Director of Corporate Services from 1 June 2009.

Mr Gerry Crossan was appointed as Chief Executive of the Commission in October 2003 and he took up the position with the establishment of the Commission on 1 November 2003. He remained in his role until 31 July 2009. Mr Crossan was paid a gross settlement amount of £175k in August 2009.

Ms Lesley Johnston was appointed to the temporary role of Finance Director from 7 November 2006 to 8 June 2009 through secondment from the NICtS. Her salary costs were met by the NICtS and as such details are not disclosed above. A charge of £15k was incurred for 2009/10 by the Commission in

respect of Ms Johnston's basic salary costs (£60K 2008/09). In addition £3k was incurred for 2009/10 by the Commission in respect of Ms Johnston's accruing superannuation liability charges (pension costs) and £1k in respect of earnings related national insurance.

Salary

'Salary' includes gross salary, performance pay or bonuses, overtime and any other allowances to the extent that they are subject to UK taxation.

Benefits in Kind (Senior Management)

Senior management did not receive any taxable benefits in kind.

Pension Benefits

The pension benefits of the senior management team and employees are provided through the Northern Ireland Local Government Officers' Superannuation Committee Scheme (the NILGOSC Scheme). This is a funded scheme which provides benefits on a 'final salary' basis at a normal retirement age of 65 years. Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years pension is payable on retirement. Commission employees contribute to the NILGOSC scheme at a rate of 1.5% of pensionable earnings. During 2009/10 employer contributions were made at a rate of 20.5% (includes an additional 4.5% contributed on behalf of employees).

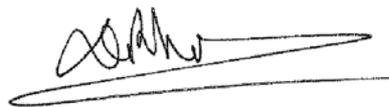
Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the NILGOSC Pension Scheme arrangements, and for which a transfer payment has been received, commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme, at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries, and do not take account of any actual or potential reduction of benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement), and uses common market valuation factors for the start and end of the period.



Paul Andrews
Chief Executive
23 August 2011

Statement of the Northern Ireland Legal Services Commission and the Chief Executive's Responsibilities

In the year to 31 March 2010 the NICtS was responsible to Parliament for the proper and efficient use of monies voted for the cost of the Grant in Aid funded operations and the Legal Aid Fund. The NICtS exercised these responsibilities through the Department's Principal Accounting Officer, who has designated me, the Chief Executive of the Commission, as the Commission's Accounting Officer. From 12 April 2010, the responsibility for the NICtS and the Commission transferred to the Northern Ireland Assembly (NIA).

As the Commission's Accounting Officer, I am answerable to Parliament for the Commission's expenditure. I have personal responsibility for the propriety and regularity of the public finances for which I am answerable; for the keeping of proper accounting records; for preparing financial statements for the Grant in Aid funded operations and the Legal Aid Fund; for prudent and economical administration; for the avoidance of waste and extravagance; and for the efficient and effective use of all the resources in my charge. I have responsibility for good management of public money in relation to the fund and grant in aid expenditure, to ensure that the income and expenditure presented in the accounts had been applied to the purposes intended by Parliament, and for ensuring that the Commission's officers fully understood the principles which they should apply to expenditure, and the authorities which govern them. From 12 April 2010, my responsibility to Parliament transferred to the NIA in respect of the matters above.

I act in accordance with a range of certain general and specific responsibilities, and with other instructions and guidance issued periodically by the NICtS, the HM Treasury and the Cabinet Office - in particular the

HM Treasury's NDPB Accounting Officer guidelines in Managing Public Money. From 12 April 2010, the Commission was governed by guidance issued by the DoJ and DFP in Northern Ireland.

I have the personal duty of signing the Commission's statement of accounts and the further duty of being a witness before the Committee of Public Accounts from time to time to deal with questions arising from the statement of accounts, or from reports made to Parliament by the Comptroller and Auditor General (C&AG) under the National Audit Act 1983.

Under paragraph 17(1) of Schedule 1 to the AJO 2003, the Commission is responsible for keeping the books of account and for preparing each financial year a statement of accounts. The C&AG will audit the statement of accounts and the Commission will lay before Parliament a copy of the statement of accounts and the C&AG's report on them. Accounts from the financial year 2010/11 onwards will be laid in the NIA.

I am also responsible for ensuring that appropriate controls are in place to protect the integrity of the Commission's Internet site. This includes ensuring that there are reasonable controls to guard the accuracy and completeness of the annual report document (incorporating the audited 2009/10 accounts) that is available to the public on the Commission's website.

Statement on Internal Control

Scope of Responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Commission's policies, aims and objectives, whilst safeguarding the public funds and Commission's assets for which I am personally responsible. This is in accordance with the responsibilities assigned to me in Managing Public Money and in particular 'The Responsibilities of an NDPB Accounting Officer'. From 12 April 2010, this responsibility devolved to the DoJ and NIA.

In 2009/10 the Commission was an NDPB of the NICtS. The Board of the Commission has a corporate responsibility for ensuring that the Commission fulfilled the aims and objectives set by the Lord Chancellor and for promoting the efficient and effective use of resources by the organisation. I, as Accounting Officer, in agreement with the NICtS, established the organisation's corporate and business plans in light of the Commission's wider strategic aims. I advise the Board on the Commission's operating and financial performance and ensure that its governance responsibilities could be discharged in accordance with established criteria. The relationship between the Commission and the NICtS was formalised in an agreed management statement and financial memorandum, and was informed by relevant Dear Accounting Officer letters.

The Purpose of the System of Internal Control

The system of internal control was designed to manage risk to a reasonable level, rather than to eliminate all risk of failure, to achieve policies, aims and objectives. It could therefore only provide reasonable, and not

absolute, assurance of effectiveness. The system of internal control was based on an ongoing process designed to identify and prioritise the risks to the achievement of the Commission's policies, aims and objectives, to evaluate the likelihood of those risks being realised, and the impact, should they be realised, and to manage them efficiently, effectively and economically. The system of internal control in place during the year to 31 March 2010, was further developed by the Commission in the subsequent accounting periods. It remains in place up to the date of approval of the Annual Report and Accounts, and accords with HM Treasury risk management guidance.

The Board exercises strategic controls over the operation of the organisation, through a system of corporate governance which includes:-

- a scheme of delegation which delegates decision making within set parameters;
- standing orders; and
- the establishment and operation of a Committee structure including an Audit and Risk Committee

Capacity to Handle Risk

As Accounting Officer, I have responsibility for ensuring that a robust risk management framework is in place to ensure that risks faced by the Commission are managed, and that appropriate control systems are in place.

Since The Commission's inception on 1 November 2003, the role of the Audit and Risk Committee has been to support the Board and Accounting Officer, by reviewing the comprehensiveness, reliability and integrity of assurances on the system of

internal control, and providing oversight of risk management. The Committee is made up of four members from the Commission's Board, who have a range of skills and experience relevant to the key areas of financial management, risk, governance and internal control. Attendance of non-members is by invitation and will normally include the Chief Executive (in his role as Accounting Officer), the Director of Corporate Services, the Business Assurance Manager, the Internal and External Auditors and a representative from the sponsor body. The Chairman of the Commission, other Directors, managers or staff members may be invited to attend as required.

The Risk and Control Framework

A risk management policy for the Commission was issued in December 2003 and has been subject to several updates, the latest being May 2007. During 2009/10 the Commission employed suitably qualified external consultants to undertake the internal audit function. During this time, the Commission's internal auditors gave the Commission satisfactory assurance in relation to the Commission's risk management framework. The Commission continues to take forward the appropriate processes and policies for risk management, namely:

- a corporate risk register to identify the risks threatening to impact upon the achievement of the Commission's objectives;
- a risk control framework to support the departmental and corporate risk registers; and

- detailed statements of assurance from senior managers providing formal declarations on their respective business areas.

Through the introduction of these initiatives, risks and associated controls can be identified, managed and reviewed by all managers within the Commission, with the more formal system reinforcing the importance of effective risk management at all levels. Later enhancements to the Commission's risk management strategy placed additional focus on risk at business management level and helped develop increased risk sharing with external stakeholders.

Management of Information Risk and Information Assurance

The Commission continues to monitor and assess its information risks in order to identify and address any weaknesses, and, to ensure improvement of its systems. There were no significant incidents of loss of protected personal data within the Commission in the year 2009/10 which required reporting to the Information Commissioner's Office. A processing error resulted in a number of remittance advices being sent by e-mail to the incorrect legal practices, but at no stage in the process was physical payment to the incorrect practice an issue. A project team established in April 2009, has reviewed internal systems, to ensure compliance with the Cabinet Office Security Policy Framework, and the development of best practice. This project team has developed an action plan to address any weaknesses and recommend improvements. There are no significant weaknesses that the Commission is currently aware of.

Review of Effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors and the executive managers within the Commission who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their letters and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Audit and Risk Committee, and a plan to address weaknesses and ensure continuous improvement of the systems is in place.

The Commission continues to contract out its internal audit service, to a provider which operates to Government Internal Audit Standards. It submits regular reports, including, annually, an independent opinion on the adequacy and effectiveness of the Commission's system of risk management, control and governance.

A three year audit needs assessment was devised by our internal audit service provider (on initial appointment and again on re-appointment), to meet the Commission's internal audit needs, over the period of the contract, for internal audit services. The strategic internal audit plan seeks to identify high, medium and low risks in relation to the Commission's operational, financial and procedural systems. The systems perceived to be of a high risk are scheduled to be reviewed twice over the three year cycle, in accordance with the Government Internal Audit Standards.

Specific action plans to address each area of weakness identified through this internal audit programme were drawn up and agreed, and progress against these is formally reviewed by senior management and reported to the Audit and Risk Committee and Board in the period subsequent to this reporting period.

In undertaking the review of effectiveness the Commission has developed the following processes –

- An annual report from the Chairman of the Audit and Risk Committee to the Board on its programme of activity for the year;
- A check of internal effectiveness of the Audit and Risk Committee against the NAO Audit Committee Self Assessment Checklist (last undertaken in November 2008);
- Regular reviews and reports by the internal auditors operating to the Government Internal Audit Standards, including an Annual Assurance Statement that contains an independent opinion on the adequacy of effectiveness of the Commission's systems together with recommendations for improvement;
- Reports at each meeting of the Board from the Audit and Risk Committee Chairman concerning internal control issues; and
- Periodic stewardship statements to the Audit and Risk Committee relating to the Risk Control Framework.

Significant Internal Control and Related Issues

Through this framework, and other management mechanisms, a number of significant issues have been identified:

1 Timeliness of Annual Reports and Accounts

Delays encountered with addressing areas of weakness in internal control and related issues, have contributed to the delay in publication of the annual report and financial statements over the last numbers of years. In addition, the proposed treatment of provisions within the accounts has been of significant concern to the Commission and has caused major delays. The Commission has put in place measures to address the provisions issue as detailed below. An action plan is in place to ensure that the outstanding Annual Reports and Accounts are completed so to allow the laying of the 2011/12 Accounts within normal reporting timeframes. This action plan is monitored regularly by the Top Management Team, the Audit and Risk Committee and sponsor body.

2 Provisions

The Commission has prioritised provisions and forecasting as key areas to action, and has put significant resource into developing processes and systems.

Significant advances have been made in capturing information for provisions and forecasting purposes. A new data extraction model, the Provisions Information Management System (PIMS) that was introduced in 2008/09, was further developed during 2009/10, with the aid of an external consultant. The output of the PIMS model has been applied to, and included in the 2008/09 and 2009/10 accounts. Key stakeholders have been kept informed as the model has been developed.

The new PIMS model has allowed the Commission to start re-examining the assumptions incorporated in the provisions

determination. This work will continue during 2010/11 and the results will again be subject to rigorous testing and validation.

A key area of work is the ongoing review of case lifecycles. Amendments have been made in calculating the 2009/10 provision balances. Assistance by Way of Representation (ABWOR) case lifecycles have been reduced to 3 years, Civil case lifecycles have been shortened to 9 years and Criminal cases have been reduced to 4 years. Methodologies will be kept under ongoing review, and amended to reflect changed circumstances and improved information sources.

The improvements provided by PIMS in relation to the speed that the provisions figure can now be calculated along with the reconciliation and scrutiny afforded by the new system, has resulted in further adjustments to the financial statements. Further refinements to the PIMS model and provisions calculation will continue to be explored by NILSC.

3 Counter Fraud

As Accounting Officer I recognise my responsibility to maintain systems to safeguard public funds and to counter fraud.

Prior to the establishment of the Commission in 2003, there was limited focus on this area, albeit, a Fraud Prevention Officer had been appointed in June 2001. From November 2003, the counter fraud function has been gradually strengthened with the appointment of senior staff with prior experience in this area of work.

The Fraud Prevention and Investigation Unit has been working to improve and document processes and procedures, with

increased focus on proactive investigations, to support those already resulting from specific suspicions raised, either inside, or outside the Commission.

Running in parallel with ongoing investigations, the unit has also focused on developing the Commission's counter fraud policy, which is constantly under review, including major updates in 2006, and again in March 2009. The strategy document, developed from the 2009 review, was approved by the Commission, and is in the process of further refinement during 2011. Throughout these reviews, lessons learnt are applied to both preventing and detecting fraud.

During 2010/11 the need for a strategic review of counter fraud operations has been identified in the Business Plan. This review will include an examination of relationships with other relevant government bodies and agencies to communicate and share information to counter fraud. In addition, the Counter Fraud Policy and Response Plan will be reviewed, and a Counter Fraud Strategy will be further developed. The Commission is taking part in the National Fraud Initiative, and will use the results from this exercise to target its focus and resources within its counter fraud activities.

In November 2010, the Commission, under the provisions of Managing Public Money-Northern Ireland, notified its Sponsor of a potential fraud against the Legal Aid Fund. The Commission is working to address any of the issues arising from this case. The Commission is assisting the relevant authorities in relation to this. Any lessons learned will also be used in the development of the Counter Fraud Strategy.

4 Statutory Charge and Exemptions

The Legal Aid (General) Regulations (Northern Ireland) 1965 contains provisions for exemptions from the statutory charge system in certain circumstances, including matrimonial cases. A statutory charge system exists whereby, if someone gains or keeps money or property with the help of legal aid in a civil case, they may have to repay all or some of their legal costs out of that money or property – if their costs are not recovered from their opponent. Historically, the Commission has treated transfers of both money and property in these cases as being exempt from the statutory charge. However, legal opinion was received in 2009/10 which questioned the interpretation of the Regulations.

In view of the legal opinions received, the Commission has considered how to address this issue for past, current and future cases. Various options have been considered, but the preferred option was to implement the necessary changes from a fixed date for all new cases going forward, and not to back date the charge for either past or current cases. Amendments to the legislation have been enacted which have set 1 April 2010 as the effective implementation date.

5 Policies and Procedures

A number of policies and procedures required formal documentation or review and update. Much has been done to address this matter; however it remains under review, as several areas continue to be a cause for concern, and are being actively prioritised and addressed by management.

Identified areas of weakness, their associated action plans and processes to review the

effectiveness of the Commission, are being addressed under the Commission's Business Assurance Framework. The key components of this framework are as follows:

- **Quality**

The ongoing development of the quality management system and maintenance of certification to the ISO9001-2008 quality standard.

- **Risk management**

Further development of the structures and control systems in place to monitor and assess risks that may impact on the achievement of the aims and objectives of the Commission.

- **Resource management**

Continual development of enhanced financial reporting and budgeting processes, and the development of business case justification procedures.

- **Communication**

- improving and more structured engagement with external stakeholders;
- consultation on policy changes;
- development of intranet facilities for staff; and
- production of an organisational change management bulletin.

- **Specifically work has been progressed on the following**

- progressive implementation of a risk management and business assurance framework;
- clarification and regularisation of inherited policies and staff terms and conditions; and
- increased emphasis on fraud awareness through appointment of dedicated counter fraud staff.

Internal Audit Reports and Annual Assurance

The internal auditors conducted their fieldwork in accordance with the Internal Audit Plan for 2009/10 approved by the Audit and Risk Committee.

The following table details the specific areas reviewed and the assurance rating for each system:

System	Assurance rating
Information technology strategy	Limited
Civil fees assessment	Satisfactory
Review of Adjudication	Satisfactory
Criminal Legal Aid - review of the information flows between Magistrate's Courts and the Commission	Satisfactory
Children Order	Limited
Green Form (LAA)	Satisfactory
Information and physical security and Business Continuity Planning	Limited
Roles and responsibilities of Appeals Committees and Panels	Satisfactory
A review of the provision calculation methodology	Limited
A follow up of HR	Limited
Central Registry	Limited
Commissioners' time commitment	Satisfactory
Purchasing and the payment of creditors	Satisfactory

The internal auditors noted that an action plan has been put into place to address priority recommendations made in previous years. Throughout 2009/10 substantial progress has been achieved by senior managers to address the issues identified in the Internal Audit reports. For this reason, the internal auditors concluded that the Commission's internal control systems were adequate and operated effectively thereby providing "satisfactory" assurance in relation to the effective and efficient achievement of the Commission's objectives.

While the Internal Auditors expressed a "satisfactory assurance rating" for the Commission's systems and procedures, their report did comment on several significant issues;

- a) the need to finalise the Commission's financial statements
- b) the need to develop formal and robust strategies in relation to IT and Human Resources
- c) the requirement to effectively manage the procurement process for the appointment of the Commission's IT services provider
- d) the requirement to regularise the Commission's pension arrangements,
- e) the need to revisit the Commission's debt recovery policies, and
- f) the requirement to further develop and finalise a number of the Commission's HR Policies.

6 Procurement procedures

During 2010/11 the Commission has been working to review and improve its systems and processes around the development and approval of Business cases as well as the storage and retention of the requisite documentation. The Commission is undertaking a comprehensive review of the contracts in place in conjunction with the sponsor body and through meetings with Central Procurement Directorate to ensure proper procurement processes and guidance is followed going forward. The Commission is aware, from this exercise, of a number of Single Tender Actions which do not comply with procurement regulations, and is taking steps to address these.

7 Reviews

- **Landscape Review**

The Commission received the Landscape Review report in the final quarter of the financial year 2007/08. A detailed Action Plan was prepared to address the recommendations in the review, and throughout 2009/10, the recommendations were kept under review and reported to the Board on a regular basis.

- **Value for Money**

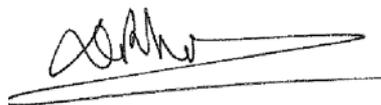
Following devolution the Northern Ireland Audit Office published a value for money review on criminal legal aid. The Commission has accepted the recommendations within the report and in conjunction with DoJ and NICTS is developing an action plan to address the recommendations in relation to the Commission ahead of the Committee of Public Accounts hearing on 21 September 2011.

- **Access to Justice Review**

On 15 November 2010, the Minister of Justice published two consultation documents by the review team carrying out the Review of Access to Justice in Northern Ireland. The documents, "the Agenda" and "the Discussion Paper" were the basis for a consultation exercise in which views were sought, through written submissions and meetings, by the end of January 2011. A Progress Report was published in March 2011, while the aim of the review is to produce a final report in the Autumn of 2011. The Commission will work with the sponsor body to formulate an action plan, and deal with any appropriate matters accordingly.

Conclusion

The Commission has an action plan in place to address each of the issues raised within the Statement on Internal Control. While demonstrable progress has been made in dealing with each individual issue, it is recognised that further work is required. This stream of work has been given the necessary prioritisation, with action plans being monitored closely, both by the Commissioners and the Top Management Team. The Commission is committed to bringing to a satisfactory conclusion the issues raised.



Paul Andrews
Chief Executive
23 August 2011

The Certificate of the Comptroller and Auditor General to the Houses of Parliament

I have audited the financial statements of the Northern Ireland Legal Services Commission Legal Aid Grant for the year ended 31 March 2010 under the Access to Justice (Northern Ireland) Order 2003. These comprise the Net Expenditure Account for the Grant, the Statement of Financial Position for the Grant, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Northern Ireland Legal Services Commission, Chief Executive and auditor

As explained more fully in the Statement of the Northern Ireland Legal Services Commission and Chief Executive's Responsibilities, the Northern Ireland Legal Services Commission and Chief Executive, as Accounting Officer, are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Access to Justice (Northern Ireland) Order 2003. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable

assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Northern Ireland Legal Services Commission's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Northern Ireland Legal Services Commission; and the overall presentation of the financial statements.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Basis for Qualified Regularity Opinion

My examination found material weaknesses in controls over fraud detection and prevention at the Northern Ireland Legal Services Commission. The Northern Ireland Legal Services Commission was unable to provide sufficient evidence to enable me to conclude that Legal Aid expenditure was not fraudulently claimed. There were no additional audit procedures I could undertake to provide me with assurance as to the level of regularity of this expenditure. The scope of my audit was therefore limited in this respect and I am not able to form an opinion on whether the expenditure on Legal Aid was in accordance with the purposes intended by Parliament and that these financial transactions conformed to the authorities which governed them.

The Certificate of the Comptroller and Auditor General to the Houses of Parliament

Qualified Opinion on Regularity due to a limitation of scope

In my opinion, except for expenditure which may have arisen from fraudulent Legal Aid claims or fraudulent Legal Aid costs, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Basis for Qualified Opinion on Financial Statements

Provisions have been made in the financial statements for the costs of Legal Aid cases incurred up to the end of the financial year. However in applying the accounting policy for Legal Aid provisions, weaknesses in the model used to calculate provisions have resulted in an estimated overstatement of £13 million in provisions at 31 March 2010.

Qualified Opinion on Financial Statements due to material misstatement

In my opinion, except for the estimated overstatement of £13 million in Legal Aid provisions referred to above

- the financial statements give a true and fair view of the state of affairs of the Northern Ireland Legal Services Commission Legal Aid Grant as at 31 March 2010 and of its net expenditure for the year ended; and
- the financial statements have been properly prepared in accordance with the Access to Justice (Northern Ireland) Order 2003 and directions made thereunder by the Lord Chancellor, with the approval of HM Treasury.

Adverse opinion on comparative information arising from a disagreement with the application of accounting policy

In 2008/09, weaknesses in the model used to calculate provisions resulted in an overstatement of between £8.9 million and £21.6 million in provisions at 31 March 2009 and a similar level of error remains in the provision at 31 March 2008. As the comparative figures presented for 31 March 2009 and 31 March 2008 have not been restated, the impact of the potential misstatements remains so material and pervasive that this comparative information does not give a true and fair view.

Opinion on other matters

In my opinion the information given in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have not received all of the information and explanations that I considered necessary to confirm the regularity of the financial transactions for the purposes of my audit of payments to legal professionals referred to above.

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or

The Certificate of the Comptroller and Auditor General to the Houses of Parliament

- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

My report on those matters subject to qualification is included on pages 94 to 96.

Amyas C E Morse

Comptroller and Auditor General
National Audit Office

157 - 197 Buckingham Palace Road
Victoria
London
SW1W 9SP

5 October 2011

Net Expenditure Account for the Grant for the Year Ended 31 March 2010

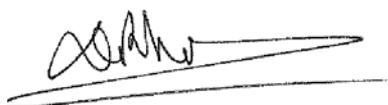
		2009/10	2008/09
	Note	£'000	£'000
Expenditure			
Operating expenditure	4	(88,374)	(75,052)
Other expenditure	5	(416)	(231)
Total expenditure		<u>(88,790)</u>	<u>(75,283)</u>
Income			
Other income	3	<u>1,524</u>	<u>1,189</u>
		1,524	1,189
Net expenditure		(87,266)	(74,094)
Interest			
Cost of capital	7	3,921	4,169
Interest receivable	6	2	26
Net expenditure after cost of capital charge and interest		<u>(83,343)</u>	<u>(69,899)</u>
Reversal of notional charges		(3,921)	(4,169)
Net expenditure excluding cost of capital charge		<u>(87,264)</u>	<u>(74,068)</u>

The notes on pages 46 to 62 form part of these accounts.

Statement of Financial Position for the Grant as at 31 March 2010

	Note	31 March 2010 £'000	31 March 2009 £'000	01 April 2008 £'000
Current assets				
Trade and other receivables	8	1,431	1,220	951
Cash and cash equivalents	10	26	78	2,226
Total current assets		<u>1,457</u>	<u>1,298</u>	<u>3,177</u>
Current liabilities				
Trade and other payables	11	(2,016)	(1,981)	(629)
Total current liabilities		<u>(2,016)</u>	<u>(1,981)</u>	<u>(629)</u>
Current assets less current liabilities		<u>(559)</u>	<u>(683)</u>	<u>2,548</u>
Non-current liabilities				
Provision	12	(107,357)	(115,459)	(124,644)
Total non-current liabilities		<u>(107,357)</u>	<u>(115,459)</u>	<u>(124,644)</u>
Assets less liabilities		<u>(107,916)</u>	<u>(116,142)</u>	<u>(122,096)</u>
Taxpayers' equity				
General Reserve		(107,916)	(116,142)	(122,096)
		<u>(107,916)</u>	<u>(116,142)</u>	<u>(122,096)</u>

The financial statements were approved by the Board on 25 March 2011 and were signed on its behalf by;



Paul Andrews
Chief Executive
23 August 2011

The notes on pages 46 to 62 form part of these accounts.

Statement of Cash Flows for the Year Ended 31 March 2010

		2009/10	2008/09
	Note	£'000	£'000
Cash flows from operating activities			
Net deficit after interest		(87,264)	(74,068)
Increase in trade and other receivables	8	(211)	(269)
Increase in trade payables and other payables	11	35	1,352
Decrease in provisions	12	(8,102)	(9,185)
Net cash outflow from operating activities		<u>(95,542)</u>	<u>(82,170)</u>
Cash flows from financing activities			
Grant from NICtS		95,490	80,022
Net financing		<u>95,490</u>	<u>80,022</u>
Net increase/(decrease) in cash and cash equivalents in the period		<u>(52)</u>	<u>(2,148)</u>
Cash and cash equivalents at the beginning of the period		<u>78</u>	<u>2,226</u>
Cash and cash equivalents at the end of the period		<u>26</u>	<u>78</u>

The notes on pages 46 to 62 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the Year Ended 31 March 2010

	General Reserve
	£'000
Balance at 1 April 2008	<u>(122,096)</u>
Changes in taxpayers' equity for 2008-09	
Net expenditure for the year	(74,068)
Total recognised income and expenditure for 2008/09	<u>(74,068)</u>
Grant from NICtS	80,022
Balance at 31 March 2009	<u>(116,142)</u>
Changes in taxpayers' equity for 2009/10	
Net expenditure for the year	<u>(87,264)</u>
Total recognised income and expenditure for 2009/10	<u>(87,264)</u>
Grant from NICtS	95,490
Balance at 31 March 2010	<u>(107,916)</u>

The notes on pages 46 to 62 form part of these accounts.

Notes to the Grant Accounts for the Year Ended 31 March 2010

1. Statement of Accounting Policies

Basis of preparation

The financial statements have been prepared in accordance with the 2009/10 Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

Where the FReM guidance permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Commission, for the purpose of giving a true and fair view, has been selected. The Commission's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

a) Accounting conventions

The financial statements of the Commission have been prepared under the historical cost convention.

b) Grant Income recognition

Government grant income received for civil and criminal legal aid funding is accounted for in the year in which it is received.

Grant income comprises of grants drawn from the NICtS.

Grant income is treated as financing as it is a contribution from a "controlling party" used to finance activities and expenditure which support the statutory and other objectives of the Commission. It is credited to the general reserve.

c) Other Income

Other income comprises contributions receivable from funded clients. Other income also includes amounts receivable from funded clients and others for costs, and where appropriate, damages awarded. Other income is accrued and accounted for in the period in which it is earned in the Net Expenditure account.

d) Expenditure

Expenditure comprises sums payable to legal aid service providers for services provided to funded clients, refunds of contributions to funded clients, costs awarded to other parties, and other costs associated with the provision of legal advice and assistance. Sums payable include the estimated value of the work completed by legal aid service providers not yet billed.

e) Notional Charge

As required by HM Treasury, a charge is made to the Net Expenditure Account for the notional cost of capital. The notional capital charge, which reflects the cost of financing capital employed, is calculated at 3.5% of average net assets/liabilities employed during the year.

f) Accounting for Value Added Tax

The Commission is not registered for VAT. Irrecoverable VAT is charged to the relevant expenditure category.

g) Provisions

The Commission recognises provisions for obligations to settle the costs incurred by the legal profession in providing legal advice and assistance to assisted persons, that arise

from the issue of certificates granting legal aid for specific cases. The provision is calculated at the best estimate of the expenditure required to settle the obligation, on a case by case basis, for work completed at the year end, but not yet billed. Expenditure relating to the creation of provisions is charged to the Net Expenditure Account in the year in which the obligation arises.

Lifecycles

Key assumptions in the estimation of provisions include case lifecycles and average case costs. Case lifecycles are also kept under constant review, and provisions balances amended in year, where contemporaneous information determines a change is required. The following amendments to lifecycles were applied in calculating the 2009/10 provisions balances:

Assistance by Way of Representation (ABWOR)

from 5 years to 3 years

Civil

from 10 years to 9 years

Criminal

from 5 years to 4 years.

Omagh Civil Case

The provision for the Omagh Civil case is currently based on a provisional determination, however, the Commission recognises that the legal representatives have the right of appeal and therefore there is the potential for future liability in respect of this case.

h) Commitments

The Commission recognises that there is a continuing obligation to fund cases past the Statement of Financial Position date, but the amount will only be known on the future outcome of each case.

i) Provision for Doubtful Debts

The Commission estimates the provision for doubtful debts, and charges any debts written off against amounts previously provided. Movements in the provision are reflected in the Net Expenditure Account. The Commission utilises cash flow trends and the age of outstanding debts in assessing the appropriate level of the provision. Not all debts which are classed as doubtful at the year end, will result in a write off. The liability to the Commission of individual debtors may change as a result of a number of factors during the life of a legal aid certificate.

j) Going concern

The Commission is a statutory body established under the AJO 2003. The Commission takes the view that the going concern concept applies to those accounts which present the operations of the grant and the grant in aid, as long as the provisions of the AJO 2003 remain extant. The future financing of the Commission's liabilities will be met by grants from the DoJ as voted on by the NIA.

k) Financial instruments

A financial instrument is defined as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. In accordance with IAS 39 *Financial Instruments: Recognition and Measurement*,

a financial instrument is recognised when, and only when, the entity becomes a party to the contractual provisions of the instrument. A previously recognised financial asset is derecognised when, and only when, either the contractual rights to the cash flows from that asset expire, or the entity transfers the asset such that the transfer qualified for derecognition. A financial liability is derecognised when, and only when, it is extinguished. The Commission does not hold any complex financial instruments. The majority of financial instruments relate to contracts for non-financial items in line with the Commission's expected purchase and usage requirements, the Commission is therefore exposed to little credit, liquidity or market risk.

l) Estimation techniques used and key judgements

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Commission's accounting policies. The Commission continually evaluates its estimates, assumptions and judgements based on available information and experience.

m) Third Party Funds

Awards for damages to funded clients may be required by the Legal Services Commission to offset any liability to the grant. The Commission places these funds on deposit until the liability, if any, is determined and any excess of damages is paid to the funded client. These funds are accounted for as funds held on behalf of third parties and therefore only appear in the notes of these accounts (See Grant note 14).

n) Accounting standards, interpretations and amendments to published standards adopted in the year ended 31 March 2010

The Commission implemented IFRS 1 First-time Adoption of IFRS, with the date of transition to IFRS being 1 April 2008, for the purposes of preparing the opening IFRS Statement of Financial Position. The Commission has reviewed the standards, interpretations and amendments to published standards that became effective during 2009/10, and which are relevant to its operations. The adoption of IFRS standards did not have any financial impact which required disclosure in the Grant accounts.

o) Accounting standards, interpretations and amendments to published standards not yet effective.

Certain new standards, interpretations and amendments to existing standards have been published that are mandatory for the Commission's accounting periods beginning on or after 1 April 2010, but which the Commission has not adopted. Other than those outlined below, the Commission considers that these standards are not relevant to its operations.

Amendments to IFRSs

IAS 7 Statement of Cash Flows

IAS 24 Related Party Disclosures

The Commission has identified that the following accounting change will be significant.

FReM, Chapter 11: Income and Expenditure; 'the removal of cost of capital charging from the financial statements'. From 1 April 2010 notional costs should not be recorded for cost of capital. Cost of capital charging will be excluded from the Commission's 2010/11 financial statements.

2. Analysis of Net Expenditure by Segment

	Civil Legal Services £'000	Criminal Defence £'000	Total £'000
Gross Expenditure	(39,607)	(49,183)	(88,790)
Income	1,524	-	1,524
Net Expenditure	<u>(38,083)</u>	<u>(49,183)</u>	<u>(87,266)</u>

3. Other operating income

	2009/10 £'000	2008/09 £'000
Contributions from assisted persons	897	591
Costs recovered	603	570
Damages retained	24	28
	<u>1,524</u>	<u>1,189</u>

4. Operating expenditure

	2009/10 £'000	2008/09 £'000
Solicitors' charges, counsel fees and disbursements		
Civil cases	39,075	32,360
Criminal cases	49,183	42,512
Immigration and asylum grant funding	116	180
	<u>88,374</u>	<u>75,052</u>

5. Other expenditure

	Note	2009/10 £'000	2008/09 £'000
Debt written off and movement in doubtful debt provision	9	416	231
		<u>416</u>	<u>231</u>

6. Interest receivable

		2009/10 £'000	2008/09 £'000
Bank interest receivable		2	26
		<u>2</u>	<u>26</u>

7. Notional cost of capital

The Net Expenditure account bears a non-cash charge for interest relating to the use of capital by the Commission. The basis of the charge is 3.5% pa of the average capital employed by the Commission during the year, defined as total assets less all liabilities.

8. Trade receivables and other current assets**8(a) Analysis by type**

	Note	31 March 2010 £'000	31 March 2009 £'000	01 April 2008 £'000
Amounts falling due within one year:				
- costs		1,475	1,534	1,352
- contributions		1,242	1,128	996
- other		74	65	40
		<u>2,791</u>	<u>2,727</u>	<u>2,388</u>
Doubtful debt provision	9	(1,385)	(1,532)	(1,482)
Prepayments		25	25	45
		<u>1,431</u>	<u>1,220</u>	<u>951</u>

8(b) Intra-Government balances

Amounts falling due within one year:				
Balances with bodies external to government		1,431	1,220	951
		<u>1,431</u>	<u>1,220</u>	<u>951</u>

9. Doubtful debt provision

	31 March 2010 £'000	31 March 2009 £'000	01 April 2008 £'000
As at 1 April 2009	(1,532)	(1,482)	(1,225)
Doubtful debts written off	580	201	63
Doubtful debts written off subsequently recovered	(17)	(20)	(8)
Charge to the income and expenditure account	(416)	(231)	(312)
As at 31 March 2010	<u>(1,385)</u>	<u>(1,532)</u>	<u>(1,482)</u>

10. Cash and cash equivalents

	31 March 2010 £'000	31 March 2009 £'000	01 April 2008 £'000
Cash and cash equivalents	26	78	2,226
	<u>26</u>	<u>78</u>	<u>2,226</u>

11. Trade payables and other current liabilities**11(a) Analysis by type**

	31 March 2010	31 March 2009	01 April 2008
	£'000	£'000	£'000
Amounts falling due within one year:			
Amounts due to solicitors, counsel and advice	(1,800)	(1,956)	(629)
Other	(216)	(25)	-
	<u>(2,016)</u>	<u>(1,981)</u>	<u>(629)</u>

11(b) Intra-Government balances

Amounts falling due within one year:			
Balances with other central government bodies	-	(25)	-
Balances with bodies external to government	(2,016)	(1,956)	(629)
	<u>(2,016)</u>	<u>(1,981)</u>	<u>(629)</u>

12. Provision for Liabilities and Charges

	Civil Legal Services £'000	Criminal Defence £'000	Total £'000
As at 1 April 2009	(50,993)	(64,466)	(115,459)
Additions and increases to provisions	(82,418)	(117,490)	(199,908)
Amounts used in year	36,582	59,778	96,360
Unused amounts reversed in year	43,343	68,307	111,650
As at 31 March 2010	<u>(53,486)</u>	<u>(53,871)</u>	<u>(107,357)</u>
As at 1 April 2008 (Restated)	(51,337)	(73,307)	(124,644)
Additions and increases to provisions	(50,127)	(75,192)	(125,319)
Amounts used in year	32,704	51,353	84,057
Unused amounts reversed in year	17,767	32,680	50,447
As at 31 March 2009	<u>(50,993)</u>	<u>(64,466)</u>	<u>(115,459)</u>

13. Commitments

The Commission recognises that there is a continuing obligation to fund cases past the Statement of Financial Position date. It is estimated that this commitment is in the order of £29m (£41m at 31 March 2009).

14. Third party funds

Awards for damages to funded clients may be required by the Commission to offset any liability to the Legal Aid Fund. The Commission places these funds on deposit until the liability to the Fund, if any, is determined. Any remaining balance of the damages awarded is refunded once the liability to the Fund has been settled. The amounts retained to cover any shortfall to the Fund are recorded in income as 'Damages retained'. The movement on these third party funds for the 12 months ended 31 March 2010 was as follows:

	31 March 2010 £'000	31 March 2009 £'000
Balance at 1 April 2009	150	133
Received for the year	534	603
	<u>684</u>	<u>736</u>
Less:		
Sums repaid to assisted persons	(385)	(559)
Damages retained	(24)	(27)
Balance at 31 March 2010	<u>275</u>	<u>150</u>

15. Summary of losses and special payments

Losses

There were 319 cases written off during the year totalling £580k and 22 recoveries totalling £17k in respect of amounts previously written off.

Statutory Charge Losses

A statutory charge system exists whereby if someone gains or keeps money or property with the help of legal aid in a civil case, they may have to repay all or some of their legal costs out of that money or property - if their costs are not recovered from their opponent. Historically, the Commission has treated transfers of both money and property in these cases as being exempt from the statutory charge. However, the Commission received legal opinion which questioned this interpretation of the Regulations.

In view of the legal opinions received, the Commission considered how to address this issue for past, current and future cases. Various options were considered with the preferred option being to implement the necessary changes from a fixed date for all new cases going forward and not to back date the charge for either past or current cases. Following consultation with stakeholders the charge was implemented from 1 April 2010.

Under the new procedure, in any case where a legal aid certificate has been granted by the Commission on or after 1 April 2010, the Commission will apply the statutory charge to any property kept or gained by the assisted person in ancillary relief proceedings unless the assisted person can satisfy the Commission that the property should be

treated as exempt from the statutory charge under Regulation 17(9)(a)(ii) of the Legal Aid (General) Regulations (Northern Ireland) 1965.

Special Payments

There were no special payments during the year which required disclosure.

16. Events after the Reporting Period

The Commission became a NDPB of the DoJ on 12 April 2010.

The provisional assessment by the Taxing Master in respect of the legal representatives involved in the Omagh Civil action was notified on 21 June 2011. This initial assessment has reduced the provisions balance by £3.68m at the Statement of Financial Position date. The Commission has restated its' provision balances to reduce same by this value to reflect this provisional assessment. The provisional assessment has been appealed.

The financial statements were authorised by the Accounting Officer to be issued on the same date as they were certified by the C&AG.

17. Related party transactions

Prior to 12 April 2010, the Commission was a non-departmental public body sponsored by the NICtS. The NICtS was regarded as a related party. During the reporting period the Commission had various material transactions with NICtS.

Commission members and senior management are required to declare any personal, financial and business interests which may conflict with their duties to the Commission. Members may not participate

in Commission discussions or decisions on policy or financial matters where a conflict of interest arises.

During the year ended 31 March 2010 the Commission entered into a number of material transactions with some Commission members, other related parties or their close family members. These transactions are detailed below. External members of the Commission were required to declare any personal, financial and business interests which constituted material transactions with the Commission. Any immediate connections with the Legal Aid Fund and these members, or the organisations with which the members are associated, have been declared below.

The figures below relate to the transactions in respect of funded work, and include payments on account, disbursements which may be payable to third parties, and fees payable to counsel. The amounts are stated inclusive of VAT, as this is a cost to the Commission. All transactions are for the period 1 April 2009 to 31 March 2010, unless otherwise stated. The transactions do not reflect annual earnings, as they might include fees for work carried out in previous years, but not billed until this financial year. They may also exclude fees for work carried out in 2009/10, but not yet billed.

Mr Les Allamby was a Commissioner until 31 July 2011 and is also Director of the Law Centre (NI). His nephew, Mr Ian Tannahill is a barrister who receives payments in respect of legal aid casework. No payments were made to Mr Tannahill during 2009/10.

The Law Centre (NI) provides specialist immigration and asylum advice and operates under grant funding. Funding originally obtained from the Home Office has been

administered by the Commission from 1st April 2005. A total of £196,948 was made to the Law Centre during 2009/10 of which £115,948 was paid out of the Grant account.

Legal aid payments are also made to the Law Centre for work carried out on behalf of individuals qualifying for legal aid. The total amount of these payments during 2009/10 was £76,798.

Mr Miceal McCoy is a Commissioner. His brother-in-law, Mr Gerry Grainger is a barrister who undertakes legal aid casework. A payment of £6,657 was made to Mr Grainger during 2009/10.

Mrs Fiona Donnelly is a Commissioner and solicitor with Fiona Donnelly Solicitors. No payments were made to Fiona Donnelly Solicitors during 2009/10.

Mr Joseph Donnelly is a Commissioner and solicitor with Anderson Agnew and Company solicitors. His cousins, Mr Damien Agnew and Mr Brendan Agnew, are partners in Anderson, Agnew & Co solicitors. Anderson Agnew and Co received legal aid payments during 2009/10 of £5,857. His cousin Mr Seamus Agnew is a partner in Agnew Andress solicitors. Agnew Andress solicitors received legal aid payments during 2009/10 of £11,812.

Mrs Gillian McGaughey is a Commissioner and a barrister. No payments were made to Mrs McGaughey during 2009/10.

Mrs Sheila McPhillips is the Director of Criminal Defence Services within the Commission. Her cousin, Mr Martin O'Rourke is a barrister who undertakes legal aid casework. Payments of £449,870 were made to Mr O'Rourke during 2009/10.

No other member of the senior management has undertaken any material transactions with the Commission during the year.

External committees which deal with refusal of legal aid and assessment of bills in civil proceedings, and legal aid bills in criminal proceedings, are comprised of external members of the legal profession.

As committee members they are paid a standard attendance fee and as members of the legal profession they may receive payments in respect of legal aid casework.

18. Financial instruments

IFRS7, Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of the Commission's activities and the way in which the Commission is financed, the Commission is not exposed to the degree of financial risk faced by business entities. As permitted by IFRS 7, the Commission has elected to exclude from disclosure all receivables and payables which mature or become payable within 12 months from the Statement of Financial Position date.

Liquidity risk

The Commission is financed by a grant received from the NICTS. As such, it is not exposed to significant liquidity risks.

Interest rate risk

The Commission is not exposed to significant interest rate risks.

Interest rate profile

The following table shows the interest rate and currency profile of the Commission's financial assets

	Total	Floating- Rate Financial Assets	Fixed- Rate Financial Assets	Non- Interest Bearing Financial Assets	Weighted- Average Interest rate	Weighted- Average Period for which Rate is Fixed	Weighted- Average Period until Maturity
	£'000	£'000	£'000	£'000	%	Years	Years
Gross Financial Assets							
Currency							
Sterling							
At 31 March 2010	26	-	1	25	-	-	Note a
At 31 March 2009	78	-	58	20	-	-	Note a

Note a - the Commission's non interest bearing and fixed-rate financial assets comprise cash at bank and in hand. Cash at bank and in hand is available on demand.

Foreign currency risk

Foreign currency would not usually form part of the Commission's assets or liabilities and as such the Commission is not exposed to any significant foreign currency risks.

Fair values

Set out below is a comparison by category of book values and fair values of the Commission's financial assets at 31 March 2010 and 31 March 2009.

	Book value £'000	Fair value £'000
Primary financial instruments		
Financial assets:		
Cash at bank at 31 March 2010	26	26
Cash at bank at 31 March 2009	78	78

19. Omagh Civil Case (Contingent Liability)

Legal representatives in the Omagh Civil Case retain the right to appeal the provisional assessment of the Taxing Master in this case. This right of appeal has been exercised but the quantifiable consequences are as yet unknown.

The Certificate of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Northern Ireland Legal Services Commission for the year ended 31 March 2010 under the Access to Justice (Northern Ireland) Order 2003. These comprise the Net Expenditure Account for the Grant in Aid, the Statement of Financial Position for the Grant in Aid, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Chief Executive and auditor

As explained more fully in the Statement of the Northern Ireland Legal Services Commission and Chief Executive's Responsibilities, the Northern Ireland Legal Services Commission and the Chief Executive are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Access to Justice (Northern Ireland) Order 2003. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Northern Ireland Legal Services Commission's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Northern Ireland Legal Services Commission; and the overall presentation of the financial statements.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

In my opinion, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

The Certificate of the Comptroller and Auditor General to the Houses of Parliament

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Northern Ireland Legal Services Commission's affairs as at 31 March 2010 and of its net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Access to Justice (Northern Ireland) Order 2003 and directions made thereunder by the Lord Chancellor, with the approval of HM Treasury.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Access to Justice (Northern Ireland) Order 2003 and directions made thereunder by the Lord Chancellor, with the approval of HM Treasury; and
- the information given in the Foreword, Management Commentary and Operating and Financial Review for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse

Comptroller and Auditor General

National Audit Office

157 - 197 Buckingham Palace Road
Victoria
London
SW1W 9SP

5 October 2011

Net Expenditure Account for the Grant in Aid for the Year Ended 31 March 2010

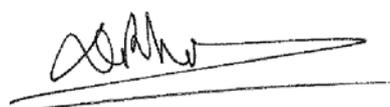
	Note	2009/10 £'000	2008/09 £'000 Restated
Expenditure			
Staff costs	3	(5,169)	(4,543)
Depreciation and amortisation	9 & 10	(153)	(258)
Other operating costs	5	(2,225)	(1,935)
Notional costs	8	(578)	(515)
Net expenditure		<u>(8,125)</u>	<u>(7,251)</u>
Interest			
Cost of capital	8	149	19
Interest receivable	7	-	3
Net return on pension scheme	4	(123)	59
Net expenditure after cost of capital charge and interest		<u>(8,099)</u>	<u>(7,170)</u>
Reversal of notional charges	8	429	496
Net expenditure excluding cost of capital charge		<u>(7,670)</u>	<u>(6,674)</u>

The notes on pages 69 to 93 form part of these accounts.

Statement of Financial Position for the Grant in Aid as at 31 March 2010

	Note	31 March 2010 £'000	31 March 2009 £'000 Restated	01 April 2008 £'000 Restated
Non-current assets				
Property, plant and equipment	9	531	601	755
Intangible assets	10	90	13	76
Total non-current assets		621	614	831
Current assets				
Trade and other receivables	11	109	210	152
Cash and cash equivalents	12	182	46	146
Pension asset	14	-	-	143
Total current assets		291	256	441
Total assets		912	870	1,272
Current liabilities				
Trade and other payables	13	(970)	(721)	(1,089)
Total current liabilities		(970)	(721)	(1,089)
Total assets less current liabilities		(58)	149	183
Non-current liabilities				
Provisions	14	(7,104)	(1,525)	-
Total non-current liabilities		(7,104)	(1,525)	-
Assets less liabilities		(7,162)	(1,376)	183
Taxpayers' equity				
Revaluation Reserve		35	63	59
General Reserve		(7,197)	(1,439)	124
		(7,162)	(1,376)	183

The financial statements were approved by the Board on 25 March 2011 and were signed on it's behalf by;



Paul Andrews

Chief Executive
23 August 2011

The notes on pages 69 to 93 form part of these accounts.

Statement of Cash Flows for the Year Ended 31 March 2010

	Note	2009/10 £'000	2008/09 £'000 Restated
Cash flows from operating activities			
Net deficit		(7,670)	(6,674)
Adjustment for non cash transactions	5,9,10	147	264
Decrease / (increase) in trade and other receivables	11	101	(58)
Increases / (decrease) in trade payables	13	205	(367)
Decrease in provision - excl. actuarial gain/loss	14	(33)	(193)
Net cash outflow from operating activities		<u>(7,250)</u>	<u>(7,028)</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(44)	(33)
Purchase of intangible assets	10	(80)	-
Net cash outflow from investing activities		<u>(124)</u>	<u>(33)</u>
Cash flows from financing activities			
Grants from NICtS		7,510	6,961
Net financing		<u>7,510</u>	<u>6,961</u>
Net increase / (decrease) in cash and cash equivalents in the period		<u>136</u>	<u>(100)</u>
Cash and cash equivalents at the beginning of the period		<u>46</u>	<u>146</u>
Cash and cash equivalents at the end of the period		<u>182</u>	<u>46</u>

The notes on pages 69 to 93 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the Year Ended 31 March 2010

	Note	General Reserve £'000	Revaluation Reserve £'000	Total Reserves £'000
Balance at 31 March 2008		<u>164</u>	<u>59</u>	<u>223</u>
Effect of changes under International Financial Reporting Standards	2	(40)	-	(40)
Restated balance at 1 April 2008		<u>124</u>	<u>59</u>	<u>183</u>
Changes in taxpayers' equity for 2008/09				
Net gain on revaluation of property, plant and equipment	9	-	15	15
Transfers between reserves		11	(11)	-
Actuarial loss	4	(1,861)	-	(1,861)
Net expenditure for the year		(6,674)	-	(6,674)
Total recognised income and expenditure for 2008/09		<u>(8,524)</u>	<u>4</u>	<u>(8,520)</u>
Grant from NICTs		6,961	-	6,961
Balance at 31 March 2009		<u>(1,439)</u>	<u>63</u>	<u>(1,376)</u>
Changes in taxpayers' equity for 2009/10				
Net loss on revaluation of property, plant and equipment	9	-	(14)	(14)
Transfers between reserves		14	(14)	-
Actuarial loss	4	(5,612)	-	(5,612)
Net expenditure for the year		(7,670)	-	(7,670)
Total recognised income and expenditure for 2009/10		<u>(13,268)</u>	<u>(28)</u>	<u>(13,296)</u>
Grant from NICTs		7,510	-	7,510
Balance at 31 March 2010		<u>(7,197)</u>	<u>35</u>	<u>(7,162)</u>

The notes on pages 69 to 93 form part of these accounts.

Notes to the Grant in Aid Accounts for the Year Ended 31 March 2010

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2009/10 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in FReM follow International Financial Reporting Standards (IFRS) to the extent that it is meaningful and appropriate to the public sector.

Where FReM guidance permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Commission for the purpose of giving a true and fair view has been selected. The Commission's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts. These accounts have been prepared to show the effect of the first-time adoption of IFRS.

a) Accounting conventions

The financial statements of the Commission have been prepared under the historical cost convention, modified to account for the revaluation of property, plant and equipment, intangible assets and inventories.

b) Property, plant and equipment and intangible assets

Expenditure on property, plant and equipment and intangible assets costing less than £1,000 per individual item is written off to the Net Expenditure Account in the period of acquisition. Computer systems (bespoke software), developed internally, have been capitalised at the full cost incurred. Where material, property, plant and equipment items have been pooled so as to reflect more accurately asset holdings.

Assets are revalued at depreciated replacement cost, using appropriate indices compiled by the Office for National Statistics. Surpluses and deficits arising on revaluation are taken to the revaluation reserve. Permanent reductions in value are charged to the Net Expenditure Account.

c) Depreciation and Amortisation

Property, plant and equipment and intangible assets are depreciated at rates calculated to write them down to estimated residual value on a straight line basis over their estimated useful lives. A further adjustment is made for any backlog depreciation/amortisation arising from the requirement to value property, plant and equipment and intangible assets by reference to current costs.

Estimated useful lives are normally in the following ranges;

Furniture and Fittings	5 - 10 Years
Computer Hardware	5 Years
Computer Software	3 Years

Additions to property, plant and equipment and intangible assets are depreciated from the month of acquisition. Disposals from property, plant and equipment and intangible assets are not depreciated in the month of disposal.

d) Inventories

Consumable inventories held by the Commission are not considered material and are written off in the Net Expenditure Account as they are purchased.

e) Income

Other operating income comprises receipts authorised by the NICtS to be treated as income. Income is accrued and accounted for in the period in which it is earned in the Net Expenditure Account.

f) Recognition of Grant in Aid

Grant in aid received for revenue expenditure is treated as financing as it is a contribution from a "controlling party" used to finance its activities and expenditure which supports the statutory and other objectives of the Commission. It is credited to the general reserve. Capital grant in aid is received to finance non-current assets in general and is also credited to the general reserve.

g) Notional charge

As required by Treasury, a charge is made to the Net Expenditure Account for the notional cost of capital. The notional capital charge, which reflects the cost of financing capital employed, is calculated at 3.5% of average net assets/liabilities employed during the year.

Other notional charges included in operating expenditure reflect the cost of services provided by the Taxing Master and the Social Security Agency.

h) Pensions

The Commission participates in the Northern Ireland Local Government Occupational Scheme (NILGOSC), a 'multi-employer' pension scheme with approximately 65,000 members. Membership of the scheme is optional for Commission employees.

The scheme is a defined benefit scheme and the underlying assets and liabilities are disclosed in the Statement of Financial

Position. The difference between the market value of the scheme's assets and the actuarially assessed present value of the scheme's liabilities, calculated using the projected unit credit method, is disclosed as a liability on the Statement of Financial Position.

The amount charged to the Net Expenditure Account is the actuarially determined cost of pension benefits promised to employees earned during the year, plus any benefit improvements granted to members during the year and consists of the current service cost (included within staff costs) and interest receivable pension costs (shown on the Net Expenditure Account). The asset value of the scheme as at 31 March 2010 is at bid value as required under IAS 19. Details are disclosed at Note 4 to the grant in aid account.

Additional contributions are made by the Commission on behalf of employees which effectively increases the employer's contributions from 16% to 20.5%.

Any difference between the expected return on assets and that actually achieved and any changes in the liabilities due to changes in assumptions or because actual experience during the year was different to that assumed, are recognised as actuarial gains and losses in the general reserve. Details of pension provisions are disclosed in note 14 to the grant in aid account.

The Commission also sponsored the Law Society of Northern Ireland Retirement Benefits Scheme administered by NPI, (NPI Scheme), a defined benefit arrangement and privately funded scheme. The assets and liabilities of this scheme are held separately from those of the Commission.

The scheme closed to new entrants in 1988 and the majority of active members transferred to NILGOSC. The remaining active members transferred to NILGOSC with effect from 1 May 2004. The scheme is in the process of being wound-up.

Actuarial pension costs associated with the NPI Scheme are also recognised in the accounts in accordance with the provisions of IAS 19. The charge to the Net Expenditure Account consists of the current service cost (included within staff costs) and net return on pension assets (shown in the Net Expenditure Account). Actuarial gains and losses have been taken to reserves.

Both schemes provide benefits based on pensionable salary.

i) Provisions

The Commission provides for legal or constructive obligations, which are of uncertain timing or amount at the Statement of Financial Position date on the basis of the best estimate required to settle the obligation.

j) Accounting for Value Added Tax

The Commission is not registered for VAT. Irrecoverable VAT is charged to the relevant expenditure category or, if appropriate, capitalised within additions to non-current assets.

k) Operating leases

Rentals under operating leases are charged to the Net Expenditure Account on a straight-line basis over the term of the lease.

l) Going concern

The Commission is a statutory body established under the AJO 2003. The Commission takes the view that the going concern concept applies to these accounts which present the operations of the grant and the grant in aid as long as the provisions of the AJO 2003 remain extant. The future financing of the Commission's liabilities will be met by grants from the DoJ as voted on by the NIA.

m) Financial instruments

A financial instrument is defined as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

In accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, a financial instrument is recognised when, and only when, the entity becomes a party to the contractual provisions of the instrument. A previously recognised financial asset is derecognised when, and only when, either the contractual rights to the cash flows from that asset expire, or the entity transfers the asset such that the transfer qualified for derecognition. A financial liability is derecognised when, and only when, it is extinguished.

The Commission does not hold any complex financial instruments. The majority of financial instruments relate to contracts for non-financial items in line with the Commission's expected purchase and usage requirements, the Commission is therefore exposed to little credit, liquidity or market risk.

n) Staff costs

Under the requirements of IAS 19 *Employee Benefits*, staff costs must be recorded as an expense as soon as the organisation is obliged to pay them. This includes the cost of any annual and flexi leave entitlements that have been earned at the year end but not yet taken. The cost of untaken annual and flexi leave has been determined by using actual salary costs and the data from staff leave returns at 31 March. It is not anticipated that the level of untaken leave will vary significantly from year to year.

o) Estimation techniques used and key judgements

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Commission's accounting policies. The Commission continually evaluates its estimates, assumptions and judgements based on available information and experience.

p) Accounting standards, interpretations and amendments to published standards adopted in the year ended 31 March 2010

The Commission implemented IFRS 1 First-time Adoption of International Financial Reporting Standards (IFRS) with the date of transition to IFRS being 1 April 2008, for the purposes of preparing the opening IFRS statement of financial position.

The following standard had a material impact on the financial statements:

- IAS 19 Employee Benefits

Details of the financial impact of this standard are contained in Notes 2 and 3. Any adjustments arising from differing accounting policies resulting from the application of IFRS for the first time have been taken through the General Reserve.

The Commission has reviewed the remaining standards, interpretations and amendments to published standards that became effective during 2009/10, and which are relevant to its operations. The adoption of these standards has not had a significant impact on the Commission's financial position or results.

q) Accounting standards, interpretations, and amendments to published standards not yet effective

Certain new standards, interpretations and amendments to existing standards have been published that are mandatory for the Commission's accounting periods beginning on or after 1 April 2010, but which the Commission has not adopted early. Other than those outlined in Note 2 below, the Commission considers that these standards are not relevant to its grant in aid operations.

Amendments to IFRSs

IFRS 8 Operating Segments
IAS 7 Statement of Cash Flows
IAS 24 Related Party Disclosures
IAS17 Leases

The Commission has identified that the following accounting change will be significant.

FReM, Chapter 11: Income and Expenditure; 'the removal of cost of capital charging from the financial statements'. From 1 April 2010 notional costs should not be recorded for cost of capital. Cost of capital charging will be excluded from the Commission's 2010/11 financial statements.

2. First-time adoption of IFRS

With effect from 1 April 2009, the Commission is required to report its financial statements in accordance with International Financial Reporting Standards (IFRS). The transition date for the adoption of IFRS is 1 April 2008. The table below presents the impact of transition to IFRS.

2.1 Reconciliation of UK Generally Accepted Accounting Practice (GAAP) reported taxpayers' equity to IFRS at the date of transition 1 April 2008

	Revaluation Reserve £'000	General Reserve £'000	Total Reserves £'000
Taxpayers' equity at 31 March 2008 under UK GAAP	59	164	223
Adjustments for: IAS 19 Employee Benefits		(40)	(40)
Taxpayers' equity at 1 April 2008 under IFRS	<u>59</u>	<u>124</u>	<u>183</u>

2.2 Reconciliation of UK GAAP reported taxpayers' equity to IFRS for the year ended 31 March 2009

	Revaluation Reserve £'000	General Reserve £'000	Total Reserves £'000
Taxpayers' equity at 31 March 2009 under UK GAAP	63	(1,392)	(1,329)
Adjustments for: IAS 19 Employee Benefits		(47)	(47)
Taxpayers' equity at 1 April 2009 under IFRS	<u>63</u>	<u>(1,439)</u>	<u>(1,376)</u>

2.3 Reconciliation of UK GAAP reported net expenditure to IFRS for year ended 31 March 2009

	Total £'000
Net expenditure for 2008/09 under UK GAAP	6,667
Adjustments for: IAS 19 Employee Benefits	7
Net expenditure for 2008/09 under IFRS	<u>6,674</u>

3. Staff costs and numbers

The average number of employees during the year including the Chief Executive, Chairman, Commissioners and Committee Members was:

	2009/10			2008/09
	Total	Permanently employed staff	Seconded-in/ agency staff	Total
No. of employees	156	144	12	141
Commissioners	11	11	-	10
Committee Members	37	37	-	37
Total Staff Numbers	204	192	12	188

The costs incurred in respect of these employees were:

	2009/10			2008/09 (Restated)
	Total £'000	Permanently employed staff £'000	Seconded-in staff £'000	Total £'000
Wages and salaries	4,416	3,930	486	3,792
Social security costs	325	298	27	386
Other pension costs:				
Current and past service costs	396	396	-	309
Pension contributions	72	1	71	62
Sub-total	5,209	4,625	584	4,549
Less recoveries in respect of outward secondments	(40)	-	(40)	(6)
Total staff costs	5,169	4,625	544	4,543

4. Pension costs

The Commission operates two pension schemes for the benefit of their employees, the details of which are set out below:

a) Northern Ireland Local Government Officers' Superannuation Committee Scheme

The pension benefits of the senior management team and employees are provided through the Northern Ireland Local Government Officers' Superannuation Committee Scheme (the NILGOSC Scheme). Membership of the scheme is optional for employees, but in practice most staff participate in this pension provision arrangement.

NILGOSC is a multi employer defined benefit scheme. It is a funded scheme which provides benefits on a 'final salary' basis at a normal retirement age of 65 years (as at 31 March 2010). Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years pension is payable on retirement.

Pensions increase in payment in line with the Retail Price Index. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement when computing the spouse's pension.

From 1 April 2009 payments for staff participating in the scheme moved to various tiered rates of pensionable earnings. Staff employed after 1 May 2009 automatically began paying at tiered rates. The Commission's contribution during the year was 20.5%. The employer rate set by NILGOSC was 16% (additional 4.5% paid on behalf of employees).

The Commission's contributions are affected by a surplus or deficit in the scheme. The employer's rate for the year commencing 1 April 2010 increased to 17% (effectively 21.5% for the Commission). Further contribution rises are expected, taking contributions up to around the level of the "Common Contribution Rate" of 17.3% of pay by 2010/11.

For the year ended 31 March 2010 actual employer contributions of £585K were paid to the NILGOSC Scheme.

The latest formal actuarial valuation of the scheme was carried out at 31 March 2010 with the next formal valuation due as at 31 March 2013. The liability and cost calculations are as follows:

The major assumptions used by the actuary were:

	31 March 2010	31 March 2009
Inflation/Pension Increase Rate	3.8%	3.1%
Salary Increase Rate	5.3%	4.6%
Expected Return on Assets	7.2%	6.5%
Discount rate	5.5%	6.9%

The assets in the scheme and expected rates of return were:

	Expected return at 31 March 2010 % pa	Assets at 31 March 2010 £'000	Expected Return at 31 March 2009 % pa	Assets at 31 March 2009 £'000
Equities	7.8%	9,175	7.0%	5,841
Bonds	5.0%	1,668	5.4%	1,120
Property	5.8%	715	4.9%	560
Cash	4.8%	357	4.0%	480
Total	<u>7.2%</u>	<u>11,915</u>	<u>6.4%</u>	<u>8,001</u>

The above asset values as at 31 March 2010 are at bid value as required under IAS19.

Net pension liability as at	31 March 2010	31 March 2009
	£'000	£'000
Estimated employer assets	11,915	8,001
Present value of scheme liabilities	(18,859)	(9,399)
Net pension liability	(6,944)	(1,398)

Analysis of amount charged to Net Expenditure Account:

	2009/10	2008/09
	£'000	£'000
Current service cost	285	309
Past service cost	111	-
Curtailments and Settlements	-	-
Total operating charge	396	309

Analysis of net return on pension scheme:

	2009/10	2008/09
	£'000	£'000
Expected return on employer assets	536	741
Interest on pension scheme liabilities	(659)	(682)
Net (deficit) / return	(123)	59

Analysis of amount recognised in the General Reserve

	2009/10 £'000	2008/09 £'000
Actual return less expected return on pension scheme assets	2,891	(3,100)
Experience gains/(losses) arising on the scheme liabilities	(8,503)	1,272
Additional actuarial loss on movement to bid value	-	(41)
Changes in financial assumptions underlying the present value of the scheme assets/(liabilities)	-	8
Actuarial (loss) recognised in the General Reserve	(5,612)	(1,861)

Movement in surplus/(deficit) during the year

	2009/10 £'000	2008/09 £'000
Surplus / (Deficit) at beginning of the year	(1,398)	(142)
Additional actuarial loss on movement to bid value	-	(41)
Current and Past service cost	(396)	(309)
Employer contributions	585	571
Net return on assets	(123)	59
Actuarial gain/(loss)	(5,612)	(1,820)
Deficit at end of year	(6,944)	(1,398)

History of experience gains and losses

	2009/10	2008/09
	£'000	£'000
Difference between the expected and actual return on assets	2,891	(3,100)
Value of assets	11,915	8,001
Percentage of assets	24.3%	(38.7%)
Experience gains / (losses) on liabilities	-	-
Total present value of liabilities	18,859	9,399
Percentage of the total present value of liabilities	-	-
Actuarial gains / (losses) recognised in General Reserve	(5,612)	(1,820)
Total present value of liabilities	18,859	9,399
Percentage of the total present value of liabilities	(29.8%)	(19.4%)

b) Law Society Northern Ireland Local Government Officers' Superannuation Committee Scheme

The Commission sponsored the Law Society of Northern Ireland Retirements Benefits Scheme (NPI Scheme), a defined benefit arrangement. Active members of the scheme were transferred to the NILGOSC scheme with effect from 1 May 2004.

A full actuarial valuation was carried out at 1 August 2002 and 31 March 2007 and updated again to 31 March 2010 on a projected unit method by a qualified independent actuary. The scheme is closed to new entrants and there are no active members. There was a net pension liability of £2k at 31 March 2010 (net pension asset of £1k at 31 March 2009).

5. Other operating costs

	2009/10	2008/09
	£'000	£'000
Accommodation	322	319
Rentals under operating leases	431	335
Other employee expenses	196	190
IT expenditure	443	376
Legal expenses	26	19
Law Centre funding	81	-
Consultancy expenses	183	209
Commissioner & Committee expenses	74	36
Auditors' remuneration and expenses	70	70
(Diminution reversal)/permanent diminution	(6)	6
General	405	375
	<u>2,225</u>	<u>1,935</u>

6. Commitments under leases

Commitments under operating leases to pay rentals during the year following the period of these accounts are given in the table below, analysed according to the year in which the lease expires.

	1 Year £'000	2-5 Years £'000	5+ Years £'000
Land and buildings	-	-	375
Other - Equipment	-	9	-
	<u>0</u>	<u>9</u>	<u>375</u>

7. Interest receivable

	2009/10 £'000	2008/09 £'000
Bank interest receivable	-	3
	<u>-</u>	<u>3</u>

8. Notional and other non-cash costs

Certain services are provided and received without the transfer of cash. The amounts included in the net costs of operations to reflect these non cash costs are as follows:

	2009/10 £'000	2008/09 £'000
Cost of capital	(149)	(19)
Social Security Agency	517	456
Taxing Master Office	61	59
	<u>429</u>	<u>496</u>

9. Property, plant and equipment

	Furniture and Fittings	Computer Hardware	Total
Cost	£'000	£'000	£'000
At 1 April 2009	1,159	614	1,773
Additions	20	60	80
Disposals	-	-	-
Revaluations	(37)	60	23
At 31 March 2010	1,142	734	1,876
Depreciation			
At 1 April 2009	(635)	(537)	(1,172)
Charge in year	(114)	(28)	(142)
Disposals	-	-	-
Revaluations	23	(54)	(31)
At 31 March 2010	(726)	(619)	(1,345)
Net book value 31 March 2010	416	115	531
Net book value 31 March 2009	524	77	601
Asset Financing:			
Owned	416	115	531
Finance Leased	-	-	-
Net book value at 31 March 2010	416	115	531

	Furniture and Fittings	Computer Hardware	Total
Cost	£'000	£'000	£'000
At 1 April 2008	1,120	633	1,753
Additions	5	27	32
Disposals	-	-	-
Revaluations	34	(46)	(12)
At 31 March 2009	1,159	614	1,773
Depreciation			
At 1 April 2008	(503)	(495)	(998)
Charge in year	(113)	(82)	(195)
Disposals	-	-	-
Revaluations	(19)	40	21
At 31 March 2009	(635)	(537)	(1,172)
Net book value 31 March 2009	524	77	601
Net book value 31 March 2008	617	138	755
Asset Financing:			
Owned	524	77	601
Finance Leased	-	-	-
Net book value at 31 March 2009	524	77	601

10. Intangible assets**Computer software**

Cost	£'000
At 1 April 2009	536
Additions	88
Disposals	-
Revaluations	51
At 31 March 2010	675
Amortisation	
At 1 April 2009	(523)
Charge in year	(11)
Disposals	-
Revaluations	(51)
At 31 March 2010	(585)
Net book value 31 March 2010	90
Net book value 31 March 2009	13

Computer software

Cost	£'000
At 1 April 2008	577
Additions	-
Disposals	-
Revaluations	(41)
At 31 March 2009	536
Amortisation	
At 1 April 2008	(501)
Charge in year	(63)
Disposals	-
Revaluations	41
At 31 March 2009	(523)
Net book value 31 March 2009	13
Net book value 31 March 2008	76

11. Trade receivables and other current assets**11 (a) Analysis by type**

	31 March 2010 £'000	31 March 2009 £'000	1 April 2008 £'000
Amounts falling due within one year:			
Trade receivables	1	25	-
Prepayments	108	185	152
	<u>109</u>	<u>210</u>	<u>152</u>

11 (b) Intra-Government balances

	31 March 2010 £'000	31 March 2009 £'000	1 April 2008 £'000
Amounts falling due within one year:			
Balances with other central government bodies	-	25	-
Balances with bodies external to government	109	185	152
	<u>109</u>	<u>210</u>	<u>152</u>

There are no trade receivables or other current asset amounts falling due after more than one year.

12 Cash and cash equivalents

	31 March 2010 £'000	31 March 2009 £'000	1 April 2008 £'000
Cash at bank	182	46	146
	<u>182</u>	<u>46</u>	<u>146</u>

13. Trade payables and other current liabilities

13 (a) Analysis by type

	31 March 2010 £'000	31 March 2009 £'000 Restated	1 April 2008 £'000 Restated
Amounts falling due within one year:			
Trade payables	(159)	(122)	(15)
Accruals	(811)	(599)	(1,074)
	<u>(970)</u>	<u>(721)</u>	<u>(1,089)</u>

13 (b) Intra-Government balances

	31 March 2010 £'000	31 March 2009 £'000 Restated	1 April 2008 £'000 Restated
Amounts falling due within one year:			
Balances with central government bodies	-	(49)	-
Balances with bodies external to government	(970)	(672)	(1,089)
	<u>(970)</u>	<u>(721)</u>	<u>(1,089)</u>

14. Provisions

	Pension Provision £'000	Other Provisions £'000	Total £'000
As at 1 April 2009 Restated	(1,397)	(128)	(1,525)
Utilised in year	585	-	585
Increase in provision	(6,134)	(30)	(6,164)
As at 31 March 2010	<u>(6,946)</u>	<u>(158)</u>	<u>(7,104)</u>

	Pension provision (restated) £'000	Other provisions £'000	Total £'000
As at 1 April 2008	143	-	143
Utilised in year	571	-	571
Increase in provision	(2,111)	(128)	(2,239)
As at 31 March 2009	<u>(1,397)</u>	<u>(128)</u>	<u>(1,525)</u>

- Pension Provision: full details of this provision can be found at note 4 to the grant in aid account. The 2008/09 figures were restated to include the NPI pension scheme as previously this was not included in provisions as there had been a surplus of £1k in the scheme.
- Other Provisions: the other provisions relates to a national insurance liability in respect of the Commission paying part of the employee's pension contributions.

15. Contingent liabilities

The Commission had no contingent liabilities as at 31 March 2010.

16. Capital commitments

The Commission had no capital commitments as at 31 March 2010.

17. Other financial commitments

A new Managed Service Contract was signed on 1 February 2011.

The awarding of the contract followed an open competition, with guidance from the Central Procurement Department (CPD) under European Community Journal guidelines (OJEC). DoJ confirmed that the supporting business case was approved and the necessary funding was available on 28 January 2011.

The new contract provides support to February 2014, with options to extend for a further two years. An IT Programme Board (with representation from TMT, DoJ IT Branch and NICTS) has been established to oversee the implementation process.

18. Events after the reporting period

On 12 April 2010, justice functions in Northern Ireland were devolved to the DOJ and NIA. From this date, the lead policy responsibility for the Commission transferred from the NICTS to the DOJ.

The Government announced in the Emergency Budget on 22 June 2010 that future pension increases in public sector schemes will be linked to the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). Traditionally the actuarial method of calculating the NILGOSC scheme

has used RPI. The change to CPI, which is traditionally lower than RPI, will be reflected in the accounting treatment in the 2010/11 financial statements.

There were no events after the end of the reporting period requiring an adjustment to the financial statements.

The financial statements were authorised by the Accounting Officer to be issued on the same date as they were certified by the C&AG.

19. Summary of losses and special payments

A payment of £452 was incorrectly made to a supplier who subsequently ceased trading during the year. The Commission was not able to recover this amount. During the year there were no other losses or special payments relating to the grant in aid account (except for the settlement payment to the former Chief Executive detailed in the Remuneration report) which required disclosure.

20. Related party transactions

Throughout 2009/10 the Commission was a NDPB sponsored by the NICTS. The NICTS was regarded as a related party with which the Commission had various material transactions during the year.

Mr. Les Allamby was a Commissioner until 31 July 2011 and is also Director of the Law Centre (NI). His nephew, Ian Tannahill is a barrister who receives payments in respect of legal aid casework. No payments were made to Mr Tannahill during 2009/10.

The Law Centre (NI) provides specialist immigration and asylum advice and operates under grant funding. Funding originally obtained from the Home Office has been administered by the Commission since 1 April 2005. A total of £196,948 was paid to the Law Centre during 2009/10, of which £81,000 was paid out of the Grant in Aid account.

Mrs Fiona Donnelly is a Commissioner and also a solicitor with Fiona Donnelly Solicitors. She is also remunerated for her work in the Institute of Professional Legal Studies at Queens University Belfast. The Commission made payments of £120 during 2009/10 to Queens University Belfast in relation to tuition fees, subscriptions and seminars.

Mrs. Breidge Gadd is a member of the Board of Commissioners. She is also a columnist with the Irish News newspaper. During the year 2009/10 the Commission placed advertisements in various newspapers including the Irish News.

Mrs Gillian McGaughey is a Commissioner and is also remunerated for her work in the Institute of Professional Legal Studies at Queens University Belfast. The Commission made payments of £120 during 2009/10 to Queens University Belfast in relation to tuition fees, subscriptions and seminars.

No other member of the senior management has undertaken any material transactions with the administrative functions of the Commission during 2009/10.

21. Financial instruments

IFRS7, Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. The Commission

has very limited powers to borrow or invest surplus funds and except for relatively insignificant purchases of foreign currency, financial assets and liabilities are generated by day to day operational activities and are not held to change the risks facing the Commission. As permitted by IFRS 7, the Commission has elected to exclude from disclosure all receivables and payables which mature or become payable within 12 months from the Statement of Financial Position date.

Liquidity risk

The Commission is financed by a grant received from the NICtS in the year of account. As such, it is not exposed to significant liquidity risks.

Interest rate risk

The Commission is not exposed to significant interest rate risks.

Interest rate profile

The following table shows the interest rate and currency profile of the Commission's financial assets.

	Total	Floating- Rate Financial Assets	Fixed- Rate Financial Assets	Non- Interest Bearing Financial Assets	Weighted- Average Interest rate	Weighted- Average Period for which Rate is Fixed	Weighted- Average Period until Maturity
	£'000	£'000	£'000	£'000	%	Years	Years
Currency							
At 31 March 2010							
Sterling	182	-	-	182	-	-	Note a
Gross financial assets	182			182	-	-	-
Gross financial assets							
Sterling	46	-	40	6	-	-	Note a
At 31 March 2009	46	-	40	6	-	-	-

Note a – The Commission's non-interest bearing financial assets comprise cash at bank and in hand. Cash at bank and in hand is available on demand.

Foreign currency risk

Foreign currency would not usually form part of the Commission's assets or liabilities and as such the Commission is not exposed to any significant foreign currency risks.

Fair values

Set out below is a comparison by category of book values and fair values of the Commission's financial assets at 31 March 2010.

	Book value £'000	Fair value £'000
Primary financial instruments		
Financial assets:		
Cash at bank at 31 March 2010	<u>182</u>	<u>182</u>
Cash at bank at 31 March 2009	<u>46</u>	<u>46</u>

Report of the Comptroller and Auditor General

Year ended 31 March 2010

Introduction

1. The Northern Ireland Legal Services Commission (NILSC) was established on 1 November 2003 under the Access to Justice (Northern Ireland) Order 2003 to provide Legal Aid in Northern Ireland. It assumed responsibility for civil legal aid from the Legal Aid Department of the Law Society of Northern Ireland, and criminal legal aid administered by the Legal Aid Department on behalf of Northern Ireland Court Service¹.
2. The NILSC prepares accounts for Legal Aid funds (the Grant Account) and for its grant-in-aid funded operations. The report relates solely to the Grant Account.

Purpose of the Report

3. I was appointed as auditor of the NILSC under Schedule 1 paragraph 17 of the Access to Justice (Northern Ireland) Order 2003. I am required to examine, certify and report upon each statement of accounts prepared by the NILSC.
4. The purpose of this report is to explain the background to my qualification of the Legal Aid Grant Account for the year ended 31 March 2010.

Qualification of my audit opinions on the Legal Aid Grant Account

5. I have qualified my opinion on the Grant Account in the 2009-10 financial statements because of the following issues:

- Weaknesses in the NILSC's application of its accounting policy for provisions; and
- a limitation in scope arising from a lack of sufficient evidence to support the regular nature of legal aid grant expenditure.

Qualified opinion on current year financial statements arising from weaknesses in the NILSC's application of its accounting policy for provisions

6. There have been significant issues with the accounting policy, estimation technique and disclosures used by the NILSC in calculating Legal Aid provisions since its establishment in 2003, which resulted in adverse audit opinions on the NILSC Grant financial statements up to and including the 2008-09 financial statements.
7. In 2008-09, the NILSC developed the Provisions Information Management System (PIMS) model to more accurately estimate the liability for services provided by legal advisors to Legal Aid claimants. While this addressed some of the issues, pervasive errors arising from NILSC's application of its revised accounting policy remained. This was predominantly due to an estimation model based on worst-case scenarios which were not reflective of the normal trend of case life cycles. I concluded that the Grant financial statements did not present a true and fair view due to overstatements of between £8.9million and £21.6million in the provision at 31 March 2009.

¹ Following the devolution of policing and justice functions in Northern Ireland on 12 April 2010 the Northern Ireland Court Service became the Northern Ireland Courts and Tribunals Service, an Agency of the Department of Justice.

Report of the Comptroller and Auditor General

8. In 2009-10, the NILSC further revised the case life cycle assumptions in the PIMS model, as explained in note 1g of the Grant Account. This revision was made following a review of the high level classifications for the five main case types. At this stage though, the NILSC does not believe that it is practicable for it to further refine the life cycle assumptions to reflect the differing timeframes for completion of the individual case types within these high level classifications.
 9. As a result of not further refining its estimating technique, the NILSC has estimated that an overstatement of up to £13.7million may still exist within the 2009-10 Grant Account Legal Aid provision of £107million. Other weaknesses in the application of the estimation technique resulted in potential understatements of £700,000.
 10. I have, therefore, concluded that the misstatement arising from NILSC's application of its accounting policy resulted in an overstatement of up to £13.0 million in the provision at 31 March 2010 and have qualified my audit opinion accordingly. While the level of error remains significant, I have concluded that it no longer remains pervasive to the financial statements as a whole.
 11. As the comparative figures presented for 31 March 2009 and 31 March 2008 have not been restated, the impact of the potential misstatements remains so material and pervasive that this comparative information does not give a true and fair view.
- Limitation in scope arising from a lack of evidence to support the regular nature of legal aid grant expenditure**
12. The nature of the Legal Aid scheme, in making payments to legal advisors for services which are directly provided to Legal Aid claimants, creates difficulties for the NILSC in determining whether the services were appropriately provided. In addition, means tested legal aid carries a risk that income details may be misstated on initial application, or that changes in financial circumstances during the case are not reported by the claimant.
 13. Payments which may have been made by the NILSC as a result of fraudulent legal aid applications or inappropriate legal bills would not have been applied for the purposes intended by Parliament, and would therefore be irregular. The NILSC do not have an estimate of the likely scale of fraud. Internal Audit reports on Fraud Prevention and Detection in October 2005 and October 2007 found material weaknesses due to the absence of key controls. These weaknesses have still not been addressed.
 14. A small Counter Fraud Unit operates at the NILSC. The unit continues to be more reactive than proactive and is not able to provide the same level of assurance as a fully fledged inspection regime. In the absence of this key control or compensating controls in the NILSC I cannot obtain sufficient audit evidence to gain assurance that material fraud does not exist.

Report of the Comptroller and Auditor General

15. The NILSC has not introduced an inspection regime because it does not have a statutory basis to do so under the Access to Justice (Northern Ireland) Order 2003 or the Legal Aid, Advice and Assistance (Northern Ireland) Order 1981. There are examples of other public bodies who have introduced inspection regimes without a specific statutory basis, as a matter of good practice.
16. I have therefore limited the scope of my audit opinion on regularity because I have been unable to obtain sufficient audit evidence to enable me to conclude that payments to legal professionals are regular.

Amyas C E Morse

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5 October 2011

An executive summary of this document is also available in an accessible format if required i.e. Braille, large print, audio cassette or in a minority ethnic language.

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