

# Annual Report and Accounts **2010-11**

legal aid – fair access to justice



# Legal Services Commission Annual Report and Accounts 2010-11

Presented to Parliament pursuant to Schedule 1, paragraph 14 (3) and 16 (4) of the Access to Justice Act 1999.

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# Chair's review

It is now over 10 years since the creation of the Community Legal Service and the Criminal Defence Service under the Access to Justice Act 1999, and the legal aid budget continues to deliver over 2.7 million acts of assistance a year.

Our main focus during 2010 and 2011 has been on further improving financial control, playing our part in the effective management and delivery of access to legal aid and our own administration whilst continuing to support the Ministry of Justice (MoJ) in implementing the legal aid reform programme. Following the Magee review of legal aid governance and delivery (published in March 2010) one of my top priorities has been to improve relations with MoJ and I am pleased to report on a significantly improved and constructive working relationship.

The past year has been a testing one for LSC staff as they have coped with the letting of new crime and civil contracts, a large number of legal challenges to tendering decisions and more rigorous auditing of both ourselves and providers. I would like to thank them for their efforts which are starting to show some significant financial benefits to the legal aid fund. During the year we also said goodbye to some long term members of staff and Commissioners. I wish to acknowledge their considerable contributions. In particular I wish to commend Carolyn Downs for steering the LSC through extremely challenging times since joining us in March 2010.

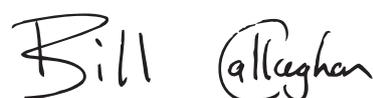
In June 2011 the Government published its consultation response to proposals for the reform of legal aid and the Legal Aid, Sentencing and Punishment of Offenders Bill was introduced by the Government.

The Government intends to reform the legal aid system to:

- Discourage unnecessary and adversarial litigation at public expense
- Target legal aid to those who need it most
- Make significant savings in the cost of the scheme
- Deliver better overall value for money for the taxpayer.

Looking ahead, our vision is to work with our providers and the justice system to be a respected commissioner and administrator of legal aid. To do this we will work with providers and their representative bodies to ensure that our relationships are constructive and respectful.

We will be making further changes to our organisation as we prepare for the future delivery of legal aid by an executive agency within the MoJ, continue to address the legal aid accounts qualification, further reduce overheads and introduce an electronic case management system for civil legal aid. Following the passing of the Bill we will also have to implement changes agreed by Parliament. Our agenda remains very challenging. Commissioners and staff are committed to ensuring that we meet those challenges in the year to come.



**Sir Bill Callaghan**  
Chair

Legal Services Commission  
October 2011

# Legal aid – fair access to justice

The Legal Services Commission is responsible for the operational administration of the legal aid scheme in England and Wales.

Legal aid enables people to safeguard their rights and address their problems. Our work is therefore essential to the fair, effective and efficient operation of the civil and criminal justice systems. It is also critical in helping to provide access to legal advice for some of the most vulnerable members of society.

The LSC employs around 1,500 people based across England and Wales. We commission, procure and pay for legal aid services from quality-assured providers.

We deliver legal services through two schemes: the Community Legal Service and the Criminal Defence Service. Both schemes have eligibility criteria in relation to the means of the client and the nature of the problem, with certain limited exceptions.

## The Community Legal Service

The CLS includes contracted solicitors and advice agencies which provide civil and family legal advice and representation.

The LSC manages Community Legal Advice, which includes telephone and internet-based services. We also contract with providers to deliver face-to-face civil legal aid services across a range of categories such as debt and housing.

**Community  
Legal Service**



## The Criminal Defence Service

The CDS provides legal advice and representation to people being investigated or charged with a criminal offence.

The LSC manages the duty solicitor schemes for police stations and magistrates' courts so that those who need advice and representation can see a solicitor. We also fund services in the higher courts. Our Public Defender Service provides criminal defence services directly to the public.

**Criminal  
Defence Service**



## Legal aid – fair access to justice

### Our relationship with Government

The LSC was established under the Access to Justice Act 1999 and is currently a non-departmental public body sponsored by the Ministry of Justice. However, Ministers have announced that, subject to the necessary legislation, the LSC will be abolished. Outside of the legislative process, it is intended that an executive agency will be created within the MoJ in 2012 to administer legal aid.

The Lord Chancellor and Secretary of State for Justice is accountable to Parliament for our activities and performance. In addition, within Wales, the LSC maintains close links with the Welsh Assembly Government, in recognition of the devolved administration.

### Our objectives and priorities

Our four strategic objectives as set out in our *Business Plan 2010-11* were to:

1. Maximise access to quality services to meet the diverse needs of the clients we serve
2. Deliver a sustainable legal aid scheme and an efficient and diverse organisation
3. Facilitate the efficient and effective delivery of justice and wider government priorities
4. Work with our providers fairly and robustly, and improve our delivery performance.

Our priorities were as follows:

- A. Delivering a structure and framework for the future administration of legal aid
- B. Delivering improved financial management and control
- C. Meeting the budget and resources challenges we face and maintaining access for those most in need
- D. Engaging staff and building their capability.

# The year in focus

This chapter reports on the main developments of the year, and includes the key statistics that relate to the delivery of legal aid through the Community Legal Service and the Criminal Defence Service.

Figures given in the text, unless otherwise stated, are total legal aid case costs. This is intended to more closely align reporting across both the annual report and the accounts, which are on an accruals basis, and give more consistent comparatives over time.

We present statistical information in a summary format. A detailed statistical analysis of our work in 2010-11, including comparisons with 2009-10, can be found on our website at [www.legalservices.gov.uk/aboutus/how/strategic\\_publications.asp](http://www.legalservices.gov.uk/aboutus/how/strategic_publications.asp).

## Expenditure and acts of assistance 2010-11<sup>1</sup>

	Resource spend £m	Acts of assistance 000s
CLS Licensed Work (gross) <sup>2</sup>	913.7	149.8
less operating receipts	(198.2)	–
Interest receivable/received etc.	(8.1)	–
CLS Licensed Work (net)	707.4	–
CLS Controlled Work <sup>3</sup>	278.0	1,096.0
<b>CLS total (net)</b>	<b>985.4</b>	<b>1,245.8</b>
Crime Lower (gross) <sup>4</sup>	443.4	1,338.1
Crime Higher (gross) <sup>5</sup>	688.2	130.6
less operating receipts, etc.	(1.8)	–
<b>CDS total (net)</b>	<b>1,129.8</b>	<b>1,468.7</b>
<b>CLS and CDS total (net)</b>	<b>2,115.2</b>	<b>2,714.5</b>
LSC administration excluding HMCTS fees	86.8	–
LSC administration HMCTS fees only	12.4	–
<b>LSC administration total</b>	<b>99.2</b>	<b>–</b>

1 Controlled Work and Licensed Work are defined on page 6. Figures may not sum to total due to rounding.

2 CLS Licensed Work acts of assistance includes granted civil representation applications and family mediation work.

3 CLS Controlled Work acts of assistance is based on new matter starts, the details of which can be found in the CLS2 table in the statistical information pack available on the LSC website.

4 Crime Lower acts of assistance are based on claim volumes, excluding file review and second claims for deferred sentencing. Starts are not used as the LSC does not have access to complete information.

5 Crime Higher acts of assistance are based on the number of representation orders issued.

## The year in focus

Key facts and figures															
<b>We funded 2.7 million legal aid acts of assistance overall</b>	The LSC continued to help a significant number of individuals across England and Wales.														
<b>£2,115.2m total (net) legal aid expenditure</b>	The final administration resource expenditure was £99.2m (net), a reduction of £21.5m on 2009-10.														
<b>As at 31 March 2011 we held 2,335 civil and 1,733 crime contracts with legal service providers</b>	In 2010-11 we introduced new legal aid contracts to replace the Unified Contract which ran from 2007 for civil and 2008 for crime.														
	<p>The 2010 Standard Civil Contract, covering all civil categories of law except Family (and Family with Housing), began on 15 November 2010. Following the judgement of the Law Society's judicial review of our civil tender process, the existing Family (and Family with Housing) contracts were extended to 30 November 2011.</p> <p>The 2010 Standard Crime Contract began on 14 July 2010 and will run for three years.</p> <table border="1"> <thead> <tr> <th>Contract type</th> <th>Number of contracts</th> <th>Number of offices</th> </tr> </thead> <tbody> <tr> <td>Civil – solicitor</td> <td>2,039</td> <td>2,903</td> </tr> <tr> <td>Civil – not-for-profit</td> <td>296</td> <td>491</td> </tr> <tr> <td><b>Total civil</b></td> <td><b>2,335</b></td> <td><b>3,394</b></td> </tr> <tr> <td><b>Total crime</b></td> <td><b>1,733</b></td> <td><b>2,418</b></td> </tr> </tbody> </table>	Contract type	Number of contracts	Number of offices	Civil – solicitor	2,039	2,903	Civil – not-for-profit	296	491	<b>Total civil</b>	<b>2,335</b>	<b>3,394</b>	<b>Total crime</b>	<b>1,733</b>
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<b>Total crime</b>	<b>1,733</b>	<b>2,418</b>													

## Community Legal Service

The CLS provides civil legal help and representation via Community Legal Advice (CLA) as well as through solicitors and not-for-profit agencies. The LSC awards contracts to providers which are split by category of civil law, allowing us to allocate funding to the areas where clients need it most.

For initial advice and assistance, members of the public often use CLA. Where face-to-face advice, assistance or representation in proceedings is needed, services are delivered in two main ways:

Controlled Work	Licensed Work
<ul style="list-style-type: none"> <li>Covers basic levels of advice and representation</li> <li>Providers assist clients directly, with no need to apply to the LSC for each case</li> <li>Also referred to as Legal Help or Family Help Lower</li> <li>Encompasses Help at Court and representation in front of mental health review and asylum and immigration tribunals</li> <li>A Controlled Work act of assistance is each instance in which a provider gives legal help to a client, not including representation in court.</li> </ul>	<ul style="list-style-type: none"> <li>Accounts for all other types of civil work, with the exception of Very High Cost Cases, which are managed under specialist contracts</li> <li>Funding applications need to be submitted to the LSC for each case. The LSC decides whether funding criteria and the merits test are met. Limits in relation to the work are then set, which may be varied on application by a provider on behalf of the client.</li> </ul>

**Total CLS spend of £985.4m (net) enabled us to provide 1.25 million acts of assistance**

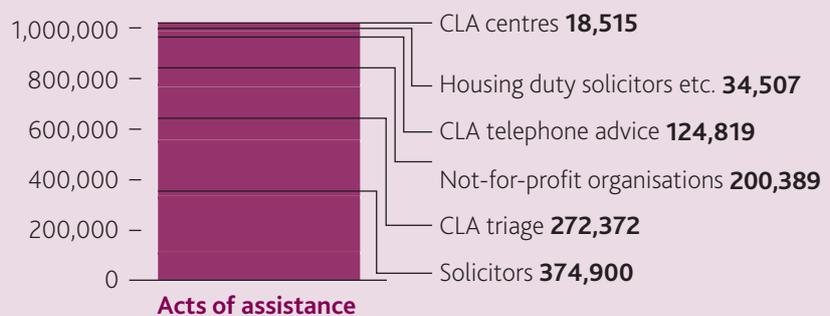
89% of cases resulted in a substantive benefit for the client as reported to the LSC by legal aid service providers.

**We funded over 1 million Legal Help acts of assistance**

We exceeded our target to deliver 1 million Legal Help acts of assistance via face-to-face and telephone advice during 2010-11, with a total of 1.03 million acts of assistance being delivered.

We also provided an additional 83,453 demand-led immigration acts of assistance and issued 144,875 certificates for Licensed Work.

**Acts of assistance target**



# The year in focus

## Community Legal Advice

**CLA offers free, confidential and independent civil legal advice and assistance**



Anyone can contact CLA to be pointed in the right direction for further assistance, and individuals eligible for legal aid can get specialist advice and assistance.

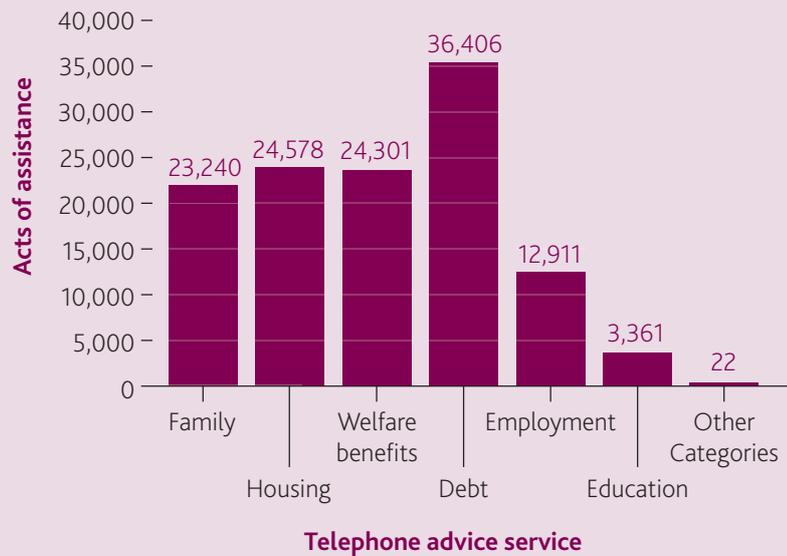
CLA services include:

- A leaflet directing people to the CLA website, available at a wide variety of locations across England and Wales
- A telephone helpline, providing initial advice and assistance in finding further help. Those seeking advice can call 0845 345 4345
- A 'call me back' service, which can be in a language other than English, available via the DirectGov website or by texting 'legalaidd' to 80010
- Information about CLA can now be found at [www.direct.gov.uk/contactCLA](http://www.direct.gov.uk/contactCLA)
- Community Legal Advice centres and networks, providing advisory and representation services for a broad range of issues. At 31 March 2011, we had nine centres and one network.

**CLA provided 397,191 acts of assistance**

Specialist telephone advisers handled 124,819 acts of assistance (as shown in the table below) and 272,372 enquiries were closed at the triage stage, by the operator service resolving the issue to the clients' satisfaction or referring them to a local face-to-face provider or alternative helpline.

### Specialist telephone advice



## Criminal Defence Service

Forming part of the wider Criminal Justice System, the CDS ensures access to advice, assistance and representation for all eligible individuals suspected or accused of a crime.

Advice or representation	Types of service	Numbers	Total claimed (£'000)
Crime Lower: Services provided to suspects who had not been charged	Police station attendance	675,502	170,810
	Total telephone advice and administration	161,342	7,813
	Other police station work	8,660	1,384
Crime Lower: Services provided to defendants who had been charged	Total where a representation order is required	429,605	203,243
	Total where no representation order is required or representation order is refused	17,882	7,625
	Court duty solicitor	87,568	23,480
	Prison law	46,432	25,864
Crime Higher	All higher crime schemes	286,072	702,892

### Total CDS spend of £1,129.8m (net) enabled us to provide 1.47 million acts of assistance

We ensure provision of a range of criminal defence services, from police station advice and assistance to defending clients in court if charged.

### CDS Direct – access to advice and value for money

CDS Direct provides members of the public detained by the police on suspicion of less serious criminal offences with direct access to telephone advice. Our call handling service, the Duty Solicitor Call Centre, secures telephone advice from CDS Direct, or contacts individual providers to give face-to-face advice depending on the nature of the alleged offence.

CDS Direct covers own client work as well as duty work. Clients may change to their own solicitor at a later stage if they require attendance at the police station for an interview or if their case goes to court.

Of 161,342 telephone advice matters in 2010-11, 123,903 were delivered by CDS Direct. In terms of response times, over 99% of calls back to police stations were made within 15 minutes and over 99% within 30 minutes. The overall average time to make a call following a request was 2 minutes and 47 seconds.

The remaining 37,439 acts of assistance were telephone advice delivered by individual providers where they themselves judged that telephone advice would be appropriate, despite the alleged offence qualifying for face-to-face advice, due to the circumstances of the case.

## The year in focus

<p><b>100% coverage of the 24-hour duty solicitor schemes</b></p>	<p>The CDS continued to maintain total coverage of the duty solicitor schemes at police stations across England and Wales.</p>
<p><b>Access to justice - from police stations to higher courts</b></p>	<p>Under the 2010 Standard Crime Contract we funded 1.34 million acts of assistance at police stations and magistrates' courts and 130,621 at the higher courts.</p>
<p><b>The Public Defender Service opened 3,339 files in 2010-11</b></p> 	<p>Established in 2001, the PDS was the first salaried criminal legal aid provider in England and Wales.</p> <p>There are currently four PDS offices: Cheltenham, Darlington, Pontypridd and Swansea. PDS lawyers are available 24 hours a day, seven days a week to provide independent advice, assistance and representation on criminal matters.</p> <p>The LSC directly employs PDS lawyers who must adhere to the <i>PDS Code of Conduct</i> to ensure independence.</p>

# Our performance

Each year we set a series of Key Performance Indicators. These are designed to help us work towards meeting our strategic objectives and ensure that we maintain fair access to justice.

Whilst the KPIs vary from year to year, there are some which remain constant, such as monitoring the access to services that we provide, and ensuring a sustainable legal aid scheme through targets on our finances.

The 'balanced scorecard' shows how we performed against our KPIs as follows:

 **Achieved**

 **Partially achieved**

 **Not achieved**

Where a KPI was partially or not achieved, we have included a footnote to explain our performance in more detail.

This year, we achieved 6 KPIs and partially achieved 1. This information is not audited.

Finance			
Strategic objective	KPI headline	KPI	Status
Deliver a sustainable legal aid scheme and an efficient and diverse organisation	Take action to live within the agreed fund forecast	The target is to complete actions agreed with MoJ in monthly finance review meetings, by the specified deadline.	
	Live within the administration budget	We will live within our allocated administration budget of £107.2m (including Crown Court means testing), and will track year-to-date and full year variance to our budget.	
	Stewardship measure	<p>The target is to complete the agreed actions that form part of the LSC financial stewardship action plan, in order to strengthen financial control and reduce the risk of future qualification of the accounts.</p> <p>Actions that will be undertaken include implementing phase 1 of the Ernst &amp; Young recommendations (which identified improvements to financial controls for both the legal aid fund and administration budget), implementing the Public Accounts Committee actions, and embedding the new general ledger system.</p>	

## Our performance

Client			
Strategic objective	KPI headline	KPI	Status
Maximise access to quality services to meet the diverse needs of the clients we serve	Deliver 1 million acts of assistance	<p>We will reach 600,000 face-to-face acts of assistance and 400,000 telephone acts of assistance by 31 March 2011.</p> <p>The telephone target is broken down into 100,000 by CLS specialists and 300,000 by CLA triage.</p>	
Facilitate the efficient and effective delivery of justice and wider government priorities	Whole system initiatives	<p>This is a target created by MoJ, with Her Majesty's Courts Service (now Her Majesty's Courts and Tribunals Service), Children and Family Court Advisory and Support Service (CAFCASS), local authorities and the LSC all playing a part to reduce delay in child supervision and care proceedings.</p> <p>The over-arching target is across five years, but the year 1 contribution is to increase the number of parents (and those with parental responsibility) in England receiving pre-proceedings (level 2) advice in Care Proceedings cases to 15% in 90% of local authority areas.</p> <p>The benchmark number of local authorities where this target is being met is 157 (48%). The target is to increase to 294 which is an increase of 137 local authority areas. This requires an improvement of 42%.</p> <p>To attempt to meet this stretching target, the LSC will take action throughout the year as follows:</p> <ul style="list-style-type: none"> <li>• Identify providers using little or no level 2 advice, and contact them to increase the number</li> <li>• Provide geographical data on level 2 usage to local performance monitoring groups</li> <li>• Contribute to monitoring groups that include local authorities, either through attendance at the meeting, or the provision of supporting papers and information.</li> </ul>	

Process			
Strategic objective	KPI headline	KPI	Status
Facilitate the efficient and effective delivery of justice and wider government priorities	Customer service score	Meet specified performance levels in at least 10 out of 15 targets. The areas for measurement cover the quality of our work, the speed of processing and response. These stretching targets include the processing of applications and bills, and error rates.	 <sup>1</sup>

Organisation/people			
Strategic objective	KPI headline	KPI	Status
Work with our providers fairly and robustly, and improve our delivery performance	People scorecard	<p>Meet the following people measures:</p> <ul style="list-style-type: none"> <li>i. Achieve an average of 7.66 or fewer sickness absence days per person for the year</li> <li>ii. 98% of employees who should have had a Performance Development Review for the May/June and the December/January rounds have a rating recorded on the HR system</li> <li>iii. Reduce the total number of grievances, appeals and tribunals by 15% compared with 2009-10</li> </ul>	 <sup>2</sup>

- 1 The customer service scorecard includes key measures such as the quality of our work and the speed of processing and response times. Performance was affected by an increase in the volume of claims, and additional checks which were introduced to eliminate over-claiming and over-payment.
- 2 Part iii of this target was changed after the Business Plan was published to a 10% reduction in grievances, as the LSC could more accurately benchmark the data for this element. We achieved a 12% reduction in grievances this year compared to 2009-10.

## Our performance

We also set out our key milestones in our *Business Plan 2010-11* which link directly to each of our four priorities.

The milestone chart shows how we performed as follows:

-  Good
-  Mixed
-  Problematic
-  Highly problematic

Where a milestone was problematic, we have included a footnote below to explain our performance in more detail. This information is not audited.

### **Delivering a structure and framework for the future administration of legal aid**

- 3c – Policy instructions from the LSC were completed and submitted to the MoJ in June 2011.
- 4c – The information assurance IT solution is being finalised in the context of the projects to be delivered in 2011-12, the impact of the transition to executive agency status and IT team structure.
- 5a, b and d – Work started later as the date of transition to executive agency was moved from the original prediction, though it remains on track for the revised transition date.
- 6a – The LSC estates strategy was updated to reflect progress since its sign-off and to reflect the programme planning of current relocation strategies.

### **Delivering improved financial management and control**

- 2h – This milestone was changed following the publication of the Business Plan to focus on reducing the overall debt owed to the LSC to £295m rather than reducing the debt owed to the LSC by £20m.

### **Meeting the budget and resources challenges we face and maintaining access for those most at need**

- 2b – Slower progress was made on the fund accounting project, as much of the design was based around manual processes which users in both the finance and case management teams indicated should be automated.
- 2e – The Integrated Delivery Programme has been re-scoped to incorporate important additional functionality and is now due to be implemented in 2012.

## Delivering a structure and framework for the future administration of legal aid

### 1. Implementing the agreed action plan

- 1a** Work-stream managers identified and appointed
- 1b** Governance - review size of Commission
- 1c** Agree with MoJ recommendations to be taken forward
- 1d** Key outcomes and outputs defined for each work-stream
- 1e** Permanent Secretary and the LSC Chair foster joint relationship between LSC and MoJ at all levels
- 1f** MoJ/LSC consensus on way forward
- 1g** Agreed framework document
- 1h** Independent review of progress against progress plan commissioned by the MoJ

### 2. Development of business case for move to executive agency status

- 2a** Detailed benefits defined with a realisation strategy developed
- 2b** Submission to Ministers on the executive agency transition and change proposals agreed within 18 months
- 2c** Gate 0 review of programme
- 2d** Agency strategy published

### 3. Defining the new organisation's governance and policy procedures

- 3a** Clarity on policy making; MoJ/LSC establish single organisation focus
- 3b** Final agreement on policy, decision making and structure
- 3c** Ensure supporting work on proposals around items to go into the Legal Aid Bill are completed

### 4. Defining the new organisation's operational systems and processes (including ICT)

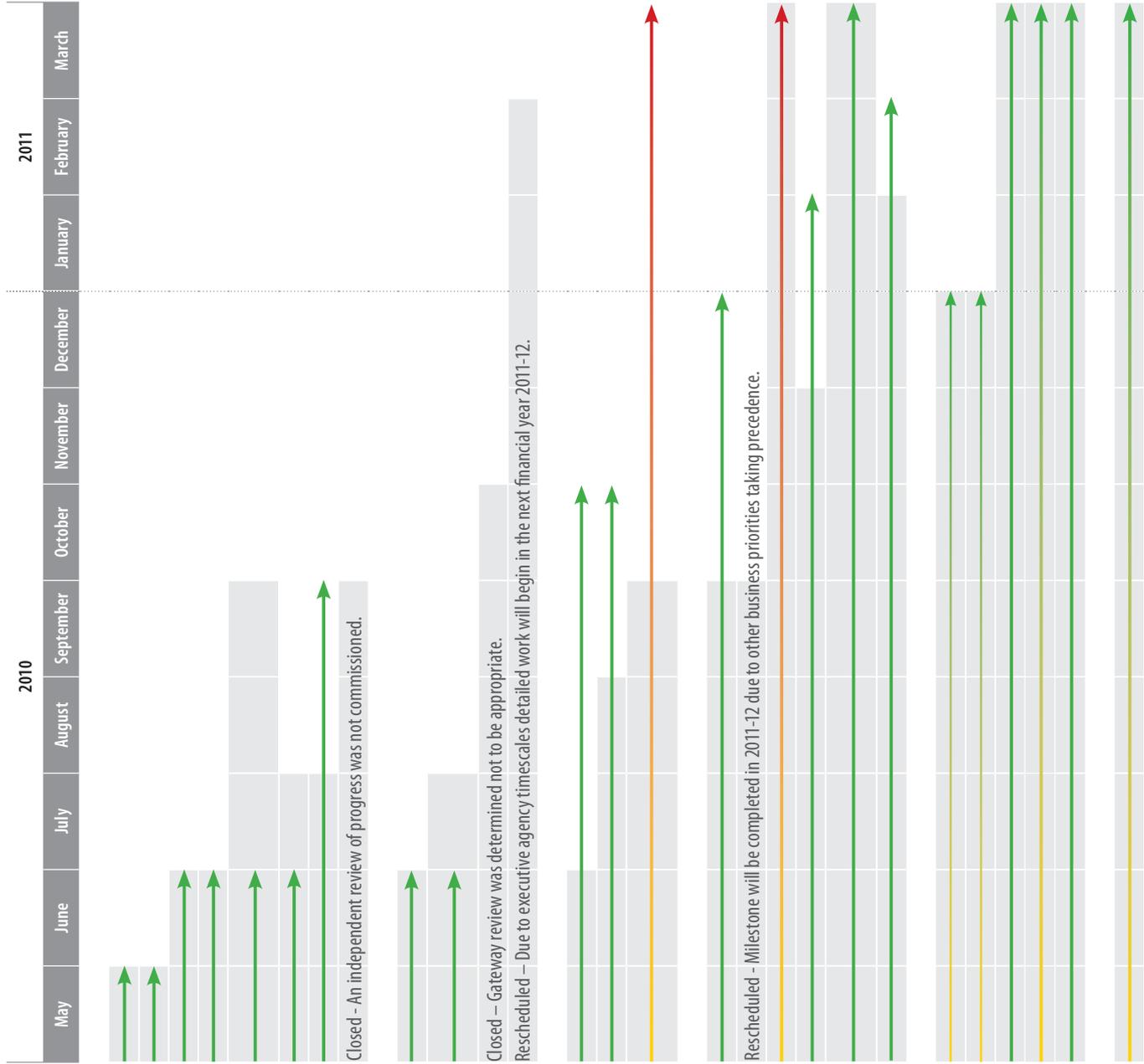
- 4a** Agree case for further efficiencies
- 4b** MoJ, LSC and HMCS to consider division of responsibilities
- 4c** Draft information security strategy complete
- 4d** Focus on developing expertise and capacity as a commissioning body
- 4e** Proposal developed and implemented to ensure the balance between control of providers and allowing self management and innovation
- 4f** Privacy impact assessment completed on "to be" processes and systems

### 5. Defining the new organisation's workforce capacity and capability requirements

- 5a** Proposals for pay, terms and conditions and pensions finalised
- 5b** Employee relations negotiations completed (TUPE etc.)
- 5c** Draft HR strategy complete
- 5d** Preparation for transition of selected LSC staff to new body
- 5e** External recruitment to meet priority skills and capacity shortfalls

### 6. Defining the estate and infrastructure requirements

- 6a** Draft estates management strategy complete



## Delivering improved financial management and control

### 1. Continuously improving systems, checks and controls and produce auditable accounts

- 1a Prepare 2009-10 accounts for audit by NAO
- 1b Implement 'quick wins'. Phase 1 recommendations on improved financial controls
- 1c Define and implement quick wins
- 1d Implement phase 1 recommendations
- 1e Implement phase 2 recommendations
- 1f Plan for 2010-11 accounts

### 2. Recouping overpaid monies and recovering debt owed

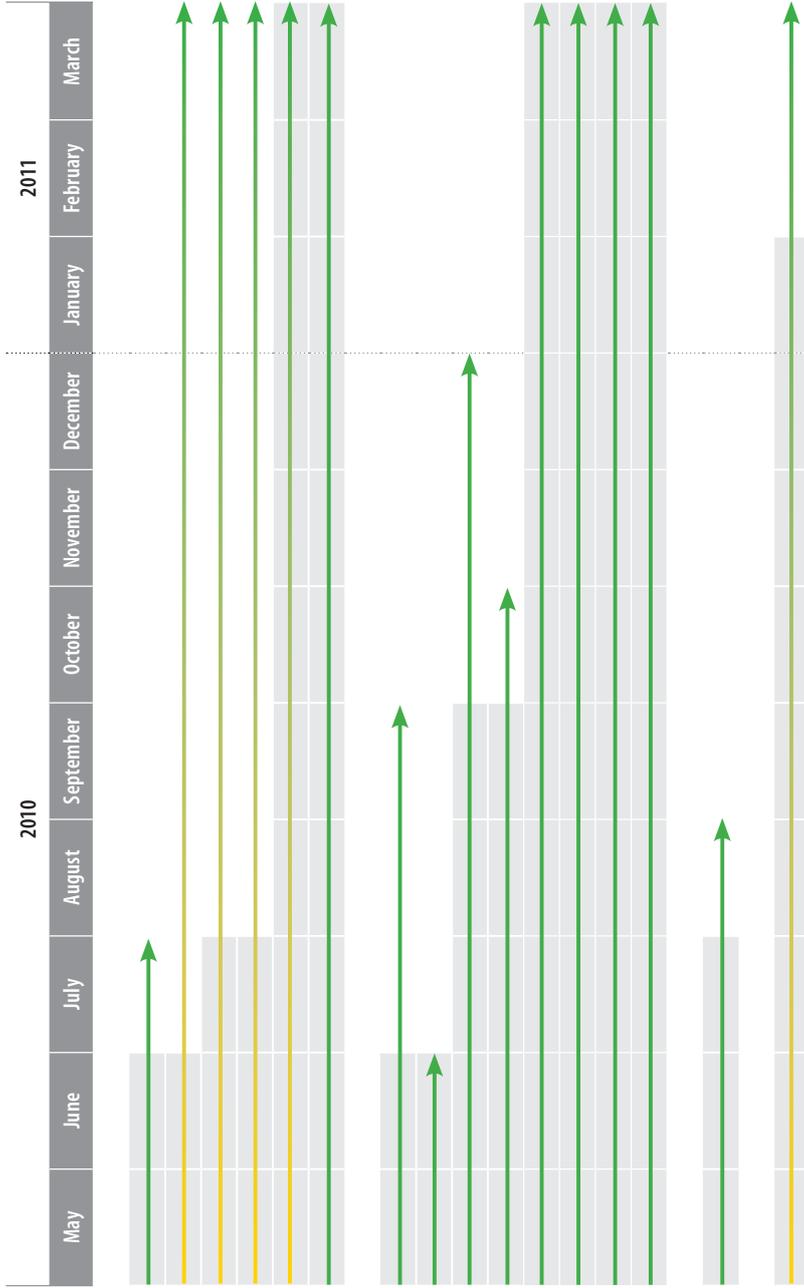
- 2a Recover £5m of overpaid monies (2008-09)
- 2b Review phase 1 of the provider dashboard risk assessed firms
- 2c Start phase 2 of the provider dashboard risk assessed firms
- 2d Complete review and implement refinement of the provider dashboard methodology
- 2e Recover £5m of overpaid monies (2009-10)
- 2f Recover £2.5m of overpaid monies (2010-11)
- 2g Review phase 2 and start phase 3 of the relationship management financial stewardship
- 2h Reduce the overall debt owed to the LSC to £295m

### 3. Fairly and effectively working with our providers to manage their performance

- 3a Publish phase 1 guidance to providers

### 4. Implement Public Accounts Committee action plan

- 4a All actions to be completed in accordance with published timescales



## Meeting the budget and resources challenges we face and maintaining access for those most at need

### 1. Implementing legal aid reform projects

- 1a Legal aid funding reforms
- 1b Specialist Quality Mark outsourcing
- 1c Complete national roll-out of Crown Court means testing
- 1d Implement crime 2010 contracts and prison law fee schemes
- 1e Complete implementation of new arrangements for Very High Costs Cases scheme
- 1f Legal aid funding reforms - transfer committal remuneration arrangements
- 1g Legal aid funding reforms - reductions to Advocates Graduated Fees Scheme
- 1h Implement civil 2010 contracts and civil fees phase 2

### 2. Implement internal change projects

- 2a Conclude roll-out of IT transformation
- 2b Agree integrated financial accounting and operational systems
- 2c Crown Court remuneration - Advocates Graduated Fees Scheme transfer from HMCS to LSC
- 2d Complete full IT transformation programme
- 2e Delivery of civil case management and financial accounting

### 3. Helping to resolve issues at the earliest opportunity

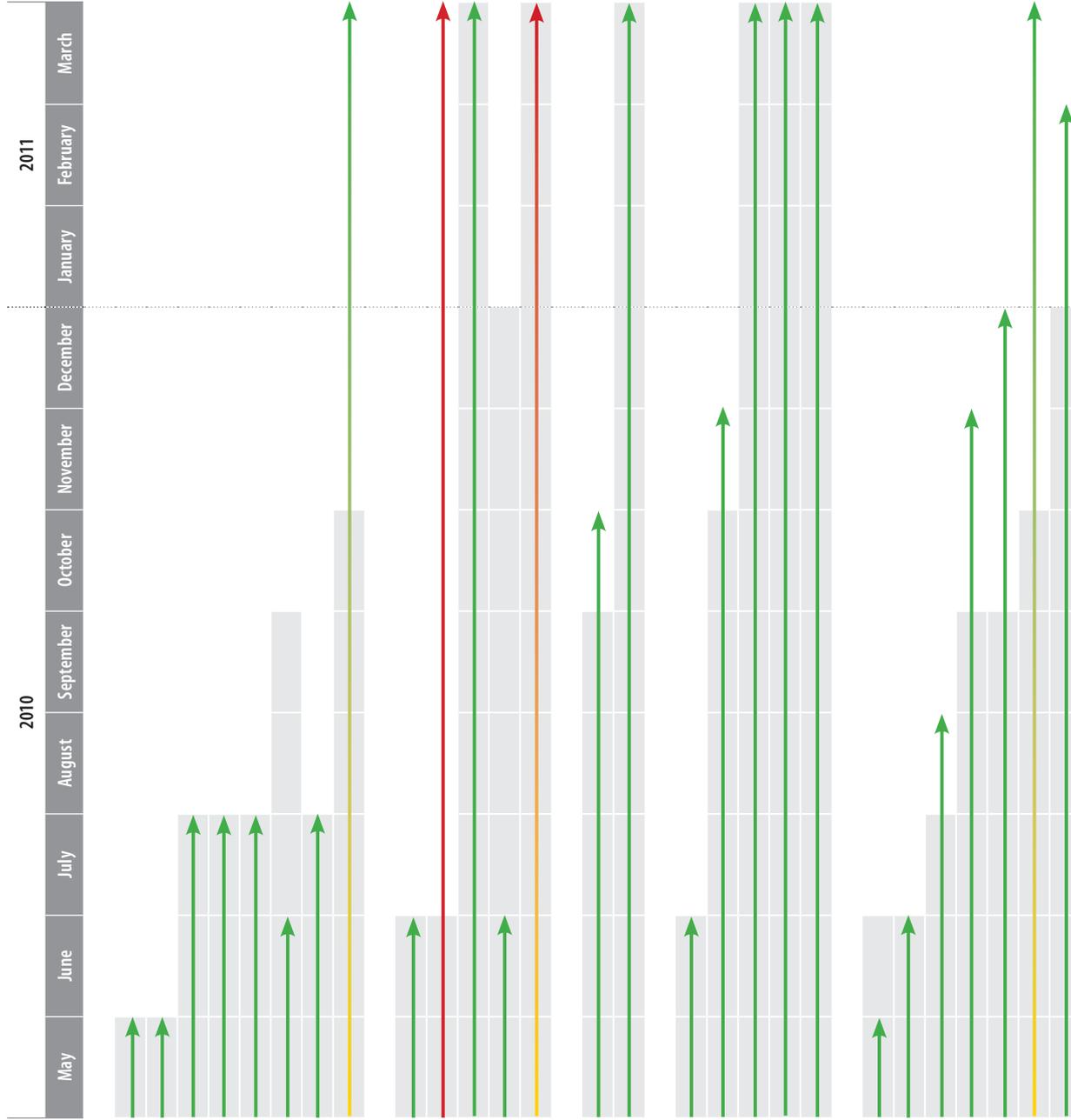
- 3a Implement the agreed way forward following court mediation pilots
- 3b Collaborate with 'diversion from courts' initiatives and evaluation of effectiveness

### 4. Deliver quality legal advice to those who need it

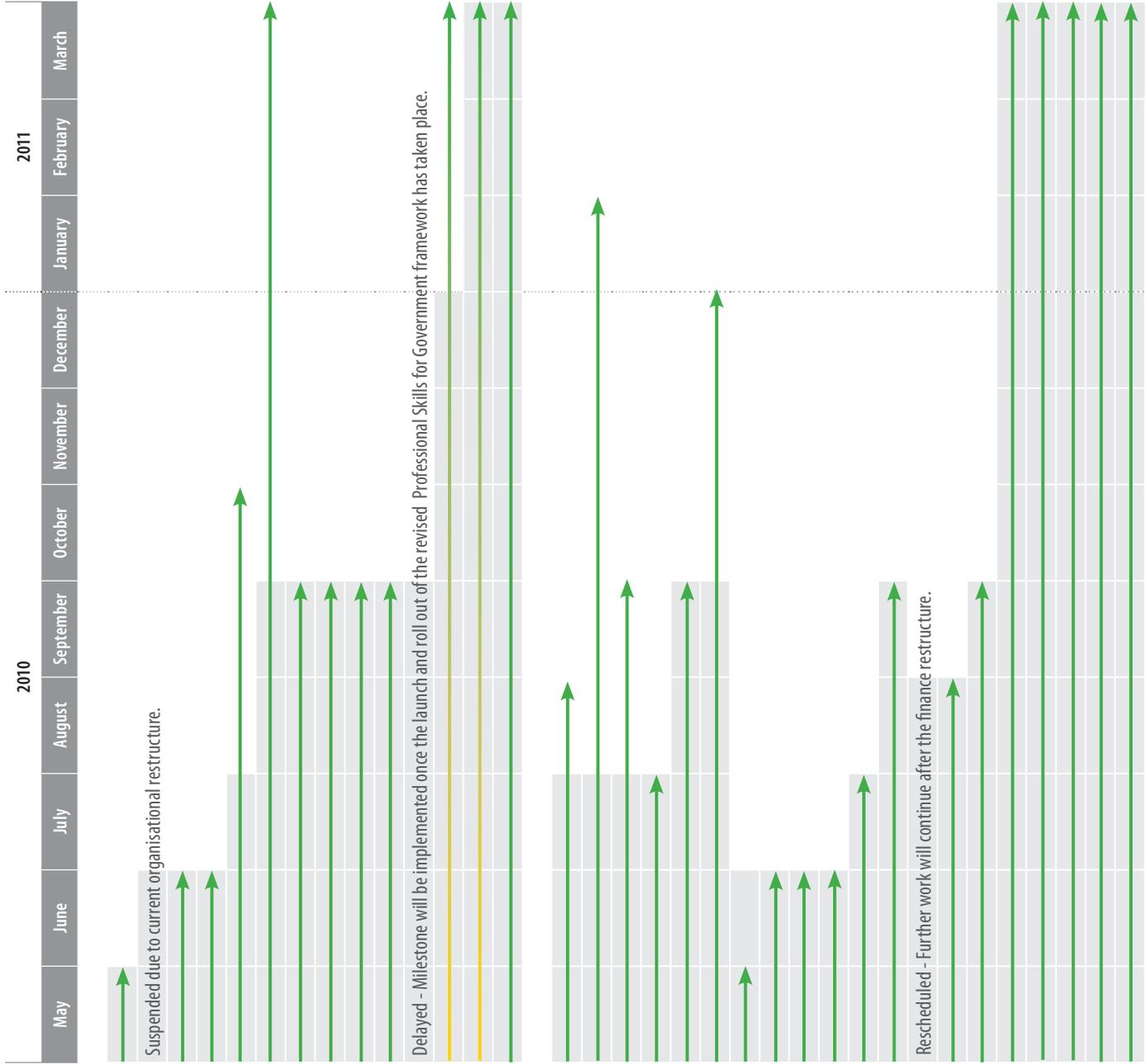
- 4a Review Public Defender Service (PDS) achievement of cost neutrality
- 4b Establishing effective service from new crime providers
- 4c Deliver 1 million acts of assistance
- 4d Establishing effective service from new civil contract providers
- 4e Deliver quality service through PDS

### 5. Implementing an integrated corporate planning cycle

- 5a Complete re-prioritisation of programmes and projects
- 5b Agree the approach and implications for LSC for HM Treasury's clear line of sight
- 5c Publish 2010-11 business plan and KPIs
- 5d Complete interim review of business performance
- 5e Plan for an integrated 2011-12 planning cycle
- 5f Implementation of next phases of management information strategy
- 5g Complete quarterly resource accounts



## Engaging our staff and building their capability



### 1. Increase and strengthen the capability of all our people

- 1a Launch revised and simplified Performance Development Review (PDR)
- 1b 2009 staff survey action plans to be developed and implemented
- 1c Senior Management Team (SMT) to have personal development plans
- 1d Launch online learning tool kit for all staff
- 1e Financial management skills gap analysed and development programme agreed
- 1f Link into MoJ programme/project management training framework to improve delivery
- 1g Leadership capability development programme launched
- 1h Staff to complete risk management online training package
- 1i Launch of management skills programme 4
- 1j Launch of equality and diversity training roll-out
- 1k Link with the civil service people framework to align our work and share resources
- 1l Develop wider understanding of financial management skills
- 1m Improve the leadership skills of SMT
- 1n Enhance managers' ability to take a coaching approach

### 2. Increase and strengthen staff engagement and confidence

- 2a Business Plan issued and communicated to staff
- 2b Monitoring and reporting mechanism developed and embedded
- 2c Revised internal communications strategy published
- 2d Local recognition schemes supported to recognise excellent performance
- 2e 'Talkback' sessions take place with LSC
- 2f Engage with SMT and key business managers
- 2g Director of Communications appointed and in post
- 2h Develop and strengthen the internal audit function
- 2i Continue to improve HR Business Partner model
- 2j Continue to embed and develop the shared services model
- 2k Cross-MoJ professional development contacts established and implemented
- 2l Professional development programmes for key professional groups in place
- 2m Developing and strengthening professional financial skills
- 2n Staff to have PDR 1-2-1s (May/June)
- 2o Strengthening capabilities within HR to support the transition to the new business
- 2p Corporate Programme Office to provide flexible support to change management
- 2q Embedding the 'professional partners enabling business success' ethos
- 2r Greater alignment and close working with MoJ HR family
- 2s Staff to have PDR 1-2-1s (December/January)
- 2t Sickness absence will have decreased by 3% (against 2008-09 levels)

# Financial reports 2010-11

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## Financial reports 2010-11

# Management commentary

## Introduction

The Legal Services Commission (LSC) is currently a non-departmental public body established under the Access to Justice Act 1999 and sponsored by the Ministry of Justice (MoJ). We are responsible for the provision of legal aid in England and Wales, through the Community Legal Service (CLS) and the Criminal Defence Service (CDS).

The MoJ intends, subject to the approval of the Legal Aid, Sentencing and Punishment of Offenders Bill, to abolish the LSC as a non-departmental public body. Its functions will transfer into a new executive agency of the MoJ, with an anticipated vesting date of 1 October 2012.

A description of the LSC's main role, activities and performance is set out in earlier chapters of this document.

## Senior directors

As at 31 March 2011, our most senior directors were:

- Carolyn Downs, Chief Executive
- Hugh Barrett, Director for Legal Aid, Commissioning and Contract Management
- Owen Mapley, Director of Finance and Corporate Services
- Helen Riley, Director of Case Management.

## Non-executive Commissioners

As at 31 March 2011, our non-executive Commissioners were:

- Sir Bill Callaghan, Chair
- Barry Elliott
- Tom Jones OBE
- Julian Lee
- Beryl Seaman CBE JP
- Dr David Wolfe.

You can find more information on our Executive Team and non-executive Commissioners, including their register of interests, at [www.legalservices.gov.uk](http://www.legalservices.gov.uk).

## Audit Committee

The purpose of the LSC's Audit Committee is to support the Commission Board and the Accounting Officer in their responsibilities for issues of audit, corporate governance, risk, internal control, assurance, regularity and propriety.

During 2010-11 membership of the LSC's Audit Committee comprised:

- Barry Elliott (Chair)
- Tina Fahm (to 30 April 2010)
- Tom Jones OBE
- Julian Lee
- Beryl Seaman (from 1 May 2010).

## Management commentary (*continued*)

### Parliamentary scrutiny

#### Public Accounts Committee (PAC)

As reported in the *Annual Report and Accounts 2009-10*, the National Audit Office (NAO) published a report, *The Procurement of Criminal Legal Aid in England and Wales by the Legal Services Commission* (November 2009). The NAO also qualified the LSC's financial accounts for both 2008-09 and 2009-10. The NAO highlighted weaknesses in financial controls, in particular overpayments to providers, and the granting of legal aid to individuals who are not eligible.

The Ministry's Permanent Secretary (Sir Suma Chakrabarti) and the Director General Finance and Corporate Services (Ann Beasley) appeared in front of the Public Accounts Committee on 2 November 2010 along with Carolyn Downs, the Chief Executive of the LSC. The hearing concentrated primarily on the Ministry's financial management but one of the Committee's recommendations was that the LSC should categorise and analyse the causes of error and target its resources to reduce this level. The LSC has implemented processes to categorise its errors and introduced controls to counter weaknesses.

In July 2010, the NAO issued its *Ministry of Justice Financial Management Report*. This report focused primarily on the financial management processes within the Ministry but also examined the Ministry's oversight of arms length bodies including the LSC. The report identified that the Ministry had made progress in improving its financial management, but fell short of best practice. The report was critical that the Ministry's financial management and monitoring processes had not identified the emerging control issues in the LSC and recommended improvements to the Ministry's control framework.

Our response to these issues is set out in the remainder of the management commentary.

#### The Justice Select Committee

On 30 November 2010, the Committee took evidence from Sir Bill Callaghan, the Chair of the LSC, Carolyn Downs (Chief Executive) and Ruth Wayte (Legal Director), on the work of the LSC.

Questioning included the outcome of the Judicial Review into the 2010 family legal aid contract, the difficulties the LSC had faced in ensuring the provision of immigration legal aid, the level of overpayments identified in 2009-10 and the LSC's transfer to become an executive agency. The Committee did not issue a report as a result of this session.

On 14 February 2011, Carolyn Downs appeared with Sarah Albon, the Ministry of Justice's then Director of Civil, Family and Legal Aid Policy at the Justice Select Committee as part of the inquiry into the Government's reforms of legal aid. The Committee's report, *Government's proposed reform of legal aid*, was issued on 15 March 2011. The report primarily commented on the proposed changes to the scope of legal aid that have subsequently been incorporated into the Legal Aid, Sentencing and Punishment of Offenders Bill 2010-11. The report also welcomed the steps being taken to reduce bureaucracy and the cost of legal aid. The report did not include any specific recommendations to which the LSC had to respond.

### Risks

The LSC continuously monitors its key risks and the policy for managing risk is set out in the *Risk Management Statement*, which is available at [www.legalservices.gov.uk](http://www.legalservices.gov.uk). Further information on risks is set out in the 2010-11 Statement on Internal Control (SIC) on page 34.

The risks relating to financial instruments are disclosed in note 17 of the CLS Fund and CDS financial statements and note 23 of the LSC administration financial statements.

### Key achievements in 2010-11

#### Key facts and figures

Points to highlight as reported earlier in this document include:

- Total acts of assistance & spend - The LSC continued to help many individuals across England and Wales by funding 2.7 million acts of assistance overall (CLS and CDS) [2009-10: 3 million]. Total net resource expenditure was £2,115.2 million [2009-10: £2,198.8 million restated].
- Number of providers - As at 31 March 2011 we held 2,335 civil and 1,733 crime contracts [March 2010: 2,390 civil and 1,697 crime contracts]. The figure for

## Financial reports 2010-11

### Management commentary (*continued*)

offices was 3,394 for civil and 2,418 for crime [March 2010: 3,206 civil and 2,137 crime offices]. While the number of contracts reduced for civil (solicitors and not-for-profits), the number of offices increased. Crime contracts and offices increased.

- CLS - We funded 1.25 million CLS acts of assistance overall [2009-10: 1.43 million]. CLS net spend was £985.4 million [2009-10: £1,103.8 million restated]. We exceeded our target to deliver 1 million Legal Help acts of assistance via face-to-face and telephone advice, with a total of 1.03 million [2009-10: 1.17 million]. CLA provided 397,191 acts of assistance [2009-10: 417,440].
- CDS - We funded 1.47 million acts of assistance [2009-10: 1.53 million]. CDS net spend was £1,129.8 million [2009-10: £1,095.0 million restated].
- Administration - Spend has reduced to £99.2 million [2009-10: £120.7 million].
- KPIs - This year, we achieved 6 KPIs and partially achieved 1 [2009-10: achieved 15, partially achieved 5 and missed 2].

### Overarching control improvements

In January 2010, the LSC produced a 26 point stewardship action plan which was designed to respond to the failings highlighted by the National Audit Office in November 2009. A large amount of work has been undertaken since then to improve the LSC's financial control environment.

The Executive Team and Commission Board structures have been strengthened through the appointment of an experienced Director of Finance and Corporate Services, Owen Mapley, previously Finance Director of Her Majesty's Courts Service, who took up post in December 2010.

### Specific control improvements

In response to recommendations made by a firm of external advisors the LSC initiated a review of a number of its key operational and financial controls. Changes introduced included restricting the number of staff who have access to key operating systems and introducing better segregation of duties, amending authority limits for staff approving bills on very high cost cases, and identifying erroneous payments on a number of legal aid schemes.

The LSC undertook extensive analysis of the causes of errors in payments to providers to enable it to target areas of control weakness and to target the recovery of overpayments. In 2010-11, the LSC recovered over £7.1 million of overpayments. This level of recoveries was achieved through the visits to providers and through targeted file reviews undertaken within LSC offices. The LSC has set a target to recover a further £10 million of overpayments in 2011-12.

To tackle one of the main causes of error, in December 2010, the LSC significantly strengthened its testing of client eligibility on Civil Representation cases by requiring all clients to submit their last three months' bank statements. From May 2011, the LSC also now requires original evidence of a wide range of other financial information from clients to support both income and expenditure figures cited on the legal aid means forms.

Significant progress was made in 2010-11 in developing the LSC's major new IT programme (the Integrated Delivery Programme) which is designed to computerise the processing of Civil Representation cases, which is the LSC's largest scheme of expenditure, and will introduce a new general ledger for the LSC. The first pilot office will receive the new system in 2012. This system will improve the LSC's controls, including those controls around the detection and prevention of errors.

### Overhaul of scrutiny arrangements

All assurance, internal audit, fraud and debt recovery activities have been consolidated within the Finance and Corporate Services Department to further improve the operational and financial control environment. After a competitive process, the contract to supply Internal Audit services was outsourced to a major accountancy firm. The Internal Audit function has direct access to both the Chief Executive and the Chair of the Audit Committee.

The LSC has improved its internal quality control testing to reduce potential errors made by LSC staff. For Civil Representation cases since September 2010, extensive and rigorous monthly cross-office quality control assessments are undertaken. This work covers merits testing, means assessments and reviews on the final bills paid.

## Management commentary (*continued*)

### Working with our providers

In 2010-11 the LSC introduced a new provider management strategy designed to profile provider risk, target areas of greatest concern and improve provider performance. This strategy provided a framework for the LSC's Contract Managers, who are responsible for managing the Commission's relationship with providers, and the LSC's in-house auditors, who between them made over 2,900 visits to providers in 2010-11 to identify and correct errors, and to offer guidance and support to help providers claim more accurately. Similar visits are continuing throughout 2011-12.

The visits made to providers by Contract Managers and on-site auditors included reviews of samples of files held by providers to identify and rectify any incorrect payments. Where high levels of errors were found LSC staff employed a variety of sanctions including recovering overpayments, issuing contract notices and in some cases terminating contracts. During 2010-11, the LSC issued over 1,100 contract notices, which require providers to improve the way they claim for payments within a certain period, and over 100 contracts were terminated. The LSC is following up these contract notices in 2011-12 to ensure that providers have rectified the weaknesses identified in their procedures.

The LSC continues to review and improve its written guidance for providers. For example, we issued material to help providers improve the way they claim for payments on our Crime Lower schemes and on the Litigator Graduated Fee Scheme. Further written guidance was issued to immigration providers to enhance their understanding of the scheme and how to claim for payments. We issued guidance on the new Very High Cost Case scheme introduced in 2010, and produced articles on specific issues such as how to prevent claims for payments being rejected.

## Commentary on 2010-11 financial results

### Production of the 2010-11 year-end accounts

The LSC produces two sets of accounts that are included within this document. The first set covers the Community Legal Service Fund (CLS) and the Criminal Defence Service (CDS) (the Fund). The second set are the accounts

reflecting the costs of running the LSC itself. These are our administrative costs.

Within the fund accounts, amounts due to providers for work done but not yet settled and debtors are the two most significant balances. Amounts due to providers are estimated on the basis of average case lengths and average costs, adjusted for when the work is undertaken and subsequently billed, by individual category of legal aid. Unpaid bills received are treated as payables and unpaid work reported on payment on account claims treated as accruals, with the balance recognised as a provision.

Debtors arise mainly from clients and opponents on cases following the determination of a Civil Representation case resulting in the receipt of damages, or conviction on crime cases. In addition, some debt arises from providers of service for recovery of overclaims. Where funded clients have recovered or preserved property, rather than obtaining damages, recoverable costs may be secured against property. Interest is charged against this debt, currently at 8% simple interest. Such secured debts are only repayable on sale of the property or death of the client, though clients are encouraged to repay debts to avoid interest charges.

Civil Representation debts are quantified through a case balancing process, which takes account of the total value recoverable for the client but then limits the recovery to the cost to the Fund. The debt is identified from a reconciliation of activity through our case management system, adjusted for any write-offs.

### Accounting standards

Under paragraph 16 (1) of Schedule 1 to the Access to Justice Act 1999, the Secretary of State for Justice has directed the LSC to prepare, for each financial year, accounts for the CLS Fund and CDS as well as for the administration of the LSC itself. This direction covers the resources acquired, held or disposed of during the year and the use of resources by the LSC. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the LSC and of its Statement of Comprehensive Net Expenditure, Statement of Financial Position, Statement of Cash Flows and Statement of Changes in Taxpayers' Equity for the financial year.

## Financial reports 2010-11

### Management commentary (*continued*)

The financial statements for the LSC's administration and the CLS and CDS Funds are prepared in accordance with the Treasury's *Government Financial Reporting Manual* and applicable accounting standards.

#### In-year results

Our administration costs have fallen substantially from £120.7 million to £99.2 million due in large part to a one-off reduction in our pension costs of £19.4 million. This primarily reflects the lower liabilities for the pension scheme, as future pensions will be linked to the consumer price index rather than retail price index, but also reflects an improvement in the performance of the underlying investment assets. These together turned the pension scheme deficit at the start of the year into a surplus on the pension fund of £41.3 million, at March 2011. Since March 2011 there has been significant volatility in the markets and this surplus position has become a deficit.

The LSC has continued to drive down costs. After taking into account the one-off pension credit of £19.4 million, and additional costs this year of redundancy amounting to £8 million, there has been an underlying reduction in costs of £10.1 million or 8.4%.

The cost of redundancies reflects that 115 full time equivalent staff have left the organisation. In addition, a further 6 full time equivalent staff have left that were charged direct to the legal aid Fund. While last year the staff reductions followed a review of how we deliver assurance to our providers through our relationship management function, this year staff reductions have occurred throughout the organisation. These reductions reflect the general public sector pressures to reduce staff, and also the preparations to replace the LSC with an executive agency of the MoJ in October 2012. Further reductions in our staffing levels are expected in 2011-12 and 2012-13.

We administer the legal aid Fund where net costs have decreased from £2,198.8 million (restated) in 2009-10 to £2,115.2 million this year. In comparing the current and previous year the results are significantly distorted by modelling changes made last year in the provision both for work in progress and debt impairment (with some further more minor improvements made this year). Overall there is a small increase in the CDS Fund net expenditure of £35 million due to a number of factors, such as the VAT rate change that added around £20 million of costs. The CLS Fund has decreased net

expenditure by £118 million, which is driven by lower payments to providers reflecting changes to legal aid eligibility, recovery of amounts previously paid in error, offset by an increase of around £20 million from the VAT rate change.

The legal aid Fund has trade and other receivables net of impairment of £141.6 million for CLS Fund and £11.5 million for CDS. The modelling of the debt impairment provision applied to these figures uses a number of assumptions. Under other reasonable alternative assumptions, the valuation of the fair value of debt could reduce by up to £21.7 million or increase by up to £15.8 million. Further details on the modelling are available in note 17 to the financial statements.

The modelling of the provision for the value of unbilled amounts on live cases uses a number of assumptions. Under other reasonable alternative assumptions, the valuation of the provision could reduce by up to £56.4 million or increase by up to £55.4 million. Further details are available in note 17 to the financial statements.

Details of payments on the CLS Fund and CDS as well as our administration expenditure can be found in the 'Year in focus' chapter on page 5.

#### Going concern

The going concern basis is set out in note 1r) and note 12 of the CLS Fund and CDS financial statements and in note 1r) and note 17 of the LSC administration financial statements.

#### Grant and loan making powers

Under section 6 (3)(c) of the Access to Justice Act 1999, the LSC may fund services as part of the CLS by making grants or loans to persons or bodies to enable them to provide or facilitate the provision of services. During the year, we made grants in accordance with the Secretary of State's specific direction. This expenditure is reported in note 3 of the CLS Fund and CDS financial statements under the headings: Direct Services and Grants and similar.

#### Pension fund

An advance payment of £7.5 million was made in March 2011 with the agreement of the MoJ. The early payment discharges the LSC from its obligation to pay employer contributions under the schedule of contributions until

## Management commentary (continued)

the pre-payment is utilised. Details of the pension scheme's assets, liabilities and contributions are set out in note 4 of the LSC administration financial statements.

### Charitable donations

During 2010-11, the LSC made no charitable donations.

### Payment of suppliers and performance

We calculate creditor days as at 31 March 2011 to be 3.4 days. A significant proportion of our payments are made on a monthly basis and are a proxy for the claims being submitted. These payments are largely based on historical claims and payment data, which is updated on a monthly basis as claims are submitted. The calculation excludes Crime Higher spend as these payments are administered by Her Majesty's Courts and Tribunals Service (HMCTS).

Bill payments for legal aid take two forms, fixed or standard fees and non-standard fees. Standard fees are paid through our online system in a monthly process and form part of the providers' standard monthly payments. Non-standard bills from a legal aid provider are only eligible for payment once they have been assessed. Performance against internal targets for the timely payment of non-standard bills is set out in Table A below.

In 2010-11, we continued to process 99% of criminal non-standard fees within target. We improved our performance against target for investigative exceptional cases from 90% to 100%. We continued to achieve 94% of litigator fee claims processed within target, just missing the 95% target. This was largely due to a change applied to our billing software following the introduction of Crown Court means testing. This led to us being unable to process claims that had not been processed by HMCTS systems. These claims then experienced significant delays as we needed to refer them to the magistrates' court before processing.

We aim to promptly pay all properly authorised invoices from the administration budget in accordance with the terms of contracts or within 30 days. We introduced a more robust calculation method in the year that shows we paid 81% of properly authorised administrative invoices within 30 days during 2010-11. This is down from the 97% as shown in 2009-10, but the change in methodology means that the figures are not directly comparable. We will continue to monitor payment performance during 2011-12 to improve this result. From 1 April 2011 we have introduced a purchase to pay system which will decrease the time it takes to pay properly authorised invoices. The payment performance figures are unaudited.

**Table A: Bills paid and performance**

Bills paid	Targets 2010-11	Performance 2010-11	Targets 2009-10	Performance 2009-10
Civil bills – taxed & assessed	<b>4 weeks (90%)</b>	<b>93%</b>	4 weeks (90%)	97%
Family graduated fee bills	<b>4 weeks (90%)</b>	<b>96%</b>	4 weeks (90%)	96%
Criminal non-standard fee	<b>20 days (90%)</b>	<b>99%</b>	20 days (90%)	99%
Investigative exceptional cases	<b>5 days (90%)</b>	<b>100%</b>	5 days (90%)	90%
Litigator fee claims	<b>40 days (95%)</b>	<b>94%</b>	40 days (95%)	94%

### Contractual arrangements

The LSC has contractual arrangements with legal aid service providers. Information about the number of contracts with service providers can be found in the 'Year in focus' chapter on page 5.

## Financial reports 2010-11

### Management commentary (*continued*)

#### Auditors

Paragraph 16 of Schedule 1 to the Access to Justice Act 1999 provides that the LSC's external auditor is the Comptroller and Auditor General. The cost of the audit is disclosed in note 8 to the LSC administration financial statements and relates solely to statutory audit work.

As Accounting Officer, so far as I am aware there is no relevant audit information of which the Comptroller and Auditor General is unaware. I have taken all the steps necessary to make myself aware of any relevant audit information and to establish that the LSC's auditors are also aware of that information.

#### Research and development

Strategic research in the civil and criminal justice fields is conducted by the Legal Services Research Centre (LSRC), our strategic research division. This research helps us to formulate our plans and develop services to meet the needs of users. More information about the work of LSRC can be found at [www.lsrc.org.uk](http://www.lsrc.org.uk).

#### Environment, social and community Issues

We have not formally maintained ISO 14001 accreditation, however we are committed to reducing our impact on the environment and to operating in accordance with best environmental practices. Our *Environmental Policy*, available on the LSC website, outlines our key objectives and principles in improving our environmental performance and meeting or exceeding relevant legislation and requirements.

We are building stronger working relationships with MoJ's sustainability and energy teams. This has enabled us to identify energy efficient solutions to longer term centralised energy management. Additionally, we are learning best practice carbon management tools and strategies that the MoJ have implemented successfully across their estate, so that we can replicate their excellent approach (as rated by the Carbon Trust) within the LSC.

#### Employee involvement

##### Meeting the needs of staff

The LSC is accredited with the Investors in People national standard. Managers hold regular team meetings to communicate our objectives to all staff, where everyone

can ask questions and give their views about organisational issues. These meetings include discussion of the *Core Brief*, a short regular summary of our main corporate news.

As the organisation undergoes a significant period of transformation, the Chief Executive, Directors and the Senior Management Team have kept staff updated via face-to-face briefings, intranet discussion forums and regular updates from the Chief Executive.

The LSC formally communicates with its staff on issues and changes to the terms and conditions of employment through the Joint Consultative and Negotiating Committee (JCNC). JCNC membership includes representatives of management, employees, and elected members of the two unions that represent our staff (GMB - Britain's General Union and the First Division Association). In addition, the LSC also meets regularly with our recognised trade unions to discuss issues relating to organisational change.

#### Equality and diversity

We are committed to equality of opportunity both as an employer and in the provision of services. In September 2010 we published our third *Single Equality Scheme Annual Report*, which also contains a report of our workforce equal opportunities monitoring, and can be found at [www.legalservices.gov.uk](http://www.legalservices.gov.uk).

We also prepared for the introduction of the new public sector equality duty under the Equality Act 2010, which came into force on 5 April 2011.

#### Sickness absence data

As part of our people scorecard KPI (see page 13), we had a target for annual sickness absence per full time equivalent to be no more than 7.66 days. Our performance against this target was 7.61 days.

#### Reporting of personal data related incidents

In 2010-11 we formally reported no personal data related incidents to the Information Commissioner's Office. 114 incidents were recorded centrally but did not fall into the criteria for reporting to the Information Commissioner's Office (see Table B). Small, localised incidents are not recorded centrally and are not cited in these figures.

## Management commentary (*continued*)

In 2010-11, we continued a series of activities to implement the mandatory requirements within the Government's *Security Policy Framework* which raised awareness generally throughout the LSC about information security. As a result, staff are becoming more vigilant and more aware of what to do when an incident occurs, which contributed to the increase in reported incidents.

**Table B: Summary of other protected personal data related incidents in 2010-11**

Category	Nature of incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	13
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	7
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	0
IV	Unauthorised disclosure	90
V	Other	4

## Forward look

Our one year *Business Plan 2011-12* can be found at [www.legalservices.gov.uk](http://www.legalservices.gov.uk) and it outlines the work which we will undertake in the coming year. We face a number of challenges if we are to realise our vision, which is to work with our providers and the justice system to be a respected commissioner and administrator of legal aid. In this context we must:

- support the MoJ in reforming the legal aid system to make it work more efficiently;
- reform the way we work and move, subject to legislation, to executive agency status; and
- continue to work through our financial stewardship programme to improve our financial and operational controls, improve the way we manage our providers and make financial recoveries of overpayments.

In this context we have four strategic objectives for 2011-12.

- Commissioning and procuring services that provide timely access to quality legal advice for eligible clients: Our priorities are to procure services to provide people with access to legal help and advice within the resources available and work with the MoJ to implement the legal aid reforms the Government decides to make.
- Use finances consistently and reliably to achieve value for money: We will manage our budget effectively and continue to improve the way we produce our annual accounts. We plan to meet the timetables set for the production of the accounts and continue our programme of financial stewardship – including recovery of overpayments and debt recovery activity.
- Improve our business by simplifying processes, driving efficiency and eliminating waste: We will improve quality control, reduce error rates, work on contract simplification and improve complaints handling. We also aim to improve the way we deal with freedom of information requests, information assurance and data protection.
- Build capability to ensure we have the right people with the right skills to meet our goals: We aim to have an efficient organisational structure in place for executive agency transition within the budgeted headcount. We will ensure that all staff understand their roles and the required knowledge, skills, competencies and values as we progress through our change programme. We will also ensure that there are robust, transparent HR processes in place to support organisational change.

### Signed for and on behalf of the Legal Services Commission

#### Carolyn Downs

Chief Executive and Accounting Officer  
20 October 2011

## Financial reports 2010-11

# Remuneration report

This report summarises the Legal Services Commission's (LSC) policy on remuneration of the senior employees and non-executive Commissioners.

The tables in this report have been subject to audit by the external auditor, the NAO, appointed under the Access to Justice Act 1999.

## The Pay Committee

Our Pay Committee reviews the contractual arrangements and salaries of the Chief Executive and the Directors.

Pay Committee members currently include two Commissioners and two independent members. The members do not have any involvement in the day-to-day running of the LSC. The members of the Pay Committee during 2010-11 were:

- Beryl Seaman CBE JP (Chair)
- Tina Fahm (to 30 April 2010)
- Julian Lee
- Helen Murlis<sup>1</sup>
- Beverley Shears<sup>1</sup>

The Chief Executive and the Director of Human Resources and Organisational Development attend the Committee to assist it in its deliberations. These individuals do not participate in any decisions relating to their own remuneration. Carolyn Downs is a Ministry of Justice (MoJ) employee and her remuneration is dealt with by the MoJ.

## Remuneration policy

### Directors

The Chief Executive, Carolyn Downs, was seconded from the MoJ for one year from 8 March 2010, which was later extended to 31 March 2012. Carolyn decided to tender her resignation in September and will be leaving the LSC on 5 December 2011.

Directors are employed on a permanent full time basis with a normal pension date at age 60, unless otherwise stated.

The pay of the Directors is shown in Tables A1 and A2.

### Base pay

Directors who are appointed on a permanent basis have their base pay determined on appointment. This follows an evaluation of the job, which is informed by market research and reflects the higher pension contributions paid relative to the civil service.

Base pay has been frozen since 2009.

### Non-consolidated performance payments

Non-consolidated payments relate to performance in the prior financial year, ie. 2009-10. Details relating to 2010-11 will be reported in our 2011-12 report.

Directors are eligible for a non-consolidated performance payment up to a maximum of 20% of their individual salaries as part of their terms and conditions of employment. This entitlement was capped at 10% for 2009-10. However, it was decided not to pay any non-consolidated performance payments to senior civil service equivalents for 2009-10.

### Benefits in kind

No Directors were paid any benefits in kind in 2010-11.

### Pensions

Carolyn Downs is a member of the Civil Service 'Nuvos' Pension Scheme, and Owen Mapley is a member of the Civil Service 'Premium' Pension Scheme. Andrew Emmett was an interim appointment and was not a member of the LSC pension scheme. All other Directors were members of the LSC Staff Pension and Assurance Scheme (No.4). Details of the LSC's pension schemes are shown in note 4 of the administration accounts. The Directors' pension information is shown in Table B.

<sup>1</sup> Helen Murlis and Beverley Shears are both independent members of the Pay Committee. Helen Murlis is a remuneration specialist and is a Senior Director for HayGroup. Beverley Shears has a background in change management and organisational transformation and also specialises in HR matters.

## Remuneration report (continued)

### Non-executive Commissioners

The Secretary of State for Justice appoints Commissioners for a fixed term and determines their pay, which is based on judicial salaries set by the Senior Salaries Review Body.

Commissioners are appointed with different time commitments but are paid at the same daily rate, with the exception of the Chair. Commissioners are also reimbursed for travel and other expenses they incur. Any taxation paid by the LSC on those expenses is included in Table C.

Commissioners are not members of the LSC's pension scheme, and are not entitled to any other benefits or remuneration.

If a Commissioner's appointment is terminated for reasons other than the expiry of their term, the Secretary of State for Justice may determine that compensation is payable based on the nature of the termination and the length of the term remaining. Further details are in Table C2.

**Table A1: Senior employees in post at 31 March 2011 - employment costs**

Directors	Full year equivalent salary and allowances £000	Total 2010-11 £000	Total 2009-10 £000
Carolyn Downs <sup>1</sup> <i>Chief Executive</i>	169.0	169.0	10.9
Hugh Barrett <sup>2</sup> <i>Director of Legal Aid, Commissioning and Contract Management</i>	140.0	140.0	153.6
Owen Mapley <sup>1</sup> <i>Director of Finance and Corporate Services (from 1 December 2010)</i>	110.0	36.7	N/a
Helen Riley <i>Director of Case Management (from 12 July 2010)</i>	116.6	87.4	N/a

**Table A2: Senior employees who left the LSC during 2010-11 - employment costs**

Directors	Full year equivalent salary and allowances £000	Total 2010-11 £000	Total 2009-10 £000
Hazel Parker-Brown <i>Executive Director of Corporate Services (to 31 January 2011)</i>	134.0	114.8	139.4
Andrew Emmett <sup>3</sup> <i>Interim Finance Director (to 24 January 2011)</i>	N/a	136.9	N/a
Phil Lambert <sup>4</sup> <i>Executive Director of Business Support (to 9 July 2010)</i>	140.0	117.2	145.6

#### Notes for Tables A1 and A2

- 1 Carolyn Downs and Owen Mapley are seconded from the Ministry of Justice (MoJ) on MoJ terms.
- 2 Hugh Barrett is a part time non-executive Director with the Criminal Records Bureau, which compensates the LSC for his time (2010-11 - £9,600, 2009-10 - £7,200). The figure disclosed in the table above is Hugh Barrett's gross remuneration.
- 3 Andrew Emmett was employed as an interim Finance Director on a contract through an employment agency. The cost disclosed is the value of the contract with the agency.
- 4 The salary and allowances paid to Phil Lambert in 2010-11 include a compensation payment of £38,000 for loss of office on his departure in July 2010.

## Financial reports 2010-11

## Remuneration report (continued)

Table B: Senior employees – pension costs

	Total accrued pension payable at age 60 at 31 March 2011 and related lump sum £000		Real movement in pension and related lump sum payable at age 60 £000		CETV at 31 March 2011 £000	CETV at 31 March 2010 £000	Real increase in CETV £000	Employer contribution to pension account including risk benefit cover <sup>4</sup> £000
Carolyn Downs <sup>1</sup>	Pension	6.6	Pension	2.7	76.4	39.5	26.9	34.6
	Pension	3.6	Pension	1.5				
Hugh Barrett	Lump sum	10.8	Lump sum	4.4	84.0	45.0	27.0	38.4
Owen Mapley <sup>1</sup>	Pension	5.6	Pension	0.5	48.7	41.9	2.6	8.9
	Pension	7.7	Pension	1.0				
Helen Riley <sup>2</sup>	Lump sum	23.0	Lump sum	2.9	148.0	120.0	13.0	26.2
	Pension	3.8	Pension	0.4				
Phil Lambert <sup>3</sup>	Lump sum	11.3	Lump sum	1.2	76.0	64.0	6.0	10.7
	Pension	52.3	Pension	3.2				
Hazel Parker-Brown <sup>3,5</sup>	Lump sum	153.0	Lump sum	5.9	1,627.0	1,200.0	267.0	32.0

**Notes**

- 1 Carolyn Downs and Owen Mapley are members of civil service pension schemes.
- 2 Helen Riley was appointed to the Executive Team on 12 July 2010.
- 3 The CETV values for Hazel Parker-Brown and Phil Lambert who left during 2010-11 were calculated up to their dates of leaving.
- 4 Employer contribution is at the rate of 20.6% with an additional 10.5% for the pension deficit. However, pension contributions are restricted to the 'Scheme Notional Earnings Cap' which was set at £123,600 in 2010-11 and was based on the employer contribution of 31.1%.
- 5 The pension arrangements for Hazel Parker-Brown were enhanced in accordance with the LSC's early retirement scheme. The cost of this enhancement was £228,896.

## Remuneration report (continued)

### Move to using Consumer Price Index (CPI) inflation

The cash equivalent transfer values as at 31 March 2010 have been restated on the current transfer value basis allowing for pension increases in line with changes to the CPI. This differs from the basis that was in force on 31 March 2010, which allowed for pension increases in line with changes to the retail price index.

### Cash Equivalent Transfer Value (CETV)

A CETV is the actuarially assessed capitalised value of a member's pension scheme benefits at a point in time. The benefits valued are the member's accrued benefits and include, where applicable, the spouse's pension payable from the scheme. When the member leaves the scheme and chooses to transfer their benefits accrued, the CETV is a payment made by one pension scheme that secures pension benefits in another.

The pension figures shown relate to benefits accrued for total membership of the pension scheme, and include the value of any pension benefit transferred from another scheme into the LSC's pension scheme. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

### Real increase in CETV

This reflects the increase in CETV funded by the employer excluding the effect of fluctuations in the transfer value, such as investment market movements. It does not include the increase in accrued pension in line with inflation or a contribution paid by the employee, but does include the value of any benefits transferred from another pension scheme. Common market valuation factors are used for the start and end of the period.

**Table C1: Non-executive Commissioners in post at 31 March 2011 – employment costs**

Commissioner	Date current term commenced	Date term expires <sup>1</sup>	Remuneration <sup>2</sup> £000	Expenses <sup>3</sup> £000	Total 2010-11 £000	Total 2009-10 £000
Sir Bill Callaghan <i>Chair</i>	28 July 2008	31 August 2013	54.0	0.3	54.3	56.7
Barry Elliott	1 June 2007	31 May 2013	21.4	2.0	23.4	24.7
Tom Jones OBE	1 March 2008	28 February 2013	23.1	5.7	28.8	42.1
Julian Lee	1 November 2008	31 October 2013	10.7	1.0	11.7	12.0
Beryl Seaman CBE JP	1 July 2008	30 June 2013	23.1	5.2	28.3	41.3
Dr David Wolfe	1 October 2008	30 September 2013	10.7	0.3	11.0	11.2

#### Notes for Table C1

- 1 The MoJ intends to abolish the LSC and replace it with an executive agency of the MoJ. Appointments will terminate the sooner of the date noted in the table or on the abolition of the LSC.
- 2 With the exception of the Chair, Commissioners are appointed with different time commitments but are paid the same daily rate.
- 3 The cost of expenses varies according to the distance between the Commissioner's home and the LSC's office, other travel commitments required by their role, and the time commitment of the individual Commissioner. Commissioners are reimbursed for travel and other expenses they incur and any taxation paid by the LSC on those expenses.

## Financial reports 2010-11

Remuneration report (*continued*)

Table C2: Non-executive Commissioners who left the LSC during 2010-11 – employment costs

Commissioner	Date current term commenced	Date term expired	Remuneration <sup>1</sup> £000	Expenses £000	Total 2010-11 £000	Total 2009-10 £000
Angus Andrew	1 March 2007	30 April 2010	7.0	-	7.0	17.1
Tina Fahm	1 November 2007	30 April 2010	16.8	0.1	16.9	33.2
Carolyn Hamilton	1 April 2008	31 December 2010	13.0	-	13.0	10.7
Jane Hickman	1 June 2007	31 May 2010	1.8	-	1.8	14.7
Lionel Joyce OBE	1 July 2008	30 April 2010	16.8	0.3	17.1	38.6
Peter Smith	1 April 2008	13 April 2010	0.9	-	0.9	11.0

**Note for Table C2**

1 Compensation payments for loss of office are included within the remuneration figures for Angus Andrew (£5,891), Lionel Joyce (£14,137), Tina Fahm (£14,137) and Carolyn Hamilton (£5,000).

Signed for and on behalf of the Legal Services Commission

**Carolyn Downs**

Chief Executive and Accounting Officer  
20 October 2011

## Statement of the Commission's and Accounting Officer's responsibilities

Under paragraph 16 (1) of Schedule 1 to the Access to Justice Act 1999, the Secretary of State for Justice has directed the Legal Services Commission (LSC) to prepare, for each financial year, accounts for the Community Legal Service (CLS) Fund and the Criminal Defence Service (CDS) as well as the administration of the LSC detailing the resources acquired, held or disposed of during the year and the use of resources by the LSC during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the LSC and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- Observe the Accounts Direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis.
- Make judgements and estimates on a reasonable basis.
- State whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts.
- Prepare the accounts on a going concern basis.

The Accounting Officer of the Ministry of Justice has designated the LSC's Chief Executive as Accounting Officer of the LSC.

The responsibilities of the Chief Executive as Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the LSC's assets, are set out in the Treasury's *NDPB Accounting Officer Memorandum*, issued by the Treasury and published in *Managing Public Money*.

## Financial reports 2010-11

# Statement on internal control

## Scope of responsibility

The Legal Services Commission (LSC) administers the legal aid scheme in England and Wales. We ensure that customers (the public) obtain the information, advice, legal help and representation they need – if eligible – to deal with a wide range of problems. As an organisation we are directly accountable in the first instance to the Commission Board, and ultimately to Parliament, with the Ministry of Justice (MoJ) being our sponsoring department.

I have been at the LSC as its interim Chief Executive since March 2010. As Accounting Officer for the LSC it is my duty to support the achievement of the LSC's policies, aims and objectives while safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

Primarily, I am responsible and accountable to the Chair of the LSC, who in turn is accountable to the Lord Chancellor and Secretary of State for Justice. However, in my role as Accounting Officer I am also accountable to the MoJ Permanent Secretary, as Principal Accounting Officer for the MoJ.

The LSC works with provider organisations including solicitors, barristers, and not-for-profit organisations which deliver advice and representation services to the public. These are managed by the Commissioning Directorate through contracts, in such a manner so as to ensure that services are delivered in a way that meets legal requirements, are of quality, and deliver value for money.

The past year has been extremely challenging for the LSC as we seek to remedy the issues that led to the National Audit Office (NAO) qualifying the LSC's accounts for the past two years and this year. I am accountable for addressing and embedding change to rectify and protect the LSC and help it come out of accounts qualification. This year the LSC has introduced a major programme of financial stewardship activity which has been focussed on addressing some of the issues raised in the NAO management letters and also those arising from a report

from the Public Accounts Committee (PAC), published in February 2010.

I have been working closely with MoJ to prepare to transfer the LSC's functions into an executive agency of the MoJ in 2012 which will be subject to the passing of relevant legislation to abolish the LSC. Over the last year we have reviewed our structures at a senior level and this has resulted in considerable downsizing of both senior management and the wider organisation. In 2010-11 over 100 colleagues left as their roles became redundant. Additionally, following the tendering of crime and civil contracts in 2010 the LSC has defended over 60 judicial reviews of its decisions. Thus it is clear to see that the operating environment for the LSC going forward remains extremely challenging.

## The purpose of the system of internal control

The system of internal control has been designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives. It therefore provides a reasonable but not an absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of our 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.

Given the identification of significant control weaknesses within this statement (see page 36), it would be unrealistic for me to give absolute assurances that the internal control system has been in place or thoroughly applied throughout the duration of this financial year ended 31 March 2011. Nevertheless I can give assurance that the LSC is addressing these issues with pace and rigour.

An intense programme of financial stewardship work, including enhancements to our systems and processes, improved audit activity and recovery of overpayments has been underway this year and has delivered significant results.

## Statement on internal control (*continued*)

### Capacity to handle risk

I manage and provide leadership to the LSC's risk management with my Executive Team. I have full support from the MoJ and sit on its Executive Management Committee of the Board. My Executive Team considers the strategic risks to delivering the LSC's objectives and reports them within a strategic risk register. Executives have clear accountability to ensure that the systems are in place to manage strategic risk within their departments and are required to provide assurances as to the effectiveness of these risk management processes through the annual Directors' personal assurance statements process.

The LSC's risk management policy and framework is documented and is consistent with HM Treasury's *Orange Book*. These documents are readily available on the staff intranet along with the opportunities for staff training through workshops and online courses.

With the Commission Board, Audit Committee, Risk Management Committee and Executive Team, I ensure that strategic risk management is clearly linked to the success of our objectives and is built into our strategic business planning process. Through a process of challenge by the Risk Management Committee and independently by Internal Audit, the non-executive members of the Audit Committee and Commission Board, I ensure that strategic risk management is routinely appraised. Internal Audit's work programme is aligned with our strategic risks. Their quarterly reports to the Audit Committee and regular engagement with senior management help inform their future work programme, capturing key concerns on the control environment.

During 2010/11 significant efforts have been made to strengthen governance arrangements through reorganising and strengthening the Commission Board and the Executive Team and developing closer working relationships with the MoJ. This annual Internal Audit opinion concluded that by the end of 2010-11 the governance arrangements were strong. We also took steps during the year to strengthen risk management. I have described above the processes now in place. The Internal Audit opinion concluded that, in relation to risk management, by the end of the year, there was "a very strong foundation which will allow [LSC] to collect, manage and report risk, controls, assurances and actions required in the near future".

### The risk and control framework

On my behalf as Accounting Officer, the Executive Team, the Risk Management Committee and the Audit Committee oversee the risk management process and methodology that is applied to identify risks. Accountable owners at executive level are allocated. To support the Directors' annual assurance statement process we have scheduled a programme of regular management reviews of local risks and assurance matters to ensure early identification of and response to control issues.

The role of Senior Information Risk Owner (SIRO) for information assurance and risk now sits with Owen Mapley, LSC Director of Finance and Corporate Services. Corporate risks and summaries of incidents are reported to the SIRO and MoJ on a quarterly basis. The Risk Management Committee oversees all corporate risks and receives reports on information assurance risks on a quarterly basis, although any serious or potentially serious risks are escalated to the SIRO immediately.

During this year the LSC has implemented the mandatory requirements within the HMG *Security Policy Framework*. Security policies have been developed with supporting procedures which have been approved by the SIRO and the Executive Team. Information assurance forms part of the LSC's overall assurance framework.

We are currently in the process of implementing a Board Assurance Framework (BAF). The purpose of the BAF is to help the Board focus on the management of the principal risks that could threaten the delivery of the LSC's business objectives by reporting on the controls in place to manage those risks and the sources of assurance that the Board can rely on that these controls are operating as intended.

I note here my concern that the complexity and volume of change will increase the risk of the LSC's capacity to manage such change and I, the Executive Team and the Commission Board are fully aware of this increased risk which we will manage accordingly.

## Financial reports 2010-11

### Statement on internal control (*continued*)

#### Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control, which is informed by the work of the internal auditors, managers within the LSC, comments made by the external auditors in their management letter and other reports.

I have described above the framework we have in place for ensuring that identified risks are managed effectively. I am satisfied that significant improvements have been made in our internal controls, including a strong programme of financial stewardship activities involving changes to our systems and processes, improved and documented standard operating procedures, increased and targeted audit activity and a major recoveries programme focused on overpayments. However I am not yet satisfied that effective internal controls are sufficiently embedded in all of our activity. This is due to our ageing and fragile IT and operating systems, a lack of appropriate evidence being obtained and retained by providers for means and eligibility and also problems with the accuracy of some provider claims. As a result, improvement areas and actions are detailed within the section of 'significant internal control weaknesses' below. We are working to introduce a new IT system, known as the Integrated Delivery Programme (IDP), for Civil Representation which will improve claim accuracy and controls. This is due to be introduced in 2012.

#### Significant internal control weaknesses

As highlighted earlier within this statement, the LSC has been criticised for its management of the legal aid Fund, through the issues raised by the NAO and subsequently reported on by the PAC.

There were seven significant internal control weaknesses I referred to in my report last year. Whilst it is too early to say that we have completely addressed any of these issues, I am able to report that in all cases we have a programme of work which will address these issues over the coming year. I summarise below the control issues and the programme of work that is underway to address them.

#### 2009-10 reported issues

*Controls over the accuracy of providers' claims (specifically for civil Legal Help, including immigration and family):*

- During this financial year, the LSC has put considerable effort into financial stewardship. £7.1 million has been recovered in overpayments to legal aid providers.
- A successful provider management strategy has been implemented to target specific issues of provider claiming errors. In 2010-11 over 2,900 visits were made to providers, including 200 in-depth on-site audits. As a result, over 1,100 contract notices have been issued and 109 contracts terminated.
- On the contracted schemes we are reviewing a random sample of 450 files each quarter to identify the error rate and establish the main reasons for those errors to trigger corrective action.
- We have published additional guidance to providers where errors have been identified. Work has also been undertaken to produce targeted exception reports on areas of weakness, such as claiming for disbursements.
- A more robust operational quality control process has been introduced, increasing the sample on high risk areas of civil case processing and introducing a random sampling process more representative of day-to-day processing activity. Errors identified on quality control are addressed and are ongoing in order to increase the assurance level in this area.
- We have commenced a forensic review of claims data to identify areas of weakness in order to improve controls and recover further incorrect payments. We have implemented more checks in relation to Crown Court claims, which have enabled us to better identify duplicate payments and recover excess payments.
- We transferred payments of barristers' Crown Court claims to LSC processing centres to ensure greater fund control and consistency with linked litigator fee claims.

*Controls over the means assessment of the eligibility of applicants for Civil Representation:*

- Targeted controls have been implemented, including increasing the evidence required to support eligibility declarations on Civil Representation cases.

## Statement on internal control (*continued*)

*The robustness of the accounting systems, processes and controls which impacted on the timeliness and quality of financial information, and reporting the limited electronic integration between operational and accounting systems:*

- Improved valuation models have been introduced for work in progress.
- IDP involves implementing a robust accounting system (Oracle Financials) with interfaces to our key operational systems.

*Lack of a conventional accounting system:*

- As noted above, the IDP will involve the implementation of new robust accounting ledgers.
- Administration accounts management has been outsourced from 1 April 2011 to the MoJ supplier to deliver additional reliability and control.

*Lack of a conventional debt ledger does not facilitate easy collection and reporting of amounts owed:*

- We have identified certain debts that are collectable but are not currently reflected in our main collection system; an exercise to transfer all such debts into our main system is currently underway.
- We have also identified a number of debt balances that need to be adjusted or written off and further work is required to refine the basis of debt impairment. We are undertaking an extensive data cleansing operation prior to implementing our new accounting and debt collection system. This will allow stronger reporting of debt balances and will also facilitate more effective debt collection activities.

*Insufficient financial controls designed into or implemented within our operational systems, some of which are ageing and not robust:*

- The original financial stewardship plan was delivered in full during the year and included improvements to some of our key business processes. The plan delivered a stronger focus on business systems such as our Corporate Information System and Contracted Work Administration to ensure an appropriate strengthening of controls.
- We aim to further improve our systems of operational and accounting controls during 2011-12.
- The IDP IT system will ensure that these functions are embedded within the new civil processing system.

- In the intervening period, we have revised and tightened our delegated authority limits in order to better control expenditure. This will, until the go-live date of IDP, be operated externally to the legacy IT systems and will be monitored and reviewed not only by management but also by Internal Audit.

*Fund forecasting and accounting arrangements which are not integrated or in accordance with best practice:*

- Actions arising from the independent review of our fund forecasting and accounting arrangements have now been implemented.
- In December 2010 a permanent Finance and Corporate Services Director was appointed.
- The finance function has been further strengthened with the recruitment of a Financial Controller and Senior Management Accountant.

*Controls to prevent and detect fraud:*

- A new counter-fraud strategy has been developed with a focus on better detection, measurement and prevention of fraud.
- The LSC's intelligence capability has been increased and processes defined to improve the detection of fraud and identification of fraud risks.
- Fraud risk assessment and measurement processes defined to identify and assess potential fraud and control risks.
- Thematic investigations are currently underway in five areas of potential fraud.
- The LSC is focusing on joint working with its stakeholders to better identify and prevent fraud. For instance, we have a number of cases where we are pursuing joint prosecutions with the Department for Work and Pensions involving potential benefit fraud and subsequent ineligibility for legal aid funding.

The LSC's vision is to work with our providers and the justice system to be a respected commissioner and administrator of legal aid. Our strategic objectives and priorities for 2011-12 are challenging and we are actively addressing control issues which may impact on delivery, as summarised in the remainder of my statement.

## Financial reports 2010-11

### Statement on internal control (*continued*)

*Commissioning and procuring services that provide timely access to quality legal advice for eligible clients:*

- The pressures on legal aid funding are likely to intensify, whilst at the same time we will need to deliver more for less, demonstrating efficient use of taxpayers' money. Some of the significant areas that impact on legal aid Fund expenditure are outside the direct control of the LSC. These include Ministerial policy decisions as well as actions taken in other parts of the justice system or within local government. We continue to review our priorities, to consider additional resources required to address our risks and to take decisions on that basis.
- Some of the necessary recoveries and audit activity have impacted on our own resource capability and also that of our contracted providers. Challenges by providers to the increased auditing regime are now being raised. We are currently in discussion with representative bodies in order to bring together our activities in a more manageable way and implement a coherent provider management strategy. This work must not, however, detract from our need to recover £10m in the financial year 2011-12.

*Use finances consistently and reliably to achieve value for money:*

- NAO findings relating to the accuracy of provider claims continue to be an area of concern, particularly in relation to civil Legal Help, immigration and family matters. We continue to have a risk around the control of means assessment and eligibility of applicants for Civil Representation. During this financial year we have piloted a more robust process at one LSC office which proved very successful and we will now be recruiting staff to roll this out nationally, following the production of the process, standard operating procedures and training information. We are working with representative bodies to improve provider understanding and the accuracy of claims.
- A number of non-compliance issues were identified with the Crown Court means testing (CCMT) processes, operated by Her Majesty's Courts and Tribunals Service (HMCTS), which have impacted on the level of savings generated for CCMT. This has also affected the LSC's ability to pay litigators graduated fee scheme and advocates graduated fee scheme claims in a timely manner. We are working closely with HMCTS at director level to ensure resources are targeted to resolving these issues.

*Improve our business by simplifying processes, driving efficiency and eliminating waste:*

- Our business and financial controls process review programme is ongoing. Whilst I have confidence that we have strengthened and will strengthen our control environment, I appreciate that in the short term, as new processes and systems embed, other issues could arise. I am therefore not able to give as strong an assurance as I would wish to do on the adequacy of the control environment. I am confident that this position will change as new systems and processes are implanted during the year ahead.
- We have seen a substantial increase in freedom of information requests and also parliamentary questions during this year, which has added significantly to our workload and may impact on our ability to deliver business as usual and our already challenging change programme.

*Build capability to ensure we have the right people with the right skills to meet our goals:*

- The prospect of major structural change with the transfer of LSC's functions to an executive agency of the MoJ following Ministerial decisions in the light of the Magee review, adds a degree of uncertainty for staff, which may impact on our ability to retain and recruit the skills we need to accomplish all that is required in the coming months. My Executive Team and the Senior Management Team are committed to working with our staff and communicating openly and honestly to support them through this transition period. We are currently producing further guidance to managers to help them identify people risks around employee relations, skills, retention and morale.

### Key risks

The LSC's key risks are summarised below:

- Our financial and operational systems and processes continue to contain a number of significant weaknesses. Our accounts have been qualified in 2008-09, 2009-10 and 2010-11. Although we have undertaken a significant amount of work to respond to the accounts qualifications in connection with errors in payments to legal aid providers and uncertainty around the debtor balances, and the accompanying criticisms of our processes and procedures, we still have further work to do. We will only be able to assess the full impact of the

## Statement on internal control *(continued)*

improvements we have made from 2011-12 onwards, due to the length of some legal aid cases.

- Ageing legacy IT systems and unsupported applications increase the risk of hardware and system failures and limit our ability to change and improve controls cost-effectively. Any further reductions in the programme to introduce new systems will increase the risks we face as we strive to come out of accounts qualification. We are currently implementing an infrastructure improvement plan which will improve resilience of key systems.
- The reform of legal aid will result in a high volume of work for the LSC over the next three years in order to introduce and implement the reforms. The LSC is a relatively small organisation and administration budget reductions in advance of implementation will carry risks to the programme. The LSC is working closely with MoJ colleagues to ensure effective programme governance. We continue to review resource availability and capacity on a regular basis to ensure sufficient project and programme coverage. However, an additional risk is that we are operating with high numbers of inexperienced temporary staff which we are looking to increase further in the short to medium term.

We are committed to dealing with any new issues promptly and these will be reported to the Executive Team's fortnightly meetings where appropriate responses will be agreed. Matters will also be reported to each meeting of the Commission Board and/or the Audit Committee.

**Signed for and on behalf of the Legal Services Commission**

**Carolyn Downs**

Chief Executive and Accounting Officer

20 October 2011

## Financial reports 2010-11

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

I certify that I have audited the financial statements of the Legal Services Commission's Community Legal Service Fund and Criminal Defence Service (the Fund) for the year ended 31 March 2011 under the Access to Justice Act 1999. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, 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 Commission, Accounting Officer and auditor

As explained more fully in the Statement of the Commission's and Accounting Officer's Responsibilities, the Commission and the 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 Act 1999. 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 Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Legal Services Commission; and the overall presentation of the financial

statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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 opinion on regularity

In the year to 31 March 2011 the Fund incurred £2.1 billion of net expenditure. My testing identified estimated overpayments of £50.7 million relating to legal aid providers' claims being paid at amounts higher than that supported by evidence or payments for legal aid to applicants whose eligibility could not be demonstrated. Such payments were, by definition, not in accordance with regulations made under the Access to Justice Act 1999, and accordingly I have concluded that these transactions have not been applied to the purposes intended by Parliament and are not in accordance with the authorities which govern them.

## Qualified opinion on regularity

In my opinion, except for the irregular transactions referred to in the basis for qualified opinion on regularity paragraph above, in all material respects, the income and expenditure has 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 (continued)

## Basis for qualified opinion on financial statements

With respect to the balance of trade and other receivables of £153.2 million, the audit evidence available to me was limited because the Commission's management were unable to provide me with satisfactory evidence to support the model estimating the value of the net receivables balance. Consequently, I have been unable to obtain sufficient, appropriate audit evidence to support the valuation of trade and other receivables and the movement in the impairment provision of £43.7m charged to the Statement of Comprehensive Net Expenditure.

## Qualified opinion on financial statements

In my opinion, except for the possible effects of the issues described in the basis for qualified opinion on financial statements paragraph on the valuation of trade and other receivables and related expenditure:

- the financial statements give a true and fair view of the state of the Community Legal Service Fund and the Criminal Defence Service's affairs as at 31 March 2011 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 Act 1999 and directions made thereunder by the Secretary of State and Lord Chancellor with the approval of HM Treasury.

## Opinion on other matters

- In my opinion, the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which I report by exception

In respect solely of the limitation on my work relating to trade and other receivables and related expenditure, described above:

- I have not obtained all the information and explanations that I considered necessary for the purpose of my audit; and
- I have been unable to determine whether appropriate accounting records have been kept.

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

- the financial statements are not in agreement with the accounting records or returns; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

## Report

My report on pages 42 to 49 provides further detail of my qualified opinions on the financial statements and on the regularity of expenditure.

### Amyas C E Morse

Comptroller and Auditor General

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

24 October 2011

## Financial reports 2010-11

# Report of the Comptroller and Auditor General to the Houses of Parliament on the Community Legal Service Fund and Criminal Defence Service Accounts for the year ended 31 March 2011

## Introduction

1. The Legal Services Commission (the Commission) is an executive Non Departmental Public Body (NDPB) of the Ministry of Justice. The Commission is responsible for the provision of legal aid in England and Wales through the Community Legal Service Fund (for civil cases) and the Criminal Defence Service (for criminal cases).

## The purpose of my report

2. The purpose of this Report is to explain the background to the qualifications of my audit opinions on the Community Legal Service Fund and Criminal Defence Service accounts for the year ended 31 March 2011.

## My obligations as auditor

3. Under the Access to Justice Act 1999, I am required to examine, certify and report on the Commission's accounts. I am required, under International Standards on Auditing (UK and Ireland) to obtain evidence to give reasonable assurance that these accounts are free from material misstatement. In forming my opinion, I examine evidence supporting the disclosures in the financial statements and assess the significant estimates and judgements made in preparing them. I also consider whether the accounting policies are appropriate, consistently applied and adequately disclosed.
4. In addition, I am required to satisfy myself that the expenditure and income shown in the accounts have been applied to the purposes intended by Parliament and conform to the authorities that govern them; that is, they are "regular". In determining whether expenditure and income conforms to the authorities that govern them, I have regard to the legislation

authorising the financial transactions and relevant regulations issued under the governing legislation.

## Audit opinions

5. In 2010-11, I have qualified my audit opinion due to material irregularities in respect of legal aid payments made to providers (the regularity qualification). This qualification is on the same basis as reported in 2009-10.
6. I have also found it necessary to limit the scope of my opinion in respect of the valuation of the receivables balance reported in Note 8 of these accounts and the related movement in the impairment provision reported in Note 3 (the receivables qualification). The Commission has been unable to provide sufficient evidence to support the value of the recorded receivables.

## Qualified audit opinion due to material irregular payments to legal aid providers

7. I have qualified my opinion on the Commission's accounts for the year ended 31 March 2011 as I identified material irregularities in respect of payments made to legal aid providers. In order to support my regularity opinion, I needed to assure myself that the amounts paid to legal aid providers were in line with the legislation governing the fee regimes, that the Commission approved legal aid only to applicants who were eligible, and that the correct level of contributions were levied on clients. My testing identified an estimated total error of £50.7 million on expenditure. This represents 2.2 per cent of the Commission's expenditure during the year.

Report of the Comptroller and Auditor General to the Houses of Parliament (*continued*)

8. The irregular expenditure relates to:
- inaccurate claims paid to legal aid providers not in compliance with the statutory fee regimes of £29.5 million (the payment accuracy errors); and
  - payments of legal aid via providers to applicants who were not eligible or whose eligibility could not be proven of £21.2 million (the eligibility errors).
9. My regularity opinion is based on an estimated total error, which is extrapolated from errors identified through sample testing. Therefore it is not possible to trace the total error to individual transactions, and whilst the Commission does seek to recover incorrect payments identified through its assurance work, recoveries are not expected to amount to the total extrapolated error.
10. I qualified my regularity opinion on the Commission's 2009-10 accounts<sup>1</sup> based on an estimated error of £76.5 million on legal aid expenditure. The total estimated error on expenditure has reduced by 34 per cent during 2010-11.
11. My 2009-10 report also noted an estimated net £2.1 million of income contributions which should not have been levied by the Commission. The level of error in income has increased in 2010-11, particularly for contributions that were not levied by the Commission when they should have been, which have increased from £2.5 million to £9.1 million. Whilst the error has increased, it is not material and therefore I have not qualified my opinion in this respect.
- on the Crime Lower scheme, the extrapolated error on accuracy of payments to providers has fallen from £23.5 million in 2009-10 to £1.5 million in 2010-11; and
  - on eligibility for the Legal Help scheme, the extrapolated error has fallen from £9.1 million in 2009-10 to £1.9 million in 2010-11.
14. These improvements are due to the Commission's increased focus on higher risk areas, enhanced audit testing and provision of additional clarity and guidance to providers.
15. There are some areas where the level of error has not significantly changed, or has increased. It is therefore important that the Commission continues to quantify and monitor the level of error across all streams of income and expenditure, so that appropriate action can be taken where risk or error remains high.

### Progress since my last report

12. The Accounting Officer's Statement on Internal Control<sup>2</sup> provides a comprehensive account of the internal control issues facing the Commission, outlining progress made against them and further work to be done.
13. The Commission has made significant improvements in the level of total irregular expenditure reported in 2010-11. The key areas of improvement are as follows:

1 Report of the Comptroller & Auditor General to the Houses of Parliament on the Community Legal Service Fund and Criminal Defence Service Accounts for the year ended 31 March 2010, HC575, 2009-10.

2 Legal Services Commission Annual Report and Accounts 2010-11, HC1555, page 34.

## Financial reports 2010-11

### Report of the Comptroller and Auditor General to the Houses of Parliament (*continued*)

#### Payment accuracy errors

16. During my audit I have estimated £29.5 million of overpayments to legal aid providers, as set out in the following table.

#### Estimated error on accuracy of payments

Legal Aid Scheme	Population <sup>1</sup> £'m	Error rate %	2010-11 Estimated Total Error £'m	2009-10 Estimated Total Error £'m
<b>Civil</b>				
Legal Help: Immigration and Family	109.0	14.1	15.4	15.7
Legal Help: Other	95.5	3.1	3.0	0.5
Civil Representation: Bills and Mediation	1,116.1	0.3	3.3	0.3
Civil Representation: Very High Cost Cases (VHCC) payments	113.7	3.2	3.6	2.0
<b>Crime</b>				
Crime Lower: Police Station and Magistrates' Court claims	460.5	0.3	1.5	23.4
Crime Higher: Crown Court payments to advocates and solicitors	610.9	0.4	2.5	0.7
Crime Higher: Very High Cost Cases (VHCC) payments	93.1	0.2	0.2	1.0
<b>Total of Accuracy Errors</b>	-	-	29.5	43.6

<sup>1</sup>The populations shown are cash payments in the year.

17. I have outlined below further details of the most significant errors and movements.

#### Legal Help and Crime Lower

18. Due to the high volume and low value of claims made under the Legal Help and Crime Lower schemes, the Commission does not validate amounts claimed by individual providers before payment is made. Instead, throughout the year, the Commission reviews a sample of claims to confirm whether suppliers have met contractual requirements, and that claims are supported by sufficient evidence.

19. For my 2009-10 audit I was unable to rely on the assurance work conducted by the Commission. However, for 2010-11, I was able to place reliance on the majority of this work. Quality control of the Commission's assurance process has significantly improved, and I was able to confirm that the process was identifying errors and treating them consistently.

20. The Commission's testing of the Crime Lower scheme identified a significant decrease in the error rate. In 2009-10 a large number of claims for Police Station Attendance were found to be out of scope as they had not been routed through the Defence Solicitor Call Centre (DSCC). While everyone is eligible to receive legal aid funded advice at a police station, the DSCC provides authorisation to the solicitor to give advice to the client. Further guidance has been provided to suppliers which has contributed to the reduced error rate in 2010-11.

21. The Commission's testing of payments made under the Legal Help scheme identified an increase in the error rate. As in 2009-10, the highest level of financial error was in relation to Family and Immigration claims. The testing performed indicated that 14 per cent (2009-10: 12 per cent) of all Family and Immigration claims were incorrect or not fully supported.

Report of the Comptroller and Auditor General to the Houses of Parliament (*continued*)

22. As in 2009-10, the errors in relation to the Family scheme largely relate to the distinction between level 1 and level 2 fees, with providers claiming the higher level 2 fee when the criteria had not been met.
23. The error on the Immigration scheme has increased from £6.8 million to £8.7 million. This increase is due largely to additional errors relating to claims made by a significant provider who went into administration in May 2010. There was a lack of sufficient evidence to support the accuracy of several claims as files could not be presented for audit. These errors totalled £2.0 million, with the remaining £6.7 million relating principally to errors on hourly rates claimed on standard immigration cases.
24. My previous reports identified the complexity of the legal aid fee schemes as a major contributory factor toward the relatively high level of error in claims under both the Legal Help and Crime Lower schemes. This remains a significant issue for all Civil and Crime schemes, including Legal Help and Crime Lower.

**Eligibility errors**

25. I have identified an estimated £21.2 million of payments made via providers to clients who were not eligible for legal aid, or whose eligibility could not be proven as set out in the following table.

**Estimated error on eligibility**

Legal Aid Scheme	Population <sup>1</sup> £'m	Error Rate %	2010-11 Estimated Total Error £'m	2009-10 Estimated Total Error £'m
Legal Help	188.5	1.0	1.9	9.1
Crime Lower: Magistrates' Court	122.5	0.9	1.1	0.3
Civil Representation	146.1	12.4	18.2	23.5
<b>Total of Eligibility Errors</b>			<b>21.2</b>	<b>32.9</b>

<sup>1</sup>The populations shown are cash payments in the year.

26. I have outlined below further details of the most significant errors and movements.

**Legal Help**

27. The means assessment to determine financial eligibility for the Legal Help scheme is carried out by the legal aid provider, before providing advice to clients on a civil matter.
28. Testing conducted by the Commission includes confirming an individual's eligibility for the receipt of legal aid through review of additional and alternative sources of evidence. I was able to place reliance on the results of this work for my audit.
29. The Commission identified an estimated error of £1.9 million from this exercise, which has decreased substantially from the previous year. There has been an increased focus on eligibility by the Commission and the introduction of a 'Legal Help Enquiry' line in January 2010 provided a central point of contact for provider queries. The enquiry line receives approximately 850 calls per month, of which 40 per cent are typically queries on financial eligibility.

## Financial reports 2010-11

### Report of the Comptroller and Auditor General to the Houses of Parliament (*continued*)

#### **Civil Representation**

30. For Civil Representation, the Commission must assess an individual's eligibility for legal aid before a solicitor can represent a client at the County or Family Court.
31. As in 2009-10, the Commission undertook an assurance exercise to test the eligibility of funded clients, based on their initial means assessment and through review of additional and alternative sources of evidence. I was able to place reliance on the Commission's work for my audit.
32. The Commission identified an estimated error of £18.2 million from this exercise (based on a 12.4 per cent error rate), which indicates that the Commission may have paid this amount to providers for representation of individuals in court who were not eligible for legal aid. The extrapolated error of £18.2 million has decreased from 2009-10. As the error rate has remained relatively consistent, this reduction is due to lower cash expenditure on Civil Representation during 2010-11.
33. The Commission has taken significant steps to enhance its controls in this area. This has not yet had a significant impact on the reported error rate because Civil Representation cases have an average life of two years from the date a legal aid certificate is granted to receipt of the final bill. As my regularity opinion relates to cash paid in 2010-11, this predominantly relates to certificates granted in previous years. The enhanced controls will therefore take some time to fully impact the regularity of cash payments made by the Commission.

#### **Income errors**

34. The Commission received contributions of £11.4 million during the year from clients funded for Civil Representation. The eligibility testing described above also identified regularity errors in relation to this income. The Commission identified an estimated error of £4.9 million (2009-10: £4.5 million) in relation to contributions paid by clients that should not have been levied by the Commission and an estimated error of £9.1 million (2009-10: £2.5 million) in relation to contributions that were not levied by the Commission where clients should have been required to pay them. Income received by the Commission, to which it is not entitled, is irregular. Similarly, income which the Commission should have levied and recovered, but did not, is also irregular. Both errors can arise due to errors in the determination of an individual's eligibility or calculation errors by the Commission.
35. My assessment of the income error is based on a sample of applicants' contributions, so it is not practical for the Commission to use this as a basis for making specific repayments of incorrect contributions to funded clients.

#### **Developments in systems and controls since my last report**

36. My previous Reports have identified a number of areas where action was required to improve the control environment. The significant control weaknesses, and the actions taken to target these, are explained in the Accounting Officer's Statement on Internal Control.
37. The key developments since my previous report can be summarised as:
- identifying and managing areas of risk;
  - improvements to internal processes and systems; and
  - working with providers and recovering overpayments.

#### **Identifying and managing areas of risk**

38. Following my Report on the Commission's 2009-10 accounts, considerable work was undertaken to review and categorise the areas of expenditure contributing to the total regularity error. The Commission sought to analyse the causes of errors across all legal aid schemes, to enable it to take appropriate action. Internal assurance work has continued in 2010-11, and the Commission now has a better understanding of the areas of risk that contribute to the errors. During 2011-12, the Commission started testing on a monthly basis, so that it has a more timely understanding of trends in error rates as the year progresses.
39. The Commission's Counter-Fraud Strategy was developed in 2010-11 to improve the identification of the risks of fraud. Thematic investigations are currently being undertaken in five areas of potential fraud risk, and the Commission is increasing its capability by working more closely with stakeholders, such as the Department for Work and Pensions.

Report of the Comptroller and Auditor General to the Houses of Parliament (*continued*)**Improvements to internal processes and systems**

40. The Commission has improved its internal quality assurance testing to reduce processing errors by staff. Monthly cross-office quality control reviews are undertaken on merits testing, means assessments and payment of final bills. In addition, the Commission has implemented improvements to its systems to reduce the scope for error; for example introducing controls that prevent the input of incorrect codes and amounts in the online submissions for Crime Lower payments.
41. The Commission has enhanced the means assessment process for Civil Representation. From December 2010, it has been mandatory for all applicants to provide bank statements to support their means assessments. This has subsequently been revised to include wage slips and mortgage statements. The Commission is continuing to review its eligibility assessment processes for civil representation cases with a view to further strengthening the control framework.

**Working with providers and recovering overpayments**

42. The Commission introduced a new Provider Management Strategy in 2010-11 to profile provider risk, target areas of greatest concern and improve provider performance. The Commission has informed me that it has undertaken over 2,900 provider visits during 2010-11, including some detailed on-site audits. As a result of these, the Commission has issued a number of contract notices to providers and terminated some provider contracts. The Commission has found that where a contract notice has been issued and a subsequent follow-up visit made, the majority of providers visited had resolved the issue identified.
43. The Commission has worked with providers to identify areas at risk of errors. This has led to issuance of additional guidance to support providers during the year, such as clarification of the requirements for Defence Solicitor Call Centre authorisation.
44. The additional work undertaken by the Commission has led to the identification and recovery of substantial overpayments to suppliers. This work is ongoing, but recoveries of £7.1 million (2009-10: £4.6 million) have been made during the year.

**Further steps planned and required by the Commission**

45. The Commission should continue to monitor the level of error arising as a result of both:
- inaccurate claims paid to providers outside of the statutory fee regimes; and
  - payments of legal aid via providers to applicants whose eligibility cannot be proven as supporting information is inaccurate or incomplete.
46. The Commission has moved to monthly testing of the accuracy of claims. This will enable the Commission to have a more timely understanding of trends in the error rates as the year progresses and to respond more rapidly to any emerging risk areas either by issuing additional guidance or performing more focused testing.
47. The Commission should also continue to use the results of its assurance work to further develop its understanding of the high-risk areas and design suitable preventative controls to get it right first time.

**Qualified opinion on the financial statements due to a limitation of scope on the receivables balance**

48. My audit opinion includes a statement on whether the financial statements give a true and fair view of the state of the Community Legal Service Fund and the Criminal Defence Service's affairs as at 31 March 2011 and of its net expenditure for the year then ended. I have limited the scope of my opinion on the valuation of the receivables balance at 31 March 2011 and the related movement in the impairment provision recognised in Note 3.
49. My testing has shown that the Commission's model estimating the value of receivables contains material errors in the input data. There is also a lack of evidence supporting the assumptions used to estimate the impaired receivables balance. Consequently, I have not obtained sufficient, appropriate audit evidence to support the valuation of the receivables balance of £153.2 million and the movement in the impairment provision of £43.7 million charged to the Statement of Comprehensive Net Expenditure.

## Financial reports 2010-11

Report of the Comptroller and Auditor General to the Houses of Parliament (*continued*)

### Basis for qualified opinion on receivables

50. The Commission's accounts disclose a receivables balance of £153.2 million in the Statement of Financial Position. This is calculated from a gross receivables balance of £294.4 million, which is then impaired. The impairment provision of £141.2 million represents 48 per cent of the gross receivables balance. This reflects the Commission's assessment of the recoverability of the debts it holds at the year-end, based on historic cash receipts against previous years' receivables. This assessment is a significant accounting estimate and is not based on assessments at an individual case level as this would not be practical due to the high number of items included within the balance.
51. The Commission continues to pursue all debts irrespective of the impairment until a business decision is made that an individual debt is irrecoverable, at which point it is written-off. Debts totalling £23.1 million were written-off during the year.
52. The majority of the Commission's receivables are due from clients who have benefited from legal aid, and are expected to repay part of the costs of their legal aid. This is known as the 'statutory charge' where the Commission has the rights over any monies or property awarded as a result of the legal case. Repayment of these debts can be deferred, subject to the Commission registering its security and charging interest, which means some receivables will not be repaid for a number of years.

### Errors within the gross receivables balance

53. I performed testing on a sample of debts selected from the gross receivables balance. Testing identified a significant level of error, indicating a £50.4 million overstatement when extrapolated.
54. The types of errors identified included:
- errors in the underlying data for individual debts;
  - failure of interfaces between the systems used to manage and record debt;
  - instances where action was not taken at the appropriate time to enable the debts to be recovered; and
  - lack of evidence to support the existence or valuation of the debt.

55. The Accounting Officer's Statement on Internal Control<sup>3</sup> explains that the errors found in the receivables balance are largely due to limitations in legacy IT systems which create difficulties in reporting and managing the receivables due. The long life of some debts also means errors accumulate over time. My audit testing identified a higher level of error than was found in 2009-10, which is due partly to the accumulation of errors and partly from a better understanding of the risks underlying the receivables balance.

### The impairment model

56. I also performed testing on the model used by the Commission to estimate the level of impairment of receivables.
57. The model uses 11 years of historic cash receipts data to forecast the cash receipts expected over the next 11 years from the gross receivables balance. The current model was used for the first time in 2009-10. In accordance with International Standard on Auditing 540: Auditing Accounting Estimates, I compared the 2009-10 model's predicted cash receipts with the cash actually received in 2010-11. This comparison suggested that the 2009-10 model had over-estimated cash receipts in 2010-11 by 31.7 per cent or £11.6 million.
58. The Commission investigated whether the results for the 2009-10 model were representative by 'rolling back' the model to establish the results it would have predicted for 2008-09 and 2007-08. These results were compared with the actual cash receipts, and were similarly inaccurate. These results indicate a lack of satisfactory evidence supporting the assumptions within the impairment model.

<sup>3</sup> Legal Services Commission Annual Report and Accounts 2010-11, HC1555, page 34.

Report of the Comptroller and Auditor General to the Houses of Parliament (*continued*)**Further steps planned and required by the Commission**

59. During the year the Commission undertook review and testing of the receivables balance, which has significantly improved its understanding of the underlying issues. The Commission is moving towards implementing a new IT system, which will have both operational and financial reporting facilities. This should provide more accurate and complete management information. The receivables balance will be reviewed and substantially cleansed during the implementation of, and transition to, the new system. The Commission currently has over 90,000 cases with outstanding receivables balances, so this cleansing process is likely to take some time.

60. The Commission has a responsibility to collect income on behalf of the Exchequer, but it must also fulfil its financial reporting responsibilities to determine an accurate valuation of the net receivables balance at year-end. In order to achieve this, the Commission needs sufficient information about the recoverability of its receivables. For example, the Commission is currently not able to age its debts and therefore cannot monitor recovery in this way. This and additional information will be essential once receivables are transferred into the new IT system, because historic recovery data will not be relevant for impairing the 'cleansed' receivables balance.

**Conclusions**

61. The Commission has made substantial improvements to the level of irregular payments made to legal aid providers, but there is still scope for further progress. The Commission faces significant challenges to reduce the level of extrapolated error in an environment of resource constraint across the Ministry of Justice. The most substantial barriers to improvement in this area arise from the inherent difficulties in administering a means-tested system of entitlement, and from the complexity of the fee schemes paid under legal aid. In addition, the Commission is continuing to seek opportunities for significant cost reductions over the coming years in order to achieve its Spending Review settlement. The Commission will therefore need to make difficult decisions on the costs and benefits of further work to reduce the level of irregularity.

62. In respect of its receivables balance, the Commission must address substantial inaccuracies in the book value of its receivables, which will allow it to more accurately estimate the fair value of that balance. As the Commission moves towards implementing its new IT solution, it is essential that these activities are completed before individual debtors are recorded on the new system.

63. My audit of the Commission's financial statements for 2011-12 will again examine the level of irregular transactions. In addition, I will look for improvements in the quality of data the Commission can provide to support the receivables balance. I will report on the progress that the Commission makes in addressing both issues.

**Amyas C E Morse**

Comptroller and Auditor General

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24 October 2011

## Financial reports 2010-11

Community Legal Service Fund and Criminal Defence Service  
Statement of Comprehensive Net Expenditure

For the year ended 31 March 2011

		2010-11	2010-11	2010-11	2009-10	Restated	2009-10
	Note	CLS	CDS	Total	CLS	2009-10	Total
		£000	£000	£000	£000	CDS	£000
						£000	£000
Expenditure	3	(1,191,520)	(1,131,593)	(2,323,113)	(1,325,699)	(1,096,295)	(2,421,994)
Income	4	198,159	1,805	199,964	209,197	1,289	210,486
<b>Net expenditure</b>		<b>(993,361)</b>	<b>(1,129,788)</b>	<b>(2,123,149)</b>	<b>(1,116,502)</b>	<b>(1,095,006)</b>	<b>(2,211,508)</b>
Interest receivable		8,095	-	8,095	12,788	-	12,788
Interest payable		(104)	-	(104)	(122)	-	(122)
Other finance costs		-	(13)	(13)	-	(6)	(6)
<b>Net expenditure after interest</b>		<b>(985,370)</b>	<b>(1,129,801)</b>	<b>(2,115,171)</b>	<b>(1,103,836)</b>	<b>(1,095,012)</b>	<b>(2,198,848)</b>

Other comprehensive expenditure		2010-11	2010-11	2010-11	2009-10	Restated	2009-10
	Note	CLS	CDS	Total	CLS	2009-10	Total
		£000	£000	£000	£000	CDS	£000
						£000	£000
Net gain/(loss) on revaluation of property, plant and equipment		-	-	-	-	-	-
<b>Total comprehensive expenditure for the year</b>		<b>(985,370)</b>	<b>(1,129,801)</b>	<b>(2,115,171)</b>	<b>(1,103,836)</b>	<b>(1,095,012)</b>	<b>(2,198,848)</b>

All income and expenditure are derived from continuing operations.

The notes on pages 54 to 75 form part of these financial statements.

## Community Legal Service Fund and Criminal Defence Service Statement of Financial Position

At 31 March 2011

	Note	2011			Restated 2010			Restated 2009		
		CLS £000	CDS £000	Total £000	CLS £000	CDS £000	Total £000	CLS £000	CDS £000	Total £000
<b>Non-current assets</b>										
Intangible assets	5	-	-	-	-	57	57	-	85	85
Property, plant and equipment	6	-	-	-	2	5	7	12	38	50
<b>Total non-current assets</b>		-	-	-	2	62	64	12	123	135
<b>Current assets</b>										
Trade and other receivables	8	141,647	11,534	153,181	155,634	4,231	159,865	212,316	6,787	219,103
Cash and cash equivalents	7	10,927	1,586	12,513	1,185	3,862	5,047	2,924	1,972	4,896
<b>Total current assets</b>		<b>152,574</b>	<b>13,120</b>	<b>165,694</b>	156,819	8,093	164,912	215,240	8,759	223,999
<b>Total assets</b>		<b>152,574</b>	<b>13,120</b>	<b>165,694</b>	156,821	8,155	164,976	215,252	8,882	224,134
<b>Current liabilities</b>										
Trade and other payables	9	(231,256)	(96,050)	(327,306)	(188,982)	(77,688)	(266,670)	(50,610)	(33,194)	(83,804)
<b>Total current liabilities</b>		<b>(231,256)</b>	<b>(96,050)</b>	<b>(327,306)</b>	(188,982)	(77,688)	(266,670)	(50,610)	(33,194)	(83,804)
<b>Non-current assets less net current liabilities</b>		<b>(78,682)</b>	<b>(82,930)</b>	<b>(161,612)</b>	(32,161)	(69,533)	(101,694)	164,642	(24,312)	140,330
<b>Non-current liabilities</b>										
Provisions for liabilities and charges	11	(318,134)	(293,645)	(611,779)	(358,153)	(339,481)	(697,634)	(391,460)	(498,515)	(889,975)
<b>Total non-current liabilities</b>		<b>(318,134)</b>	<b>(293,645)</b>	<b>(611,779)</b>	(358,153)	(339,481)	(697,634)	(391,460)	(498,515)	(889,975)
<b>Assets less liabilities</b>		<b>(396,816)</b>	<b>(376,575)</b>	<b>(773,391)</b>	(390,314)	(409,014)	(799,328)	(226,818)	(522,827)	(749,645)
<b>Taxpayers' equity</b>										
General reserve		(396,816)	(376,575)	(773,391)	(390,314)	(409,014)	(799,328)	(226,818)	(522,827)	(749,645)
		<b>(396,816)</b>	<b>(376,575)</b>	<b>(773,391)</b>	(390,314)	(409,014)	(799,328)	(226,818)	(522,827)	(749,645)

**Carolyn Downs**

Chief Executive and Accounting Officer  
20 October 2011

The notes on pages 54 to 75 form part of these financial statements.

## Financial reports 2010-11

Community Legal Service Fund and Criminal Defence Service  
Statement of Cash Flows

For the year ended 31 March 2011

		2010-11 CLS £000	2010-11 CDS £000	2010-11 Total £000	2009-10 CLS £000	Restated 2009-10 CDS £000	2009-10 Total £000
	Note						
<b>Cash flows from operating activities</b>							
Net deficit after interest		(985,370)	(1,129,801)	(2,115,171)	(1,103,836)	(1,095,012)	(2,198,848)
<b>Adjustments for:</b>							
Depreciation	6	-	-	-	10	33	43
Amortisation	5	-	-	-	-	28	28
Decrease/(Increase) in trade and other receivables	8	13,987	(7,303)	6,684	56,682	2,556	59,238
Increase/(Decrease) in trade and other payables	9	42,274	18,362	60,636	138,372	44,494	182,866
(Decrease)/Increase in provisions	11	(40,019)	(45,836)	(85,855)	(33,307)	(159,034)	(192,341)
<b>Net cash outflow from operating activities</b>		<b>(969,128)</b>	<b>(1,164,578)</b>	<b>(2,133,706)</b>	<b>(942,079)</b>	<b>(1,206,935)</b>	<b>(2,149,014)</b>
<b>Cash flows from investing activities</b>							
Proceeds of disposal of intangibles		-	57	57	-	-	-
Proceeds of disposal of property, plant and equipment		2	5	7	-	-	-
<b>Net cash inflow from investing activities</b>		<b>2</b>	<b>62</b>	<b>64</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash flows from financing activities</b>							
Grants from the Ministry of Justice		974,368	1,162,240	2,136,608	940,340	1,208,825	2,149,165
Grants from the Department for Work and Pensions		4,500	-	4,500	-	-	-
<b>Net cash inflow from financing activities</b>		<b>978,868</b>	<b>1,162,240</b>	<b>2,141,108</b>	<b>940,340</b>	<b>1,208,825</b>	<b>2,149,165</b>
Net increase/(decrease) in cash and cash equivalents in the period		9,742	(2,276)	7,466	(1,739)	1,890	151
Cash and cash equivalents at the beginning of the period	7	1,185	3,862	5,047	2,924	1,972	4,896
<b>Cash and cash equivalents at the end of the period</b>	7	<b>10,927</b>	<b>1,586</b>	<b>12,513</b>	<b>1,185</b>	<b>3,862</b>	<b>5,047</b>

The notes on pages 54 to 75 form part of these financial statements.

## Community Legal Service Fund and Criminal Defence Service Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2011

	CLS £000	Restated CDS £000	Total £000
<b>Balance at 31 March 2009</b>	(226,818)	(522,827)	(749,645)
<b>Changes in taxpayers' equity for 2009-10</b>			
Total comprehensive expenditure for 2009-10	(1,103,836)	(1,095,012)	(2,198,848)
Grant from the Ministry of Justice	940,340	1,208,825	2,149,165
<b>Balance at 31 March 2010</b>	(390,314)	(409,014)	(799,328)
<b>Changes in taxpayers' equity for 2010-11</b>			
Total comprehensive expenditure for 2010-11	<b>(985,370)</b>	<b>(1,129,801)</b>	<b>(2,115,171)</b>
Grant from the Ministry of Justice	<b>974,368</b>	<b>1,162,240</b>	<b>2,136,608</b>
Grant from the Department for Work and Pensions	<b>4,500</b>	-	<b>4,500</b>
<b>Balance at 31 March 2011</b>	<b>(396,816)</b>	<b>(376,575)</b>	<b>(773,391)</b>

The notes on pages 54 to 75 form part of these financial statements.

## Financial reports 2010-11

# Community Legal Service Fund and Criminal Defence Service Notes to the Financial Statements

For the year ended 31 March 2011

### Note 1 - Statement of accounting policies

The financial statements have been prepared in accordance with the 2010-11 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Legal Aid Fund (the Fund) which includes the Community Legal Service Fund (CLS) and Criminal Defence Service (CDS), for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Legal Services Commission (the Commission) for the Fund are described below. They have been applied consistently in dealing with items that are considered material to the financial statements.

#### a) Basis of preparation

The financial statements are presented in Sterling rounded to the nearest thousand (£000) unless otherwise stated. The financial statements have been prepared under the historical cost convention, modified to account for the revaluation of certain financial assets and liabilities, where material. This complies with HM Treasury guidance.

The preparation of financial statements in conformity with IFRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to

the financial statements, are disclosed. The areas include: trade and other receivables (note 8) and provisions for liabilities and charges (note 11).

#### b) Disclosure of IFRSs in issue and major FReM changes

The Commission has reviewed the IFRSs in issue to determine if it needs to make any disclosures in respect of new IFRSs. References to 'new IFRSs' includes new Interpretations and any new amendments to IFRSs and Interpretations. It has been determined that there are no new IFRSs that are relevant to the Fund.

#### Major FReM changes for 2010-11

The Commission has identified the following accounting changes as significant:

**Chapter 8 Impairments.** This chapter deals with accounting for the impairment of assets and the application of IAS36. The objective of IAS36 is to ensure that assets are carried at no more than their recoverable amount. Where an asset is valued above its recoverable amount, the Standard requires the recognition of an impairment. In accordance with IAS36, the Fund impairs the trade and other receivables assets (note 8).

**Chapter 11 Income and Expenditure.** This chapter deals with the accounting principles and standards that should be applied in preparing the Statement of Comprehensive Net Expenditure, including the removal of cost of capital charging from the financial statements. From 1 April 2010 notional costs are not recorded for cost of capital. Accordingly, cost of capital charging has been excluded from the Fund's financial statements. The initial application has had an impact of approximately £27m on the Fund's income and expenditure for 2010-11, which has led to the Statement of Comprehensive Net Expenditure, Statement of Changes in Taxpayers' Equity and Statement of Cashflows 2009-10 year being restated. The Statement of Financial Position is not affected by the change to cost of capital reporting, so it has not been necessary to restate this statement for 2009-10 for this item.

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 1 - Statement of accounting policies  
(continued)****c) Intangible assets**

All intangible assets are operating intangible assets. Operating intangible assets are intangible assets acquired in the ordinary course of business and typically include software costs. At 1 April 2010, the Fund transferred its intangible assets at net book value to the Commission and did not amortise these assets in the current year. Accordingly, there is no gain or loss on disposal of these assets or amortisation charges for the 2010-11 year.

**d) Property, plant and equipment**

Depreciated historical costs are used as a proxy for fair value of property, plant and equipment, because the assets have short useful economic lives. Assets costing more than the prescribed capitalisation level of £10,000 (2010: £10,000) are treated as capital assets. Where an item costs less than the prescribed limit but forms part of an asset or grouped asset, whose total value is greater than the capitalisation level, the item is treated as a capital asset. At 1 April 2010, the Fund transferred its property, plant and equipment at net book value to the Commission and did not depreciate these assets in the current year. Accordingly, there is no gain or loss on disposal of these assets or depreciation charges for the 2010-11 year.

**e) Depreciation and amortisation**

Depreciation or amortisation is provided on all property, plant and equipment and intangible assets (including computer software licences) on a straight-line basis to write off the cost over their estimated useful lives as follows:

Fixtures and fittings	5 years
Furniture and equipment	3 to 5 years
Information technology	3 to 5 years

The Fund did not depreciate or amortise any assets for the 2010-11 year, as it transferred all owned assets to the Commission on 1 April 2010.

**f) Income**

The Fund's income includes contributions from funded clients, costs recoverable from funded clients or others, including statutory charges, and recoveries of damages.

Where the costs incurred by the Fund in funding a case are recoverable from funded clients or others, these amounts are accounted for as income when they have been assessed as owing to the Fund. The amounts may be recovered from both awarded costs and damages, where applicable.

**g) Expenditure**

Expenditure comprises sums payable, including the estimated value of work completed by legal aid service providers not yet billed, 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. Other costs include the cost of staff, including an allocation of pension costs, employed by the Public Defender Service, Criminal Defence Service Direct and Community Legal Advice and Other Projects. These staff costs are disclosed in note 3 to the financial statements of the Commission.

**h) Grants receivable**

Grants receivable for income purposes or for the acquisition of property, plant and equipment and intangible assets are accounted for as financing and credited directly to the general reserve. Grants are received from the Ministry of Justice and the Department for Work and Pensions periodically throughout the year.

**i) Cash and cash equivalents**

Cash and cash equivalents comprise bank balances held with commercial bodies.

**j) Provisions****Amounts outstanding on funded cases**

The CLS and CDS recognise their liability to pay for work completed at 31 March but not yet billed. Separate models are run for each legal aid scheme, including civil representation, civil legal help, immigration, crime higher and crime lower. These models are dependent on the nature of information available for each scheme. The provision for amounts outstanding on funded cases is then based on such factors as the number of outstanding cases, the elapsed time on each case and the estimated average costs derived from closed case data. The provision is based on assumptions from the models and the sensitivity of these assumptions is included in note 17 to these financial statements.

## Financial reports 2010-11

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)

### Note 1 - Statement of accounting policies (*continued*)

#### **Dilapidations**

Provision is made for estimated dilapidation costs on leasehold buildings. The provision has been estimated with reference to the condition and location of the buildings and the requirements of the relevant lease. It has then been discounted at 2.2% (2010: 2.2%).

#### **Onerous leases**

Provisions for onerous leases are recognised when the leased property becomes vacant and is no longer used in the operations of the Fund.

#### **k) Leased assets**

##### **Operating leases**

Rental payments are charged to the statement of comprehensive net expenditure as they fall due.

#### **l) Financial instruments**

##### **Financial assets**

The Fund's financial assets comprise cash and receivables. Its receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on any market. The Commission has no intention of trading these receivables, which include amounts due from legal aid suppliers and funded clients.

##### **Initial recognition and measurement**

Receivables are initially recognised at their gross amount adjusted to take account of the time value of money over the period in which they are expected to be collected, based on the standard HM Treasury discount rate (currently 3.5%). This is described as a present value adjustment.

Subsequent to initial recognition these assets are carried at amortised cost using the effective interest rate method (EIR), less any impairment and further present value adjustment. Any interest receivable or loss arising on impairment is recognised in the Statement of Comprehensive Net Expenditure.

##### **Derecognition**

Loans and receivables are derecognised when the rights to receive cash flows from the assets have expired.

##### **Financial liabilities**

##### **Initial recognition and measurement**

The Fund's financial liabilities comprise trade and other payables. These are not revalued subsequent to initial recognition since they are simple instruments with short term maturities. The Fund is not empowered to borrow money.

##### **Derecognition**

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

##### **Fair value of financial instruments**

The fair value of the Fund's financial instruments is determined by using appropriate valuation techniques. Such techniques may include discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details of how they are measured are provided in note 17 to these financial statements.

##### **m) Impairment of financial assets**

An assessment of whether there is objective evidence of impairment is carried out for portfolios of assets ('collective impairment').

An assessment of collective impairment is made of financial assets with similar risk characteristics. For these assets, the Fund's previous experience of losses in each portfolio is used to estimate the degree of impairment on that asset class.

Where such an estimate is made, impairment provisions are made to reduce the carrying value of financial assets accordingly. Further detail on the valuation model used to generate this estimate and the actual impairments against the Fund's receivables is included at note 17 to these financial statements.

##### **n) Accounting for Value Added Tax**

Irrecoverable VAT is charged to the relevant expenditure category. Income and expenditure is otherwise shown net of VAT.

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 1 - Statement of accounting policies  
(continued)****o) Third party assets****Deposit accounts for funded clients**

Awards for damages to funded clients are initially payable to the Fund. The Commission places these funds on deposit until the final costs of a case have been calculated, when any excess of contributions and damages is paid to the funded client. These funds are accounted for as funds held on behalf of third parties and as a consequence do not appear in these financial statements.

The movement in third party funds is reported in note 18 to these financial statements.

Awards for damages paid to the Fund attract interest after a qualifying period.

Interest received on the deposit account is accounted for in the financial statements of the Commission.

**Crown Court means test**

Contributions may be payable to the Fund towards the cost of Crown Court proceedings in those cases that have been subject to means testing. The Commission places these funds on deposit and accounts for them as funds

held on behalf of third parties. Once the final judgement and costs have been determined, if the applicant is found guilty, the value of the funds up to the cost limit are due to the Fund.

The movement in third party funds is reported in note 18 to these financial statements.

**p) Employee benefits**

Under IAS19 Employee Benefits all staff costs must be recorded as an expense as soon as the organisation is obliged to pay them. This includes the cost of any untaken leave as at the year end. The cost of untaken leave is derived from holiday leave records.

**q) Prior period adjustments**

The legal help, immigration and crime lower work in progress estimated valuations for 2009-10 were amended as a result of an incorrect data feed into the valuation models. This involved some duplication of claims across the legal help, immigration and crime lower schemes and an overestimation of work in progress at 31 March 2010. In accordance with *International Accounting Standard 8: Accounting policies, changes in accounting estimates and errors*, this amendment has been treated as a prior year adjustment. The adjustments made in the financial statements are summarised below:

2009-10	Note	Statement of comprehensive net expenditure £000	Statement of financial position £000
<b>Decrease in operating expenditure</b>			
Civil legal help : Solicitors' charges, counsel fees and disbursements	3	10,328	-
Immigration and asylum : Solicitors' charges, counsel fees and disbursements	3	2,280	-
Criminal cases : Solicitors' charges, counsel fees and disbursements	3	25,532	-
<b>Decrease in provisions for liabilities and charges</b>			
CLS	11	-	12,608
CDS	11	-	25,532

## Financial reports 2010-11

### Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)

#### Note 1 - Statement of accounting policies (*continued*)

##### r) Going concern

The Commission is a statutory body established under the Access to Justice Act 1999. The Commission is charged with the responsibility for managing and accounting for the CLS Fund and the CDS, both of which are legal aid schemes provided for under the Access to Justice Act 1999. The Commission takes the view that the going concern concept applies as long as the provisions of the Access to Justice Act 1999 remain extant.

The Commission's status will change from that of a non-departmental public body, to an agency of the Ministry of Justice during the 2012 year. This change requires primary legislation. Once primary legislation is in place, it is assumed that all assets and liabilities will be

transferred to the new body. Therefore, the going concern principle would still be applicable.

The future financing of the Commission's activities is met by grant from the Ministry of Justice voted on by Parliament annually under the relevant Appropriation Act. Parliament voted on the funding for 2011-12 on 26 April 2011 (2010-11 on 7 July 2010).

#### Note 2 - Segmental analysis

The Fund's primary reporting format is by legal aid scheme. Legal aid expenditure is reported to management under four main categories: Civil representation, Civil Legal Help, Immigration and asylum and Criminal cases. The financial statements of the CLS Fund and CDS report expenditure and income by these categories (note 3 and 4) and as such no further segmental reporting is disclosed.

#### Note 3 - Operating expenditure

	2010-11 CLS £000	2010-11 CDS £000	2010-11 Total £000	2009-10 CLS £000	Restated 2009-10 CDS £000	2009-10 Total £000
<b>Civil representation</b>						
Solicitors' charges, counsel fees and disbursements	867,309	-	867,309	903,280	-	903,280
Refund of contributions	1,998	-	1,998	1,415	-	1,415
Costs of successful unassisted parties	1,636	-	1,636	1,036	-	1,036
	<b>870,943</b>	<b>-</b>	<b>870,943</b>	905,731	-	905,731
<b>Civil Legal Help</b>						
Solicitors' charges, counsel fees and disbursements	163,406	-	163,406	187,826	-	187,826
Direct services	23,288	-	23,288	23,845	-	23,845
Grants and similar	4,905	-	4,905	6,413	-	6,413
	<b>191,599</b>	<b>-</b>	<b>191,599</b>	218,084	-	218,084
<b>Immigration and asylum</b>						
Solicitors' charges, counsel fees and disbursements	86,259	-	86,259	93,302	-	93,302
Grants and similar	109	-	109	133	-	133
	<b>86,368</b>	<b>-</b>	<b>86,368</b>	93,435	-	93,435

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 3 - Operating expenditure (*continued*)**

	2010-11	2010-11	2010-11	2009-10	Restated 2009-10	2009-10
	CLS	CDS	Total	CLS	CDS	Total
	£000	£000	£000	£000	£000	£000
<b>Criminal cases</b>						
Solicitors' charges, counsel fees and disbursements - crime higher	-	688,208	688,208	-	659,526	659,526
Solicitors' charges, counsel fees and disbursements - crime lower	-	433,141	433,141	-	424,308	424,308
Public Defender Service	-	2,509	2,509	-	3,123	3,123
Direct services	-	2,510	2,510	-	2,814	2,814
Grants and similar	-	190	190	-	288	288
Duty solicitor call service	-	3,966	3,966	-	7,072	7,072
	-	1,130,524	1,130,524	-	1,097,131	1,097,131
Impairment provision *	42,610	1,069	43,679	108,449	(836)	107,613
<b>Total</b>	<b>1,191,520</b>	<b>1,131,593</b>	<b>2,323,113</b>	<b>1,325,699</b>	<b>1,096,295</b>	<b>2,421,994</b>

An explanation for the changes in CLS and CDS expenditure is included in the management commentary (page 24).

\* Note: This expenditure constitutes charges/(credits) to the Statement of Comprehensive Net Expenditure in respect of changes in the receivables impairment provision and is shown net of trade and other receivables written off. Trade and other receivables written off during the year totalled £23,104k (2010: £112,421k), comprised of CLS £20,728k (2010: £111,491k) and CDS £2,376k (2010: £930k).

Staff costs included within operating expenditure, together with the numbers employed, are disclosed in note 3 of the financial statements of the Commission.

## Financial reports 2010-11

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 4 - Income**

	<b>2010-11 CLS £000</b>	<b>2010-11 CDS £000</b>	<b>2010-11 Total £000</b>	2009-10 CLS £000	2009-10 CDS £000	2009-10 Total £000
<b>Civil representation</b>						
Contributions by funded clients	<b>14,132</b>	-	<b>14,132</b>	38,238	-	38,238
Costs recoverable	<b>138,529</b>	-	<b>138,529</b>	136,408	-	136,408
Recoveries from damages and statutory charge	<b>45,464</b>	-	<b>45,464</b>	34,474	-	34,474
	<b>198,125</b>	-	<b>198,125</b>	209,120	-	209,120
<b>Civil Legal Help</b>						
Costs recoverable	<b>34</b>	-	<b>34</b>	77	-	77
	<b>34</b>	-	<b>34</b>	77	-	77
<b>Criminal cases</b>						
Crown Court recoveries	-	<b>27</b>	<b>27</b>	-	-	-
Recovery of defence costs orders	-	<b>1,778</b>	<b>1,778</b>	-	1,289	1,289
	-	<b>1,805</b>	<b>1,805</b>	-	1,289	1,289
<b>Total</b>	<b>198,159</b>	<b>1,805</b>	<b>199,964</b>	209,197	1,289	210,486

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 5 - Intangible assets**

<b>Criminal Defence Service</b>	<b>Computer software £000</b>	<b>Total £000</b>
Cost at 1 April 2010	141	141
Disposals *	(141)	(141)
Cost at 31 March 2011	-	-
Amortisation at 1 April 2010	84	84
Disposals *	(84)	(84)
Amortisation at 31 March 2011	-	-
<b>Net book value at 31 March 2011</b>	<b>-</b>	<b>-</b>
Cost at 1 April 2009	141	141
Additions	-	-
Cost at 31 March 2010	141	141
Amortisation at 1 April 2009	56	56
Charged in year	28	28
Amortisation at 31 March 2010	84	84
Net book value at 31 March 2010	57	57

\* Note: Intangible assets have been transferred to the Commission.

## Financial reports 2010-11

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 6 - Property, plant and equipment**

<b>Community Legal Service</b>	<b>Furniture and equipment £000</b>	<b>Information technology £000</b>	<b>Total £000</b>
Cost at 1 April 2010	12	25	37
Disposals *	(12)	(25)	(37)
Cost at 31 March 2011	-	-	-
Depreciation at 1 April 2010	10	25	35
Disposals *	(10)	(25)	(35)
Depreciation at 31 March 2011	-	-	-
<b>Net book value at 31 March 2011</b>	<b>-</b>	<b>-</b>	<b>-</b>
Cost at 1 April 2009	12	32	44
Transfers	-	(7)	(7)
Cost at 31 March 2010	12	25	37
Depreciation at 1 April 2009	6	26	32
Charged in year	4	6	10
Transfers	-	(7)	(7)
Depreciation at 31 March 2010	10	25	35
Net book value at 31 March 2010	2	-	2

\* Note: Tangible assets have been transferred to the Commission.

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 6 - Property, plant and equipment (*continued*)**

<b>Criminal Defence Service</b>				
	<b>Fixtures and fittings £000</b>	<b>Furniture and equipment £000</b>	<b>Information technology £000</b>	<b>Total £000</b>
Cost at 1 April 2010	<b>300</b>	<b>54</b>	<b>127</b>	<b>481</b>
Disposals *	<b>(300)</b>	<b>(54)</b>	<b>(127)</b>	<b>(481)</b>
Cost at 31 March 2011	-	-	-	-
Depreciation at 1 April 2010	<b>297</b>	<b>52</b>	<b>127</b>	<b>476</b>
Disposals *	<b>(297)</b>	<b>(52)</b>	<b>(127)</b>	<b>(476)</b>
Depreciation at 31 March 2011	-	-	-	-
<b>Net book value at 31 March 2011</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Cost at 1 April 2009	885	117	120	1,122
Reclassification of opening balances	(5)	(2)	7	-
Disposals	(580)	(61)	-	(641)
Cost at 31 March 2010	300	54	127	481
Depreciation at 1 April 2009	864	108	112	1,084
Charged in year	13	5	15	33
Disposals	(580)	(61)	-	(641)
Depreciation at 31 March 2010	297	52	127	476
Net book value at 31 March 2010	3	2	-	5

\* Note: Tangible assets have been transferred to the Commission.

## Financial reports 2010-11

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 7 - Cash and cash equivalents**

	2010-11 CLS £000	2010-11 CDS £000	2010-11 Total £000	2009-10 CLS £000	2009-10 CDS £000	2009-10 Total £000
<b>Cash and cash equivalents</b>						
Balance at 1 April	1,185	3,862	5,047	2,924	1,972	4,896
Net change in cash and cash equivalent balances	9,742	(2,276)	7,466	(1,739)	1,890	151
<b>Balance at 31 March</b>	<b>10,927</b>	<b>1,586</b>	<b>12,513</b>	1,185	3,862	5,047

All cash balances at 31 March 2011 were held with a commercial bank.

**Note 8 - Trade and other receivables****Amounts falling due within one year:**

	2011 CLS £000	2011 CDS £000	2011 Total £000	2010 CLS £000	2010 CDS £000	2010 Total £000	2009 CLS £000	2009 CDS £000	2009 Total £000
Contributions due from funded clients	2,734	-	2,734	4,359	-	4,359	5,918	-	5,918
Costs to be recovered	1,244	-	1,244	3,239	-	3,239	8,990	-	8,990
Statutory charge *	109,748	-	109,748	112,995	-	112,995	157,826	-	157,826
Damages	1,088	-	1,088	3,978	-	3,978	8,366	-	8,366
Amounts due from service providers	26,833	10,891	37,724	31,063	3,195	34,258	31,216	3,702	34,918
Recovery of defence costs orders	-	616	616	-	1,036	1,036	-	3,085	3,085
Crown Court recoveries	-	27	27	-	-	-	-	-	-
	<b>141,647</b>	<b>11,534</b>	<b>153,181</b>	155,634	4,231	159,865	212,316	6,787	219,103

Trade and other receivables are stated net of impairment at 31 March 2011. The valuation of trade and other receivables includes an element of estimation which is discussed further in note 17 of these financial statements. An amount is included in 'amounts due from service providers' where a supplier has been paid in advance of claims and estimated work not invoiced. The valuation of work not invoiced is discussed further in note 11 of these financial statements.

\* Under the Legal Aid Act 1974, the Legal Aid Act 1988 and the Access to Justice Act 1999, where funded clients have recovered or preserved property rather than obtaining damages, recoverable costs may be secured by a charge against the property. Under the Community Legal Service (Financial) Regulations 2000 as amended by the Community Legal Service (Financial) (Amendment) Regulations 2005, interest on the outstanding balance is currently due at 8% per annum.

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 8 - Trade and other receivables (*continued*)**

The net amount of statutory charge debt is:

	2011 CLS £000	2011 CDS £000	2011 Total £000	2010 CLS £000	2010 CDS £000	2010 Total £000	2009 CLS £000	2009 CDS £000	2009 Total £000
Statutory charge on damages	79,337	-	79,337	83,464	-	83,464	116,500	-	116,500
Interest accrued to date	30,411	-	30,411	29,531	-	29,531	41,326	-	41,326
	<b>109,748</b>	<b>-</b>	<b>109,748</b>	112,995	-	112,995	157,826	-	157,826

Trade and other receivables secured by a charge may be deferred until the property has been sold. Although all receivables are due within one year, the majority of receivables will be paid after one year.

Amounts falling due within one year:

	2011 CLS £000	2011 CDS £000	2011 Total £000	2010 CLS £000	2010 CDS £000	2010 Total £000	2009 CLS £000	2009 CDS £000	2009 Total £000
Bodies external to government	141,647	11,534	153,181	155,634	4,231	159,865	212,316	6,787	219,103
	<b>141,647</b>	<b>11,534</b>	<b>153,181</b>	155,634	4,231	159,865	212,316	6,787	219,103

**Note 9 - Trade payables and other liabilities**

Amounts falling due within one year:

	2011 CLS £000	2011 CDS £000	2011 Total £000	2010 CLS £000	2010 CDS £000	2010 Total £000	2009 CLS £000	2009 CDS £000	2009 Total £000
Amounts due to solicitors, counsel and advice agencies	83,847	95,576	179,423	30,913	43,195	74,108	46,616	33,109	79,725
Contribution refunds due to funded clients	3,750	-	3,750	157	-	157	991	-	991
Amounts due to/(from) the Legal Services Commission	962	447	1,409	(22)	338	316	662	57	719
Accruals and deferred income	142,697	27	142,724	157,934	34,155	192,089	2,341	28	2,369
	<b>231,256</b>	<b>96,050</b>	<b>327,306</b>	188,982	77,688	266,670	50,610	33,194	83,804

All payables have a remaining life of one year or less, and the carrying amount is deemed to reflect fair value.

## Financial reports 2010-11

### Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)

#### Note 9 - Trade payables and other liabilities (*continued*)

##### Amounts falling due within one year:

	2011			2010			Restated 2009		
	CLS	CDS	Total	CLS	CDS	Total	CLS	CDS	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Other central government bodies*	962	447	1,409	(22)	338	316	662	57	719
Bodies external to government	230,294	95,603	325,897	189,004	77,350	266,354	49,948	33,137	83,085
	<b>231,256</b>	<b>96,050</b>	<b>327,306</b>	188,982	77,688	266,670	50,610	33,194	83,804

\* Note: This consists of amounts due to/(from) the Commission.

#### Note 10 - Fair values

Set out below are the carrying amounts and fair values of the Fund's financial assets and liabilities that are carried in the financial statements.

The Commission considers that the carrying amounts for cash and cash equivalents, trade payables and other liabilities approximate to their fair value due to the short-term maturities of these instruments.

Carrying amounts and fair values	2011			2010			Restated 2009		
	CLS	CDS	Total	CLS	CDS	Total	CLS	CDS	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Trade and other receivables	141,647	11,534	153,181	155,634	4,231	159,865	212,316	6,787	219,103
Cash and cash equivalents	10,927	1,586	12,513	1,185	3,862	5,047	2,924	1,972	4,896
Trade payables and other liabilities	(231,256)	(96,050)	(327,306)	(188,982)	(77,688)	(266,670)	(50,610)	(33,194)	(83,804)
Total at 31 March	<b>(78,682)</b>	<b>(82,930)</b>	<b>(161,612)</b>	(32,163)	(69,595)	(101,758)	164,630	(24,435)	140,195

Trade and other receivables have been discounted over the period from the reporting date to the expected date of collection. This has a material impact on their present value. To take account of this time value of money effect an estimation technique has been used, discounting all receivable balances over periods commensurate with historical cash flow patterns for each class of receivable at a rate of 3.5% per annum (2010: 3.5% p.a.). The discount rate used is the HM Treasury discount rate. The estimation technique used assumes that the timing of future cash flows will follow historical trends.

##### Fair value hierarchy

The Commission uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 10 - Fair values (*continued*)**

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

All of the Fund's financial assets and liabilities measured at fair value fall within level 3. There were no transfers into or out of level 3 fair value instruments.

**Note 11 - Provisions for liabilities and charges**

	CLS £000	CDS £000	Total £000
<b>Provision for amounts outstanding on funded cases</b>			
Balance at 1 April 2010	358,153	339,056	697,209
Provided in year	1,116,974	1,121,349	2,238,323
Provisions utilised in the year	(1,156,993)	(1,166,994)	(2,323,987)
Balance at 31 March 2011	318,134	293,411	611,545
<b>Provision for dilapidations</b>			
Balance at 1 April 2010	-	347	347
Provided in year	-	25	25
Provisions utilised in the year	-	(32)	(32)
Provisions not required written back	-	(119)	(119)
Finance charges	-	13	13
Balance at 31 March 2011	-	234	234
<b>Provision for onerous contracts</b>			
Balance at 1 April 2010	-	78	78
Provisions utilised in the year	-	(52)	(52)
Provisions not required written back	-	(26)	(26)
Balance at 31 March 2011	-	-	-
<b>Balance at 31 March 2011</b>	<b>318,134</b>	<b>293,645</b>	<b>611,779</b>

	CLS £000	Restated CDS £000	Total £000
<b>Provision for amounts outstanding on funded cases</b>			
Balance at 1 April 2009	391,460	498,025	889,485
Provided in year	1,184,408	1,083,834	2,268,242
Provisions utilised in the year	(1,217,715)	(1,242,803)	(2,460,518)
Balance at 31 March 2010	358,153	339,056	697,209

## Financial reports 2010-11

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 11 - Provisions for liabilities and charges (*continued*)**

	CLS £000	Restated CDS £000	Total £000
<b>Provision for dilapidations</b>			
Balance at 1 April 2009	-	328	328
Provided in year	-	31	31
Provisions not required written back	-	(18)	(18)
Finance charges	-	6	6
Balance at 31 March 2010	-	347	347
<b>Provision for onerous contracts</b>			
Balance at 1 April 2009	-	162	162
Provisions utilised in the year	-	(84)	(84)
Balance at 31 March 2010	-	78	78
Balance at 31 March 2010	358,153	339,481	697,634

The Commission estimates the value of unbilled live cases each year to arrive at the amounts disclosed within the accounts as a provision. The amount is an estimate of the expenditure required to settle any obligation at the end of the reporting date. In estimating the provision, the Commission has adopted prudent measurement techniques based on the latest data available which are discussed further in note 17 of these financial statements. Based on average historical case lengths, substantially all of the costs are expected to be incurred within the next 12 months.

The dilapidations provision relates to leasehold premises occupied by the PDS. The costs are expected to be incurred between 2011 and 2019 as each lease expires.

Where the Commission has vacant offices under a rental agreement, a provision is made for the full future costs of those agreements for the shortfall in rent if no alternative occupier can be identified. All onerous rental agreements ended by February 2011, so there is no provision as at 31 March 2011.

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 11 - Provisions for liabilities and charges (*continued*)**

Analysis of expected timing of discounted flows	Provision for amounts outstanding on funded cases			Provision for amounts outstanding on funded cases		
	Provision for dilapidations	Provision for onerous contracts	Provision for dilapidations	Provision for onerous contracts	Provision for dilapidations	Provision for onerous contracts
	CLS £000	CLS £000	CLS £000	CDS £000	CDS £000	CDS £000
Not later than one year	318,134	-	-	293,411	-	-
Later than one year and not later than five years	-	-	-	-	197	-
Later than five years	-	-	-	-	37	-
Balance at 31 March 2011	318,134	-	-	293,411	234	-

**Note 12 - Going concern**

The statement of financial position at 31 March 2011 shows an excess of liabilities over assets of £773m. The going concern principles outlined in note 1 r) have been followed.

**Note 13 - Financial commitments**

The Fund does not have any financial commitments at 31 March 2011.

**Note 14 - Contingent liabilities**

The High Court has ruled against the Commission clarifying that the statute of limitations will start to run from the date a case concludes rather than the later date where a claim for recoupment of payments occurs. The impact of this ruling reduces the time available for the Commission to reclaim back from barristers and potentially solicitors any payments made on account of their fees in cases where these fees are repayable to the Legal Aid Fund. The matter is to be considered in the Court of Appeal during November 2011. Given that the decision from the Court of Appeal is pending, it would be impractical to quantify any effect on these financial statements.

The Commission has a contingent liability with regard to the payment of corporation tax. The possible liability refers to corporation tax that may accrue on the receipt of income from statutory charges. Discussions with Her Majesty's Revenue and Customs are at an early stage and no determination of the issue has yet been made. Substantive discussions are expected to be made and completed before the end of the current financial year.

## Financial reports 2010-11

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)

### Note 15 - Commitments under operating leases

The total future minimum lease payments under operating leases are shown below:	2010-11 £000	2009-10 £000
<b>Obligations under operating leases comprise:</b>		
Within one year - land and buildings	98	136
Within one year - other	-	3
Between two to five years - land and buildings	210	416
Over five years - land and buildings	27	64
<b>Total</b>	<b>335</b>	<b>619</b>

Operating leases shown in this note relate to the CDS.

Under the terms of the lease agreements, no contingent rents are payable and there are no rights to purchase.

### Note 16 - Related party transactions

The Commission is a non-departmental public body sponsored by the Ministry of Justice. The Ministry of Justice is regarded as a related party. During the year, the Commission had various material transactions with the Ministry of Justice. The Commission has also had various material transactions with Her Majesty's Courts and Tribunals Service, an agency of the Ministry of Justice, relating to work carried out by the Courts Service on behalf of the Commission.

The Commission has declared below any immediate connection between the CLS Fund or the CDS and Ministry of Justice Ministers or their close family, or the organisations with which the Ministers or their close family are associated. During 2010-11, the Commissioners, other related parties or their close family members entered into a number of material transactions with the Fund. These transactions are also detailed below.

Unless otherwise stated, the disclosures relate to transactions in respect of funded work to the supplier who the individual works for and do not reflect the individual's earnings. The figures include payments on account and disbursements, which may be payable to third parties and are stated inclusive of VAT, as this is a cost to the Commission. All transactions are for the period 1 April 2010 to 31 March 2011 unless otherwise stated. The transactions do not include payments received indirectly (e.g. counsel fees claimed by the solicitors which they then pay to counsel). The transactions do not reflect annual earnings as they may 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 2010-11, but not yet billed. The transactions for all schemes, excluding civil representation, represent payments made. For the civil representation scheme, the transactions comprise net payments authorised, which includes all main bills, and payments on account net of recoupments. The value may be different from the actual cash received during the year due to the timing of cash payments.

Commissioners are required under the *Code of Best Practice for Legal Services Commission Members* to declare any personal, financial and business interests which may conflict with their duties for the Commission. Members may not participate in Commission discussions or decisions on policy or financial matters where a conflict of interest arises.

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 16 - Related party transactions (*continued*)**

		Transactions
<b>Ministry of Justice ministers and related parties</b>		
Jack Straw (until May 2010)	Adam Straw is a barrister who receives payments in respect of legal aid casework. Adam Straw is the nephew of Jack Straw, the then Lord Chancellor and Secretary of State for Justice.	£20,768
<b>Commissioners and related parties</b>		
Carolyn Hamilton (until 31 December 2010)	(1) The Children's Legal Centre is a legal services contracted not-for-profit organisation of which former Commissioner Carolyn Hamilton is a Director (seconded from the University of Essex).	£361,620
	(2) Carolyn Hamilton is a barrister who receives payments in respect of legal aid casework.	£59
Jane Hickman (until 31 May 2010)	Hickman and Rose is a legal services contracted firm of solicitors in which Jane Hickman is a Partner.	£148,161
Dr David Wolfe	(1) David Wolfe is a barrister who receives payments in respect of legal aid casework.	£108,637
	(2) Amanda Illing is the Practice Director at Hardwicke Chambers. Legal aid payments are made to some barristers at Hardwicke Chambers and a percentage of these, as well as payments for work billed to other private and publicly funded clients, are paid to the chambers and therefore make up part of Amanda Illing's salary. Amanda Illing is married to David Wolfe.	£1,141,253

Balances outstanding as at 31 March 2011 have not been disclosed, as these could only be estimated.

**Note 17 - Financial risk identification and management**

The Commission's financial risk management process seeks to enable the early identification, evaluation and effective management of key risks facing the Commission. Systems have been established to review and reflect changes in the legal aid market and the Commission's activities.

**Liquidity risk**

The Fund is financed by a grant received from the Ministry of Justice. As such it is not exposed to significant liquidity risks.

**Interest rate risk**

The Fund is not exposed to significant interest rate risk.

At 31 March 2011, £95.1m (2010: £95.2m) of statutory charge debt was secured, the principal of which carried a fixed rate of interest. The fair value of these assets, which are not traded, is unaffected by movements in floating interest rates since it is determined by discounting the assets using the HM Treasury rate (currently 3.5%) over the expected collection period.

## Financial reports 2010-11

### Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)

#### Note 17 - Financial risk identification and management (*continued*)

Money received by the CLS fund on behalf of funded clients is held on deposit until the case is concluded. Interest is paid to funded clients by reference to the London Inter Bank Offered Rate (LIBOR). To offset the interest payable, £11m of the total deposit account balance is held with Barclays Bank Plc and managed by Barclays Wealth Division through their Liquidity Management Service. The balance is held as cash. Funds are available at 24 hours' notice. The rate earned by these instruments may fluctuate and differ from the rate paid out which is based on LIBOR. However, the short maturity period of the instruments limits any risk arising from adverse rates earned.

##### Foreign currency risk

The Fund's operating activities are denominated, and the financial statements are prepared, in Sterling. The Fund procures legal aid in England and Wales. The Fund is not exposed to any foreign currency risks.

##### Credit risk

Credit risk is the risk that counterparties to financial instruments do not perform according to the terms of the contract or instrument. The Fund is exposed to credit risk when dealing with funded clients, suppliers and from certain financing activities.

The immediate credit exposure of financial instruments is represented by those instruments that have a net positive fair value by counterparty at 31 March 2011. The Fund considers its maximum exposure to credit risk to be:

	2010-11 £000	2009-10 £000
<b>Credit risk</b>		
Cash and cash equivalents	12,513	5,047
Trade and other receivables	153,181	159,865
	<b>165,694</b>	164,912
Third party assets	19,199	15,272
	<b>184,893</b>	180,184

As at 31 March 2011 there were no financial guarantees or third party obligations, other than amounts held as damages on deposit and Crown Court means

contributions, that increased the credit risk of the financial assets set out above.

The Commission uses market knowledge and changes in credit ratings to identify significant changes to the financial profile of its counterparties.

##### Trade receivables and other current assets

The Commission has an inherent risk within trade receivables and other current assets, as the market sector within which the Fund operates is not predisposed to straightforward cash collections. The Commission recognises this risk and mitigates it by securing statutory charges where possible and using active credit management policies to recover unsecured debts. In some cases the debt collection activities are outsourced to commercial debt collectors. The size of the risk is reflected in the receivables impairment provision which totals £141.2m (2010: £120.7m), comprising of: CLS £139.2m (2010: £117.4m) and CDS £2m (2010: £3.3m). The Commission monitors and measures the reduction of debt as one of its key performance indicators.

The majority of the Fund's trade and other receivables, ie: £109.7m (2010: £113m) out of a total exposure after impairment of £153.2m (2010: £159.9m) are the result of a statutory charge. A high proportion of these are secured on property and settlement is deferred until the property has been sold. These, along with other receivables, carry an impairment provision based on forecast cashflows.

The Fund provides for impairment of financial assets based on known events and makes a collective provision for losses, based on historical data. The majority of the provision is estimated based on historical events.

The impairment model utilises historical recovery profiles by asset category to estimate the provision required against the financial assets as at the end of the reporting date. The impairment model uses parameters including: the maximum life of debt is 11 years, income is received against debt evenly throughout the year, and the discount rate is 3.5%. The impact of the following reasonably possible alternatives to these assumptions has been considered:

- maximum life of debt +/- 1 year;
- income received against a debt at the end of the year, rather than evenly throughout the year;

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 17 - Financial risk identification and management (*continued*)**

- discount rate. This rate is set by HM Treasury and is not subject to management judgement and so has not been calculated;
- predicted income receipts used to calculate the impairment provision cashflows +/- 10%.

Assumptions tested	Increase/(decrease) in net financial asset	
	Assumption	£m
Maximum life of debt	+1 year	2.8
Maximum life of debt	-1 year	(6.3)
Income received	Year end	(2.4)
Predicted income receipts	+10%	13.0
Predicted income receipts	-10%	(13.0)

Using these reasonably possible alternative assumptions, the fair value of the financial assets at 31 March 2011 could be higher by up to £15.8m (2010: £17.1m) or lower by up to £21.7m (2010: £19.8m).

The current model utilises an maximum debt life of 11 years across all debt categories, which is considered to be appropriate given the historical information available. In future years, as additional historical profile information becomes available the debt life assumption by category will be updated accordingly.

The expectation is that despite possible alternative assumptions being available, the current assumptions will remain unchanged. However, they will be reviewed periodically and changed if there is sufficient evidence that such action is appropriate.

**Provisions for liabilities and charges**

The Fund uses complex valuation models to estimate the value of unbilled amounts on live cases. These models utilise inputs for historical price, quantity profiles, forecast spend, and underlying business knowledge, to estimate work completed but not yet billed at the end of the reporting date. The impact of the following reasonably possible alternatives to these inputs has been quantified:

- price profiles +/- 10%;
- quantity profiles +/- up to 10%;
- forecast spend +/- 10%.

Assumptions tested	Increase/(decrease) in net financial liability	
	Assumption	£m
Price profiles	+/- 10%	9.3/(9.3)
Quantity profiles	+/- up to 10%	9.9/(10.9)
Forecast spend	+/- 10%	36.2/(36.2)

Using these reasonably possible alternative assumptions, the fair value of the financial liabilities at 31 March 2011 could be higher by up to £55.4m (2010: £56.4m) or lower by up to £56.4m (2010: £57.4m).

The above assumptions testing excludes the model variables used in the calculation of the civil representation work in progress provision of £253.7m (2010: £288.5m).

The civil representation work in progress provision is calculated on a case by case basis applying historical profiles to each stage of a case for both cost and duration. The case cost is calculated using historical profiles of the cost limit usage by case type. This cost limit information is then applied to open cases in order to estimate the provision required. The duration profiles are applied to each open case to estimate the costs incurred to date. The historical profiles used in the model are based on detailed case histories for a number of years and the level of granularity applied in the model means that it is not possible to determine the sensitivity to changes to these inputs.

The expectation is that despite possible alternative assumptions being available, the current assumptions will remain unchanged. However, they will be reviewed periodically and changed if there is sufficient evidence that such action is appropriate.

**Cash**

Cash balances are maintained with strong investment grade banks or financial institutions. Banks are selected for their credit status and their ability to meet the Fund's day-to-day banking requirements. The credit ratings are monitored on a continuing basis. The Fund has not recorded impairments against cash or cash equivalents, nor have any recoverability issues been identified with such balances, including third party assets. Such items are typically recoverable on demand or in line with normal banking arrangements.

## Financial reports 2010-11

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)

### Note 18 - Third party assets

The total third party assets held by the Commission are summarised below:

	31 March 2010 £000	Gross Inflows £000	Gross Outflows £000	31 March 2011 £000
Monetary assets such as bank balances and monies on deposit	15,272	26,155	(22,228)	<b>19,199</b>

Total third party assets are comprised of the following:

#### Damages

The Commission holds awards for damages on behalf of funded clients (see note 1 o).

	31 March 2010 £000	Gross Inflows £000	Gross Outflows £000	31 March 2011 £000
Monetary assets such as bank balances and monies on deposit	15,262	21,939	(21,715)	<b>15,486</b>

The Commission receives awarded damages awaiting the final settlement of a case and contribution monies from clients towards legal costs. The assets held at the end of the reporting date comprise pooled investment funds and cash and building society deposits as follows:

	31 March 2011 £000	31 March 2010 £000
Cash	<b>2,398</b>	1,278
Building Society deposits	<b>4,949</b>	4,886
Pooled investment funds	<b>8,139</b>	9,098
	<b>15,486</b>	15,262

#### Crown Court Means Test

The Commission holds Crown Court means test contributions (see note 1 o).

	31 March 2010 £000	Gross Inflows £000	Gross Outflows £000	31 March 2011 £000
Monetary assets such as bank balances and monies on deposit	10	4,216	(513)	<b>3,713</b>

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 18 - Third party assets (*continued*)**

The Commission receives contributions towards costs awaiting the final judgement and calculation of the total costs of a case. The outcome of the case will determine whether the third party asset transfers to the Fund or is returned to the third party. The assets held at the end of the reporting date comprise cash as follows:

	<b>31 March 2011 £000</b>	31 March 2010 £000
Cash	<b>3,713</b>	10
	<b>3,713</b>	10

In addition to the above contributions received to 31 March 2011, a further £12,365,606 (2010: £11,022) of contributions were due to the Commission, but at the end of the reporting date these had not been received.

**Note 19 - Accountability notes****Losses statement**

There were 7,095 (2010: 9,501) accounts involving losses totalling £23.1m (2010: £32.1m). In accordance with *Managing Public Money* losses over £250,000 are separately disclosed. There were 2 supplier balances written off over £250,000. The balances were £265,669 and £488,492. The suppliers are now either bankrupt or cannot be traced by the Commission. The debts arose from the normal course of business and represent payments on account for which claims or bills have not been submitted. There were no (2010: 2) funded client balances written off over £250,000. The funded client balances related to revoked cases that are now over six years old.

Under the terms of the Unified Contract agreed with the Law Society in April 2008, in respect of historical cases as defined in the contract, providers can opt to accept payments on account (POAs) as the final bill without providing further documentation. As there is no supporting documentation these payments are deemed to be a loss to the Fund. All of these payments on account have been accounted for in prior year accounts. The total payments on account opted as final bills under the agreement was £1.8m (2010: £12.4m). Before the Unified Contract the Fund would have expected a proportion of these POAs to be repaid. No case started after April 2002

is affected by this agreement. The Commission estimates that approximately 98% of the cases expected to be closed through the Unified Contract agreement have been processed at 31 March 2011.

**Note 20 - Subsequent events**

In accordance with the requirements of IAS10 *Events after the Reporting Period*, events are considered up to the date on which accounts are authorised for issue, which is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

Immigration Advisory Service (IAS) announced it went into administration on 11 July 2011. The IAS, a not for profit charity, was the largest provider of legal aid services in the asylum and immigration market. The Commission has taken steps to minimise the impact by working with administrators to facilitate the orderly wind down arrangements reducing the impact for both clients and the Commission. Cover has also been arranged for advice via the Immigration Removal Centres, and for Police Station Telephone Advice. Following the administration there are no financial implications that affect these financial statements.

On 15 November 2010, the Ministry of Justice issued a consultation paper, *Proposals for the Reform of Legal Aid in England and Wales*. This outlined proposals from the Government for fundamental reform of the legal aid scheme which would save approximately £350m per annum by the end of the current spending review period. Consultation on the proposals closed in February 2011. A bill to enact the changes, *The Legal Aid, Sentencing and Punishment of Offenders Bill 2010-11* is currently at the report stage in the House of Commons.

There are no other subsequent events to report.

## Financial reports 2010-11

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

I certify that I have audited the financial statements of the Legal Services Commission for the year ended 31 March 2011 under the Access to Justice Act 1999. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, 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 Commission, Accounting Officer and auditor

As explained more fully in the Statement of the Commission's and Accounting Officer's Responsibilities, the Commission and the 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 the financial statements in accordance with the Access to Justice Act 1999. 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 Legal Services Commission's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Legal Services Commission; and the overall

presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report and Management Commentary to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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 that 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.

## Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Legal Services Commission's affairs as at 31 March 2011 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 Act 1999 and directions made thereunder by the Secretary of State and Lord Chancellor with the approval of HM Treasury.

## The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament (continued)

## Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Access to Justice Act 1999 and directions made thereunder by the Secretary of State and Lord Chancellor with the approval of HM Treasury; and
- the information given in the Management Commentary 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 and the part of the Remuneration Report to be audited 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  
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24 October 2011

## Financial reports 2010-11

# Legal Services Commission

## Statement of Comprehensive Net Expenditure

For the year ended 31 March 2011

	Note	2010-11 £000	Restated 2009-10 £000
<b>Expenditure</b>			
Employment costs	3	(64,438)	(65,169)
Pension past service credit	4	19,352	-
Amortisation	6	(3,557)	(1,791)
Depreciation	7	(3,602)	(3,217)
Other operating charges	8	(47,137)	(47,511)
		<b>(99,382)</b>	<b>(117,688)</b>
<b>Income</b>	12	<b>211</b>	<b>121</b>
<b>Net expenditure</b>		<b>(99,171)</b>	<b>(117,567)</b>
<b>Other expenditure</b>			
Other finance costs	10	(169)	(1,725)
Tax expense	11	(29)	(34)
Notional recharge from the Ministry of Justice	13	(1,287)	(1,484)
<b>Other Income</b>			
Interest receivable	9	141	156
Other finance income	10	1,305	-
<b>Net expenditure after interest</b>		<b>(99,210)</b>	<b>(120,654)</b>
<b>Other comprehensive expenditure</b>			
	Note	2010-11 £000	Restated 2009-10 £000
Net (loss)/gain on revaluation of intangibles	6	(1,244)	1,920
Net (loss)/gain on revaluation of property, plant and equipment	7	(290)	1,152
Actuarial gain/(loss) recognised - No. 4 Pension Scheme	4	29,217	(9,963)
Actuarial (loss)/gain recognised - No. 3 Pension Scheme	4	(144)	8
<b>Total comprehensive expenditure for the year</b>		<b>(71,671)</b>	<b>(127,537)</b>

All income and expenditure are derived from continuing operations.

The notes on pages 82 to 107 form part of these financial statements.

## Legal Services Commission Statement of Financial Position

At 31 March 2011

	Note	2011 £000	2010 £000
<b>Non-current assets</b>			
Intangible assets	6	24,325	17,718
Property, plant and equipment	7	9,662	9,256
Trade and other receivables	14	4	15
Pension asset	4	41,330	-
<b>Total non-current assets</b>		<b>75,321</b>	26,989
<b>Current assets</b>			
Trade and other receivables	14	4,589	2,772
Cash and cash equivalents	15	6,949	14,849
<b>Total current assets</b>		<b>11,538</b>	17,621
<b>Total assets</b>		<b>86,859</b>	44,610
<b>Current liabilities</b>			
Trade and other payables	16	(19,818)	(18,482)
<b>Total current liabilities</b>		<b>(19,818)</b>	(18,482)
<b>Non-current assets less net current liabilities</b>		<b>67,041</b>	26,128
<b>Non-current liabilities</b>			
Trade and other payables	16	(1,300)	(512)
Provisions for liabilities and charges	20	(3,195)	(3,268)
Pension liability	4	-	(9,218)
<b>Total non-current liabilities</b>		<b>(4,495)</b>	(12,998)
<b>Assets less liabilities</b>		<b>62,546</b>	13,130
<b>Taxpayers' equity</b>			
Revaluation reserve		16	2,446
General reserve		62,530	10,684
		<b>62,546</b>	13,130

### Carolyn Downs

Chief Executive and Accounting Officer  
20 October 2011

The notes on pages 82 to 107 form part of these financial statements.

## Financial reports 2010-11

Legal Services Commission  
Statement of Cash Flows

For the year ended 31 March 2011

	Note	2010-11 £000	Restated 2009-10 £000
<b>Cash flows from operating activities</b>			
Net expenditure after interest		(99,210)	(120,654)
<b>Adjustments for:</b>			
Depreciation	7	3,602	3,217
Amortisation	6	3,557	1,791
Loss on disposal of property, plant and equipment		17	-
Interest received	9	(141)	(156)
(Increase)/decrease in trade and other receivables		(1,806)	361
Increase/(decrease) in trade and other payables		974	1,581
(Decrease)/increase in provisions		(119)	123
Pension charge		(20,170)	(7,674)
Notional recharge from the Ministry of Justice		1,287	1,484
Other finance (income)/costs	10	(1,136)	1,725
<b>Net cash outflow from operating activities</b>		<b>(113,145)</b>	<b>(118,202)</b>
<b>Cash flows from investing activities</b>			
Purchase of intangible assets	5	(11,408)	(9,600)
Purchase of property, plant and equipment	5	(3,288)	(1,210)
Interest received	9	141	156
<b>Net cash outflow from investing activities</b>		<b>(14,555)</b>	<b>(10,654)</b>
<b>Cash flows from financing activities</b>			
Financing - grant-in-aid: capital		19,300	12,000
Financing - grant-in-aid: revenue		100,500	119,650
<b>Net cash inflow from financing activities</b>		<b>119,800</b>	<b>131,650</b>
Net (decrease)/increase in cash and cash equivalents in the period		(7,900)	2,794
Cash and cash equivalents at the beginning of the period	15	14,849	12,055
<b>Cash and cash equivalents at the end of the period</b>	15	<b>6,949</b>	<b>14,849</b>

The notes on pages 82 to 107 form part of these financial statements.

## Legal Services Commission

# Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2011

	Note	Revaluation Reserve £000	Restated General Reserve £000
<b>Balance at 31 March 2009</b>		-	<b>7,313</b>
<b>Changes in taxpayers' equity for 2009-10</b>			
Grant from the Ministry of Justice			
Grant-in-aid: capital		-	12,000
Grant-in-aid: revenue		-	119,650
Transfer of furniture		-	220
Notional credit	13	-	1,484
		-	140,667
<b>Comprehensive expenditure for 2009-10</b>			
Comprehensive expenditure for the year before notional recharges		3,072	(129,125)
Notional recharge from the Ministry of Justice	13	-	(1,484)
Transfers between reserves		(626)	626
<b>Balance at 31 March 2010</b>		<b>2,446</b>	<b>10,684</b>
<b>Changes in taxpayers' equity for 2010-11</b>			
Grant from the Ministry of Justice			
Grant-in-aid : capital		-	<b>19,300</b>
Grant-in-aid : revenue		-	<b>100,500</b>
Notional credit	13	-	<b>1,287</b>
		<b>2,446</b>	<b>131,771</b>
<b>Comprehensive expenditure for 2010-11</b>			
Comprehensive expenditure for the year before notional recharges		<b>(1,534)</b>	<b>(68,850)</b>
Notional recharge from the Ministry of Justice	13	-	<b>(1,287)</b>
Transfers between reserves		<b>(896)</b>	<b>896</b>
<b>Balance at 31 March 2011</b>		<b>16</b>	<b>62,530</b>

The notes on pages 82 to 107 form part of these financial statements.

## Financial reports 2010-11

# Legal Services Commission Notes to the Financial Statements

For the year ended 31 March 2011

### Note 1 - Statement of accounting policies

The financial statements have been prepared in accordance with the 2010-11 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted and interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Legal Services Commission (the Commission) for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Commission are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

#### a) Basis of preparation

The financial statements are presented in Sterling rounded to the nearest thousand (£000) unless otherwise stated. The accounts have been prepared under the historical cost convention, modified to account for the revaluation of non current assets at their value to the business by reference to their current costs, except that certain financial instruments have been stated at fair value. This complies with HM Treasury guidance.

The preparation of financial statements in conformity with IFRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed.

#### b) Disclosure of IFRSs in issue and major FReM changes

The Commission has reviewed the IFRSs in issue to determine if it needs to make any disclosures in respect of those new IFRSs. References to 'new IFRSs' includes new Interpretations and any new amendments to IFRSs and Interpretations. It has been determined that there are no new IFRSs that are relevant to the Commission.

#### Major FReM changes for 2010-11

The Commission has identified the following accounting changes as significant:

**Chapter 8 Impairments.** This chapter deals with accounting for the impairment of assets and the application of IAS36.

**Chapter 11 Income and Expenditure.** This chapter deals with the accounting principles and standards that should be applied in preparing the Statement of Comprehensive Net Expenditure, including the removal of cost of capital in the financial statements. From 1 April 2010 notional costs are not recorded for cost of capital. The initial application has had an impact of approximately £358k on the Commission's income and expenditure for 2010-11, which has led to the statement of Comprehensive Net Expenditure and the Statement of Cashflows 2009-10 year being restated. The Statement of Financial Position is not affected by the change to cost of capital reporting, so it has not been necessary to restate this statement for 2009-10 or disclose three years comparatives, as would otherwise be required under IAS 1 for a change in accounting policy.

#### c) Intangible assets

All intangible assets are operating intangible assets. Operating intangible assets are intangible assets acquired in the ordinary course of business and typically include software costs.

Legal Services Commission Notes to the financial statements (*continued*)**Note 1 - Statement of accounting policies**  
**(continued)**

All intangible assets are deemed to have a finite life and are restated to fair value in existing use each year by indexation up to the year-end using Price Index Numbers for Current Cost Accounting, published by the Office for National Statistics.

**Computer software**

Externally acquired computer software is capitalised and amortised on a straight-line basis over its economic life of three to five years. Costs relating to development of computer software for internal use are capitalised once the recognition criteria are met. When the software is available for its intended use these costs are amortised on a straight line basis over the estimated useful life of the software.

**d) Property, plant and equipment**

Property, plant and equipment is restated at fair value each year by indexation up to the year-end using Price Index Numbers for Current Cost Accounting, published by the Office for National Statistics. Assets costing more than the prescribed capitalisation level of £10,000 (2010: £10,000) are treated as capital assets. Where an item costs less than the prescribed limit but forms part of an asset or grouped asset whose total value is greater than the capitalisation level, the item is treated as a capital asset. Assets purchased and brought into service within the same year are disclosed as additions. Where an asset under construction is brought forward from a prior year and capitalised in the current year, it is then disclosed as a transfer from assets under construction.

**e) Depreciation and amortisation**

Except for assets under construction, depreciation or amortisation is provided on all non-current assets on a straight line basis to write off the cost of assets over their estimated useful lives as follows:

Fixtures and fittings	5 years
Furniture and equipment	3 to 5 years
Computer equipment	3 to 5 years
Computer software	3 to 5 years

Assets under construction are not depreciated or amortised until they have been completed. On completion assets are transferred to their relevant category and depreciated or amortised over their estimated useful lives.

**f) Impairment of non-financial assets**

At each reporting date, the Commission reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists the fair value of the asset is estimated in order to determine the extent of the impairment loss.

Any impairment charge is recognised in the year in which it occurs. Where an impairment loss subsequently reverses due to a change in the original estimate, the carrying amount of the asset is increased to the revised estimate of its recoverable amount.

**g) Other operating income**

Other operating income comprises receipts authorised by the Ministry of Justice to be treated as income, and is recognised at the point of receipt. There is no regular source of income for the Commission.

**h) Grants-in-aid**

Grants-in-aid receivable for income purposes or for the acquisition of property, plant and equipment and intangible assets are accounted for as financing and credited directly to the general reserve. Grants are received from the Ministry of Justice periodically throughout the year.

**i) Financing charges****Interest**

The Commission receives interest on bank balances and on third party deposit accounts for funded clients. Bank interest is paid over to the Ministry of Justice, while excess interest on deposit accounts for funded clients is retained as agreed with the Ministry of Justice. The income and expenditure are shown in 'interest receivable in the Statement of Comprehensive Net Expenditure.

## Financial reports 2010-11

### Legal Services Commission Notes to the financial statements (*continued*)

#### Note 1 - Statement of accounting policies (*continued*)

##### j) Cash and cash equivalents

Cash and cash equivalents comprise bank and cash balances held with commercial bodies.

##### k) Provisions

###### *Restructuring*

Provisions are recognised for employee termination payments. An obligation is recognised when the Commission has a detailed formal plan of the restructure, and the plan has been communicated to those affected by it.

###### *Legal costs*

Provisions are made for costs when legal proceedings have commenced and there is a probability that a future liability will arise.

###### *Dilapidations*

Provision is made for estimated dilapidation costs on leasehold buildings. The provision has been estimated with reference to the condition and location of the buildings and the requirements of the relevant lease. It has then been discounted at 2.2% (2010:2.2%).

###### *Contractual claims*

Provisions are made if formal supplier claims are received. A verification process to assess the validity of claim and value is carried out prior to recognising the provision.

##### l) Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Commission. All other leases are classified as operating leases. For property leases, the land and building elements are treated separately to determine the appropriate lease classification.

###### *Finance leases*

Assets funded through finance leases are capitalised and depreciated over their estimated useful lives. The amount capitalised is the lower of the fair value of the asset or the present value of the minimum lease payments during the lease term at the inception of the lease. The resulting

lease obligations are included in liabilities net of finance charges. Finance costs on finance leases are charged directly to the statement of comprehensive net expenditure.

###### *Operating leases*

Rental payments are charged to the statement of comprehensive net expenditure as they fall due. The Commission accounts for lease incentives (rent free periods) over the term of the lease.

##### m) Financial instruments

###### *Financial assets*

The Commission's financial assets are classified dependent on the purpose for which the financial assets were acquired. All of the Commission's financial assets are classified as loans and receivables and initially recognised at fair value.

###### *Initial recognition and measurement*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on any market. The Commission has no intention of trading these loans and receivables.

###### *De-recognition*

Loans and receivables are derecognised when the rights to receive cash flows from the assets have expired.

###### *Financial liabilities*

###### *Initial recognition and measurement*

All of the financial liabilities are classified as loans and borrowings and recognised initially at fair value.

The Commission's financial liabilities include trade and other payables. The Commission is not empowered to borrow money.

###### *De-recognition*

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

###### *Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only if there is a currently enforceable legal right

Legal Services Commission Notes to the financial statements (*continued*)**Note 1 - Statement of accounting policies**  
**(continued)**

to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**Fair value of financial instruments**

The fair value of the Commission's financial instruments is determined by using appropriate valuation techniques. Such techniques may include discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details of how they are measured are provided in note 23.

**n) Impairment of financial assets**

An assessment of whether there is objective evidence of impairment is carried out for all financial assets or groups of financial assets at the balance sheet date. This assessment may be of individual assets ('individual impairment') or of a portfolio of assets ('collective impairment'). A financial asset or a group of financial assets are considered to be impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows.

For individual impairment, the principal loss event is one or more missed payments, although other loss events can also be taken into account, including arrangements in place to pay less than the contractual payments, fraud and bankruptcy or other financial difficulty indicators. An assessment of collective impairment will be made of financial assets with similar risk characteristics. For these assets, portfolio loss experience is used to provide objective evidence of impairment.

Where there is objective evidence that an impairment loss exists on loans and receivables, impairment provisions are made to reduce the carrying value of financial assets to the present value of estimated future cash flows discounted at HM Treasury's interest rate, currently 3.5% (2010:3.5%).

**o) Accounting for Value Added Tax**

Irrecoverable VAT is charged to the relevant expenditure category or, if appropriate, capitalised with additions to

non-current assets. Income and expenditure is otherwise shown net of VAT.

**p) Pensions**

The Commission operates two pension schemes providing benefits based on pensionable salary. The assets of the schemes are held separately from those of the Commission.

The increase in the present value of the liabilities of the Commission's defined benefit pension schemes expected to arise from employee service is charged to the operating deficit. The expected return on the schemes' assets and the increase during the period in the present value of the schemes' liabilities arising from the passage of time are included under 'other finance costs' in the Statement of Comprehensive Net Expenditure. In accordance with IAS 19 the Commission recognises actuarial gains and losses in full in the period in which they arise, in the statement of comprehensive net expenditure. Actuarial gains and losses incurred by the pension schemes are detailed in note 4.

**q) Employee benefits**

Under IAS19 Employee Benefits all staff costs must be recorded as an expense as soon as the organisation is obligated to pay them. This includes the cost of any untaken leave at the year end. The cost of untaken leave is derived from holiday pay records.

**r) Going concern**

The Commission is a statutory body established under the Access to Justice Act 1999. The Commission is charged with the responsibility for managing and accounting for the Community Legal Service Fund and the Criminal Defence Service, both of which are legal aid schemes provided for under the Access to Justice Act 1999. The Commission takes the view that the going concern concept applies as long as the provisions of the Access to Justice Act 1999 remain extant.

The Commission's status will change from that of a non-departmental public body, to an agency of the Ministry of Justice during the 2012/13 year. This change requires primary legislation and as such the going concern principle has been followed.

The future financing of the Commission's activities is met by grant-in-aid from the Ministry of Justice voted on by Parliament annually under the relevant Appropriation Act. Parliament voted on the funding for 2011-12 on 26 April 2011 (2010-11 on the 7 July 2010).

## Financial reports 2010-11

### Legal Services Commission Notes to the financial statements (*continued*)

#### Note 2 - Segmental analysis

The Commission's accounts represent the costs of managing the Community Legal Service Fund and the Criminal Defence Service. The Commission is not reporting as per these segments, as they are both administered as a single business. The costs relating to Community Legal Service Fund and the Criminal Defence Service Fund are reported separately within the Community Legal Service Fund and the Criminal Defence Service financial statements.

#### Note 3 - Employment costs

	2010-11 Permanently employed staff £000	2010-11 Other £000	2010-11 Total £000	2009-10 Permanently employed staff £000	2009-10 Other £000	2009-10 Total £000
Salaries and wages	37,863	7,853	45,716	42,717	6,446	49,163
Social security costs	3,167	190	3,357	3,486	158	3,644
Other pension costs	7,485	-	7,485	8,225	-	8,225
	<b>48,515</b>	<b>8,043</b>	<b>56,558</b>	54,428	6,604	61,032
Less recoveries in respect of outward secondments	(276)	-	(276)	(122)	-	(122)
Redundancy *	7,978	-	7,978	3,920	-	3,920
	<b>56,217</b>	<b>8,043</b>	<b>64,260</b>	58,226	6,604	64,830
Commissioners' costs:						
Fees to non-executives	160	-	160	313	-	313
Social security costs	18	-	18	26	-	26
	<b>178</b>	<b>-</b>	<b>178</b>	339	-	339
	<b>56,395</b>	<b>8,043</b>	<b>64,438</b>	58,565	6,604	65,169

\*Redundancy costs for 2010-11 disclosed in the above table relate to 115 full time equivalent staff.

Employment costs of £5.4m relating to 60 contract staff working on capital projects, were capitalised during the year.

Other pension costs are the total operating charges relating to the pension schemes. Costs can be incurred by both permanent and non-permanent employees of the Commission.

Fees to non-executives include reimbursement of travel expenses from home to office and taxation paid by the Commission on these expenses.

Additional detail about the Senior Employees and Non-Executive Commissioners' remuneration is included in the Remuneration Report.

Legal Services Commission Notes to the financial statements (*continued*)**Note 3 - Employment costs (*continued*)**

The average number of full-time equivalent persons employed during the year was as follows:

	<b>2010-11</b>	<b>2010-11</b>	<b>2010-11</b>	2009-10	2009-10	2009-10
	<b>Permanently employed staff</b>	<b>Other</b>	<b>Total</b>	Permanently employed staff	Other	Total
Employees	<b>1,216</b>	<b>211</b>	<b>1,427</b>	1,357	159	1,516
					<b>2010-11</b>	2009-10
The average number of Commissioners in post during the year was					<b>7</b>	12

Staff costs included within the financial statements of 'Community Legal Service Fund and Criminal Defence Service' relate directly to the Public Defender Service (PDS), Criminal Defence Service (CDS), the Duty Solicitor Call Centre and Community Legal Service (CLS).

Costs and staff numbers are given below.

<b>Public Defender Service (PDS) and Criminal Defence Service (CDS) and Duty Solicitor Call Centre (DSCC)</b>	<b>2010-11</b>	<b>2010-11</b>	<b>2010-11</b>	2009-10	2009-10	2009-10
	<b>Permanently employed staff</b>	<b>Other</b>	<b>Total</b>	Permanently employed staff	Other	Total
	<b>£000</b>	<b>£000</b>	<b>£000</b>	£000	£000	£000
Aggregate payroll costs were as follows:						
Salaries and wages	<b>1,631</b>	<b>52</b>	<b>1,683</b>	2,093	4	2,097
Social security costs	<b>132</b>	<b>2</b>	<b>134</b>	141	-	141
Other pension costs	<b>293</b>	-	<b>293</b>	198	-	198
	<b>2,056</b>	<b>54</b>	<b>2,110</b>	2,432	4	2,436
Redundancy *	<b>317</b>	-	<b>317</b>	129	-	129
	<b>2,373</b>	<b>54</b>	<b>2,427</b>	2,561	4	2,565

\*Redundancy costs for 2010-11 disclosed in the above table relate to 6 full time equivalent staff.

## Financial reports 2010-11

### Legal Services Commission Notes to the financial statements (continued)

#### Note 3 - Employment costs (continued)

The average number of full-time equivalent persons employed within the PDS and CDS during the year was as follows:

	2010-11 Permanently employed staff	2010-11 Other	2010-11 Total	2009-10 Permanently employed staff	2009-10 Other	2009-10 Total
Public Defender Service (PDS)	40	1	41	48	-	48
Criminal Defence Service (CDS) and Duty Solicitor Call Centre (DSCC)	6	-	6	7	-	7
	46	1	47	55	-	55

Community Legal Service (CLS)	2010-11 Permanently employed staff £000	2010-11 Other £000	2010-11 Total £000	2009-10 Permanently employed staff £000	2009-10 Other £000	2009-10 Total £000
Aggregate payroll costs were as follows:						
Salaries and wages	208	-	208	251	39	290
Social security costs	13	-	13	22	-	22
Other pension costs	37	-	37	23	-	23
	258	-	258	296	39	335
Redundancy*	-	-	-	90	-	90
	258	-	258	386	39	425

\*There were no redundancies during 2010-11.

The average number of full-time equivalent persons employed within the community legal advice and other projects team during the year was as follows:

	2010-11 Permanently employed staff	2010-11 Other	2010-11 Total	2009-10 Permanently employed staff	2009-10 Other	2009-10 Total
Community legal advice and other projects	7	-	7	8	2	10

Legal Services Commission Notes to the financial statements (*continued*)**Note 3 - Employment costs (*continued*)****Compensation schemes**

	2010-11	2010-11	2010-11	2009-10	2009-10	2009-10
	Number of compulsory redundancies	Number of other departures	Total number of exit packages	Number of compulsory redundancies	Number of other departures	Total number of exit packages
Exit package cost band						
< £10,000	21	15	36	28	13	41
£10,000 - £25,000	3	20	23	20	13	33
£25,000 - £50,000	6	16	22	21	5	26
£50,000 - £100,000	5	25	30	27	3	30
£100,000 - £150,000	2	18	20	-	-	-
£150,000 - £200,000	-	5	5	-	-	-
£200,000 - £250,000	-	2	2	-	1	1
£250,000 - £300,000	-	2	2	-	-	-
<b>Total number of exit packages by type*</b>	<b>37</b>	<b>103</b>	<b>140</b>	<b>96</b>	<b>35</b>	<b>131</b>
<b>Total resource cost (£000)</b>	<b>998</b>	<b>6,980</b>	<b>7,978</b>	<b>3,128</b>	<b>792</b>	<b>3,920</b>

**Compensation schemes**

Public Defender Service (PDS) and Criminal Defence Service (CDS), Duty Solicitor Call Centre (DSCC) and Community Legal Service (CLS)	2010-11	2010-11	2010-11	2009-10	2009-10	2009-10
	Number of compulsory redundancies	Number of other departures	Total number of exit packages	Number of compulsory redundancies	Number of other departures	Total number of exit packages
Exit package cost band						
< £10,000	-	2	2	-	-	-
£10,000 - £25,000	-	3	3	-	-	-
£25,000 - £50,000	-	1	1	1	2	3
£50,000 - £100,000	-	1	1	2	-	2
£100,000 - £150,000	-	-	-	-	-	-
£150,000 - £200,000	-	1	1	-	-	-
<b>Total number of exit packages by type*</b>	<b>-</b>	<b>8</b>	<b>8</b>	<b>3</b>	<b>2</b>	<b>5</b>
<b>Total resource cost (£000)</b>	<b>-</b>	<b>317</b>	<b>317</b>	<b>141</b>	<b>78</b>	<b>219</b>

\* The number of exit packages has been calculated based on actual exit dates, whilst the total resource cost is accounted for on an accruals basis. The number of exit packages making up the total resource cost disclosed is detailed in the footnote to the main staff cost disclosures on pages 86, 87 and 88.

## Financial reports 2010-11

### Legal Services Commission Notes to the financial statements (*continued*)

#### Note 4 - Pension costs

The Commission operates two pension schemes, the No. 4 Scheme and the No. 3 Scheme, providing benefits based on final pensionable salary. The assets of the schemes are held separately from those of the Commission, being invested in funds managed by Legal & General Investment Management Limited. Contributions to the schemes are charged to the Statement of Comprehensive Net Expenditure so as to spread the cost of the pensions over employees' working lives with the Commission. The contributions are set by the Trustees having taken advice from the schemes actuary (Hymans Robertson LLP) on the basis of biennial valuations. The most recent finalised formal valuations were as at 31 March 2010. The assumptions have been updated to ensure the valuations are in line with the requirements of IAS 19 for the current year disclosure.

Both pension scheme's assets are measured using market values. Both pension scheme's liabilities are measured using a projected unit method and discounted at the current fixed rate of 2% p.a. (2010: 1.8%) above the expected future price inflation. The discount rate this year has been set based on long dated AA rated corporate bonds.

#### **The Legal Services Commission Staff Pension and Assurance Scheme (No. 4)**

A full actuarial valuation of the Scheme was carried out at 31 March 2010 by qualified independent actuaries Hymans Robertson LLP.

The Commission made an advanced payment of £7.5m into the No 4 Scheme in 2010-11 (2009-10:£10.4m). The Commission also paid £675k (2009-10:£3.7m) to the Scheme, to cover the cost of a total of 9 benefit improvements under the terms of the early retirement and early severance scheme.

The Commission expects to contribute £1,964,000 to the No. 4 Scheme in the financial year beginning 1 April 2011.

The liability on the No4 scheme has moved from an IAS19 deficit to a surplus. This is due to future benefit increases being expected to grow at a lower rate than previously projected, which has reduced scheme liabilities. This is primarily because benefits for pensioners and leavers will revalue in line with CPI instead of RPI and changes in long term bond yields have also reduced the expected cost of providing benefits. The decision by the government to uprate public service pensions using the Consumer Prices Index rather than the Retail Price Index has been recognised in these accounts. This decision is currently before the courts in judicial review proceedings. The Government is robustly defending the case and therefore no adjustment has been made to the accounts for this matter.

#### **The Legal Services Commission Staff Pension and Assurance Scheme (No. 3)**

A full actuarial valuation of the Scheme was carried out at 31 March 2010 by qualified independent actuaries Hymans Robertson LLP.

The Scheme is closed to new entrants and there are no active members. The Commission did not contribute to the scheme in the year ended 31 March 2011 (2010: nil).

Legal Services Commission Notes to the financial statements (*continued*)**Note 4 - Pension costs (*continued*)**

The major assumptions used by the actuary were (in nominal terms):

	<b>No. 4 Scheme</b>	<b>No. 3 Scheme</b>	No. 4 Scheme	No. 3 Scheme
	<b>% pa</b>	<b>% pa</b>	% pa	% pa
	<b>2011</b>	<b>2011</b>	2010	2010
Discount rate	<b>5.50</b>	<b>5.50</b>	5.55	5.55
Rate of increase in salaries	<b>4.5*</b>	<b>n/a</b>	4.75	n/a
Deferred pension increase before retirement	<b>2.75</b>	<b>2.75</b>	3.75	3.75
Rate of increase in pensions in payment	<b>3.00</b>	<b>3.00</b>	3.75	3.75
Inflation assumption	<b>3.00</b>	<b>3.00</b>	3.75	3.75

\* 3% until 31 March 2013

**Future life expectancies**

The future life expectancies below are based on the 2011 post retirement mortality assumptions used for both schemes, namely standard actuarial tables S1PMA and S1PFA with an allowance for shifted and scaled long cohort improvement (mortality rates are subject to a 1.5% underpin for males and a 1% underpin for females for annual improvements from 2010 onwards).

	<b>Male</b>	<b>Female</b>	Male	Female
	<b>years</b>	<b>years</b>	years	years
	<b>2011</b>	<b>2011</b>	2010	2010
Future life expectancy for a pensioner aged 60 at 31 March	<b>28.2</b>	<b>29.9</b>	27.8	30.5
Future life expectancy at age 60 for a non pensioner aged 45 at 31 March	<b>31.4</b>	<b>31.9</b>	30.0	32.5

The expected rate of return and market values of the assets of the No. 4 Pension Scheme at 31 March were as follows:

	<b>Expected long-term rate of return at 31 March 2011</b>	Expected long-term rate of return at 31 March 2010
	<b>%</b>	%
<b>No. 4 Pension Scheme</b>		
<b>Market value of assets</b>		
Equities	<b>7.3</b>	7.5
Gilts and cash	<b>4.3</b>	4.5
Insured pensions	<b>5.5</b>	5.6

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Legal Services Commission Notes to the financial statements (*continued*)**Note 4 - Pension costs (*continued*)**

The expected rate of return and market values of the assets of the No. 3 Pension Scheme at 31 March were as follows:

	Expected long-term rate of return 2011 %	Expected long-term rate of return 2010 %
<b>No. 3 Pension Scheme</b>		
<b>Market value of assets</b>		
Equities	<b>n/a</b>	7.5
Gilts and cash	<b>4.3</b>	4.5
Insured pensions	<b>5.5</b>	5.7

The expected return on assets has been based on the long term expectation for each asset class at the beginning of the period (i.e. as at 31 March 2011 for the year to 31 March 2012). The return on equities has been taken as 3% per annum above the yield on government bonds at the year end. This is consistent with the approach followed at the previous year end.

Pension scheme costs charged to operating costs include:

	No. 4 Scheme 2010-11 £000	No. 3 Scheme 2010-11 £000	No. 4 Scheme 2009-10 £000	No. 3 Scheme 2009-10 £000
Admin - service cost	<b>6,810</b>	-	4,439	-
Termination benefits	<b>675</b>	-	3,786	-
PDS and CLS - Operating charge	<b>330</b>	-	221	-
	<b>7,815</b>	-	8,446	-
Past service credit	<b>(19,239)</b>	<b>(113)</b>	-	-
<b>Total</b>	<b>(11,424)</b>	<b>(113)</b>	8,446	-

The CLS and PDS operating charge is recognised in the Community Legal Service Fund and Criminal Defence Service accounts. The credit shown as the past service cost arises from the change in future benefits indexed to CPI rather than RPI. The change is of such materiality that it is shown separately on the face of the Statement of Comprehensive Net Expenditure.

Analysis of amounts charged to other finance income	No. 4 Scheme 2010-11 £000	No. 3 Scheme 2010-11 £000	No. 4 Scheme 2009-10 £000	No. 3 Scheme 2009-10 £000
Expected return on Scheme assets	<b>15,123</b>	<b>203</b>	10,636	181
Interest on Scheme liabilities	<b>(13,849)</b>	<b>(172)</b>	(12,232)	(189)
<b>Net return</b>	<b>1,274</b>	<b>31</b>	(1,596)	(8)

Legal Services Commission Notes to the financial statements (*continued*)**Note 4 - Pension costs (*continued*)**

The expected rate of return and market values of the assets of the No. 4 Pension Scheme at 31 March 2011 were as follows:

Analysis of amount recognised in the Statement of changes in taxpayers' equity	No. 4 Scheme 2010-11 £000	No. 3 Scheme 2010-11 £000	No. 4 Scheme 2009-10 £000	No. 3 Scheme 2009-10 £000
Actual return less expected return on Scheme assets	4,445	(59)	44,089	458
Experience gains and losses arising on Scheme liabilities	15,259	131	5,074	73
Changes in assumptions underlying the present value of the Scheme liabilities	9,513	340	(59,126)	(333)
Decrease in irrecoverable surplus *	-	(556)	-	(190)
Actuarial gain/(loss) included in the Statement of Changes in taxpayers' equity	29,217	(144)	(9,963)	8
<b>Cumulative actuarial loss</b>	<b>(22,563)</b>	<b>(155)</b>	<b>(51,780)</b>	<b>(11)</b>

\* The surplus on the scheme is only recoverable to the extent that the Commission can benefit from either refunds formally agreed or from future contribution reductions.

**Reconciliation of defined benefit obligation**

	No. 4 Scheme 2010-11 £000	No. 3 Scheme 2010-11 £000	No. 4 Scheme 2009-10 £000	No. 3 Scheme 2009-10 £000
The movement in the liabilities during the year arose as follows:				
Liabilities at beginning of year	(257,182)	(3,223)	(185,592)	(3,065)
Current service cost - Commission	(6,810)	-	(4,439)	-
Current service cost - CLS and PDS	(330)	-	(221)	-
Interest cost	(13,849)	(172)	(12,232)	(189)
Benefits accrued in respect of contributions by plan participants	(2,302)	-	(2,510)	-
Actuarial gains/(losses)	24,772	471	(54,052)	(260)
Termination benefits	(675)	-	(3,786)	-
Past service costs	19,239	113	-	-
Benefits paid	6,187	263	5,650	291
<b>Liabilities at end of year</b>	<b>(230,950)</b>	<b>(2,548)</b>	<b>(257,182)</b>	<b>(3,223)</b>

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Legal Services Commission Notes to the financial statements (*continued*)**Note 4 - Pension costs (*continued*)****Reconciliation of fair value of plan assets**

	<b>No. 4 Scheme 2010-11 £000</b>	<b>No. 3 Scheme 2010-11 £000</b>	No. 4 Scheme 2009-10 £000	No. 3 Scheme 2009-10 £000
The movement in the assets during the year arose as follows:				
Assets at beginning of year	<b>247,964</b>	<b>3,860</b>	180,259	3,512
Expected return on assets	<b>15,123</b>	<b>203</b>	10,636	181
Contributions by plan participants	<b>2,302</b>	-	2,510	-
Contributions by the Commission	<b>8,633</b>	-	16,120	-
Actuarial gains/(losses)	<b>4,445</b>	<b>(59)</b>	44,089	458
Benefits paid	<b>(6,187)</b>	<b>(263)</b>	(5,650)	(291)
<b>Assets at end of year</b>	<b>272,280</b>	<b>3,741</b>	247,964	3,860
<b>Net pension asset/(liability)*</b>	<b>41,330</b>	<b>1,193</b>	(9,218)	637

\* Before allowing for irrecoverable surplus in the No 3 Scheme.

**The major categories of Scheme assets as a percentage of total Scheme assets**

	<b>No. 4 Scheme 2010-11 %</b>	<b>No. 3 Scheme 2010-11 %</b>	No. 4 Scheme 2009-10 %	No. 3 Scheme 2009-10 %
Equities	<b>51</b>	-	53	25
Gilts and cash	<b>45</b>	<b>84</b>	43	56
Insured pensions	<b>4</b>	<b>16</b>	4	19

Legal Services Commission Notes to the financial statements (*continued*)**Note 4 - Pension costs (*continued*)**

The No. 4 Pension Scheme history of experience gains and losses over the period 1 April 2006 to 31 March 2011 was as follows:

	<b>No. 4 Scheme 2010-11 £000</b>	No. 4 Scheme 2009-10 £000	No. 4 Scheme 2008-09 £000	No. 4 Scheme 2007-08 £000	No. 4 Scheme 2006-07 £000
Fair value of plan assets	<b>272,280</b>	247,964	180,259	204,486	177,492
Present value of defined benefit obligation	<b>(230,950)</b>	(257,182)	(185,592)	(206,054)	(206,500)
Surplus/(deficit)	<b>41,330</b>	(9,218)	(5,333)	(1,568)	(29,008)
Experience adjustments on scheme assets amount	<b>4,445</b>	44,089	(44,073)	(5,757)	348
Percentage of scheme assets	<b>1.6%</b>	17.8%	(24.4)%	(2.8)%	0.2%
Experience adjustments on scheme liabilities amount	<b>15,259</b>	5,074	4,619	-	11,252
Percentage of present value of scheme liabilities	<b>6.6%</b>	2.0%	2.5%	-	5.4%
Total actuarial gains/(losses) on obligation amount	<b>24,772</b>	(54,052)	40,527	18,208	(27,248)
Percentage of present value of scheme liabilities	<b>10.7%</b>	21.0%	21.8%	8.9%	(13.2)%

There were no early retirements on ill-health grounds (2010: none).

The No. 3 Pension Scheme history of experience gains and losses over the period 1 April 2006 to 31 March 2011 was as follows:

	<b>No. 3 Scheme 2010-11 £000</b>	No. 3 Scheme 2009-10 £000	No. 3 Scheme 2008-09 £000	No. 3 Scheme 2007-08 £000	No. 3 Scheme 2006-07 £000
Fair value of plan assets	<b>3,741</b>	3,860	3,512	3,858	4,062
Present value of defined benefit obligation	<b>(2,548)</b>	(3,223)	(3,065)	(3,748)	(3,782)
Surplus/(deficit)	<b>1,193</b>	637	447	110	280
Experience adjustments on scheme assets amount	<b>(59)</b>	458	(246)	(57)	(140)
Percentage of scheme assets	<b>(1.6)%</b>	11.9%	(7.0)%	(1.5)%	(3.4)%
Experience adjustments on scheme liabilities amount	<b>131</b>	73	113	-	643
Percentage of present value of scheme liabilities	<b>13.3%</b>	2.3%	3.7%	-	17.0%
Total actuarial gains/(losses) on obligation amount	<b>471</b>	(260)	596	(113)	345
Percentage of present value of scheme liabilities	<b>18.5%</b>	(8.1)%	19.4%	(3.0)%	9.1%

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### Legal Services Commission Notes to the financial statements (*continued*)

#### Note 4 - Pension costs (*continued*)

##### Liability and insured pension sensitivity at 31 March 2011 to changes in key assumptions

The table below shows the sensitivity of the liability and insured pensions for both schemes as at 31 March 2011 to changes in key assumptions. These figures have been calculated in a consistent manner to the rest of the figures in this report. The changes are considered in isolation.

Changes in assumptions	(Increase)/decrease to value of liabilities		Increase /(decrease) to value of insured pensions	
	No 4 Scheme £000	No 3 Scheme £000	No 4 Scheme £000	No 3 Scheme £000
Discount rate increased by 0.25% p.a.	12,223	59	209	11
Rate of pay escalation increased by 0.25%p.a.	(2,261)	-	No Change	-
Pension increases and deferred pension increases increased by 0.25% p.a.	(9,427)	(48)	No Change	No Change
1 year increase in member life expectancy	(6,929)	(102)	(399)	(23)

#### Note 5 - Reconciliation of asset additions to capital expenditure

	2010-11 £000	2009-10 £000
Purchase of intangible assets	11,408	9,600
Accruals	-	1,364
Intangible asset additions	11,408	10,964
Purchase of property, plant and equipment	3,288	1,210
Accruals	1,027	888
Property, plant and equipment additions	4,315	2,098
<b>Total asset additions</b>	<b>15,723</b>	<b>13,062</b>

Legal Services Commission Notes to the financial statements (*continued*)**Note 6 - Intangible assets**

	Assets under construction £000	Computer software £000	Total £000
Cost at 1 April 2010	8,901	11,990	20,891
Additions	7,501	3,907	11,408
Transfers	(5,274)	5,274	-
Revaluations	-	(1,695)	(1,695)
Cost at 31 March 2011	11,128	19,476	30,604
Amortisation at 1 April 2010	-	3,173	3,173
Charged in year	-	3,557	3,557
Revaluations	-	(451)	(451)
Amortisation at 31 March 2011	-	6,279	6,279
<b>Net book value at 31 March 2011</b>	<b>11,128</b>	<b>13,197</b>	<b>24,325</b>

The assets under construction balance relates to costs being incurred on the development of new software for the Integrated Delivery Programme (IDP). An initial pilot of IDP is expected to begin during 2012 and transfer of costs from assets under construction will depend on the successful completion of the pilot process.

	Assets under construction £000	Computer software £000	Total £000
Cost at 1 April 2009	1,665	6,342	8,007
Additions	7,465	3,499	10,964
Transfers	(229)	229	-
Revaluations	-	1,920	1,920
Cost at 31 March 2010	8,901	11,990	20,891
Amortisation at 1 April 2009	-	1,382	1,382
Charged in year	-	1,537	1,537
Revaluations	-	254	254
Amortisation at 31 March 2010	-	3,173	3,173
Net book value at 31 March 2010	8,901	8,817	17,718

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Legal Services Commission Notes to the financial statements (*continued*)**Note 7 - Property, plant and equipment**

	Assets under construction £000	Fixtures and fittings £000	Furniture and equipment £000	Computer equipment £000	Total £000
Cost at 1 April 2010	1,602	7,779	3,357	6,211	18,949
Additions	1,549	211	8	2,547	4,315
Disposals	-	(668)	(91)	(3,659)	(4,418)
Transfers	(1,600)	385	163	1,052	-
Revaluations	-	(378)	(217)	(369)	(964)
Cost at 31 March 2011	1,551	7,329	3,220	5,782	17,882
Depreciation at 1 April 2010	-	3,619	1,667	4,407	9,693
Charged in year	-	1,710	649	1,243	3,602
Disposals	-	(668)	(90)	(3,643)	(4,401)
Revaluations	-	(425)	(138)	(111)	(674)
Depreciation at 31 March 2011	-	4,236	2,088	1,896	8,220
<b>Net book value at 31 March 2011</b>	<b>1,551</b>	<b>3,093</b>	<b>1,132</b>	<b>3,886</b>	<b>9,662</b>

Asset Financing	Assets under construction £000	Fixtures and fittings £000	Furniture and equipment £000	Computer equipment £000	Total £000
Owned	1,551	3,093	1,132	2,433	8,209
Finance leased	-	-	-	1,453	1,453
<b>Net book value at 31 March 2011</b>	<b>1,551</b>	<b>3,093</b>	<b>1,132</b>	<b>3,886</b>	<b>9,662</b>

Legal Services Commission Notes to the financial statements (*continued*)**Note 7 - Property, plant and equipment (*continued*)**

	Assets under construction £000	Fixtures and fittings £000	Furniture and equipment £000	Computer equipment £000	Total £000
Cost at 1 April 2009	474	7,980	3,050	5,165	16,669
Re-classification of opening balances	-	(92)	89	3	-
Additions	1,589	250	70	189	2,098
Disposals	-	(720)	(250)	-	(970)
Transfers	(461)	-	-	461	-
Revaluations	-	361	398	393	1,152
Cost at 31 March 2010	1,602	7,779	3,357	6,211	18,949
Depreciation at 1 April 2009	-	2,770	1,115	3,561	7,446
Re-classification of opening balances	-	(109)	109	-	-
Charged in year	-	1,490	561	794	2,845
Disposals	-	(720)	(250)	-	(970)
Revaluations	-	188	132	52	372
Depreciation at 31 March 2010	-	3,619	1,667	4,407	9,693
Net book value at 31 March 2010	1,602	4,160	1,690	1,804	9,256

**Note 8 - Other operating charges**

	2010-11 £000	2009-10 £000
Accommodation and related costs	<b>4,610</b>	4,844
Managed facility - outsourced contracts	<b>5,003</b>	6,081
Office, IT and service running costs	<b>4,461</b>	5,180
Staff and committee member related costs	<b>2,071</b>	2,855
Operating leases	<b>5,705</b>	5,826
Other administration costs	<b>748</b>	843
Audit fee	<b>328</b>	353
Legal and professional costs	<b>8,404</b>	6,698
Service level agreements with HMCTS	<b>12,398</b>	12,341
Other legal aid service costs	<b>3,409</b>	2,490
	<b>47,137</b>	47,511

The audit fee for 2010-11 includes no costs relating to the IFRS conversion of the Commission's accounts for 31 March 2011 (2009-10: £15k). Legal and professional costs include £480k of non cash movement in provisions.

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### Legal Services Commission Notes to the financial statements (*continued*)

#### Note 9 - Interest receivable and similar income

	2010-11 £000	2009-10 £000
Interest from CLS Fund and CDS*	141	156
Interest receivable and similar income	141	156

\* Includes interest earned on the bank deposit account held in the accounts of Criminal Legal Service (CLS) Fund and Criminal Defence Service (CDS) for 2010-11. Interest earned on this account is used to meet bank charges accrued by the Commission.

#### Note 10 - Other finance costs/(income)

	2010-11 £000	2009-10 £000
<b>Finance costs</b>		
Discount on provisions (note 20)	46	121
Return on Pension Scheme No. 4 (note 4)	-	1,596
Return on Pension Scheme No. 3 (note 4)	-	8
Finance lease charges	123	-
	<b>169</b>	<b>1,725</b>
<b>Finance income</b>		
Return on Pension Scheme No. 4 (note 4)	(1,274)	-
Return on Pension Scheme No. 3 (note 4)	(31)	-
	<b>(1,305)</b>	<b>-</b>

#### Note 11 - Tax expense

	2010-11 £000	2009-10 £000
Corporation tax on bank deposit interest	29	34

The Commission is liable to corporation tax on bank interest. The applicable rate of corporation tax of 28% is that which applies to the Ministry of Justice.

#### Note 12 - Income

	2010-11 £000	2009-10 £000
Income	211	121

The income received in 2010-11 mainly relates to income from conferences. Operating income can also include grants from third parties and other miscellaneous receipts.

Legal Services Commission Notes to the financial statements (*continued*)**Note 13 - Notional recharge from the Ministry of Justice**

	<b>2011</b>	2010
	<b>£000</b>	£000
Notional recharge	<b>1,287</b>	1,484

The notional recharge from the Ministry of Justice (MoJ) represents the Commission's usage of corporate services. The charge is met by a credit to the General Fund.

**Note 14 - Trade and other receivables**

	<b>2011</b>	2010
	<b>£000</b>	£000
<b>Amounts falling due after more than one year:</b>		
Other receivables	<b>4</b>	15
	<b>4</b>	15
<b>Amounts falling due after more than one year:</b>		
Bodies external to government	<b>4</b>	15
	<b>4</b>	15
<b>Amounts falling due within one year:</b>		
Other receivables	<b>214</b>	269
Amounts due from CLS Fund and CDS	<b>1,409</b>	316
Prepayments and accrued income	<b>2,966</b>	2,187
	<b>4,589</b>	2,772
<b>Amounts falling due within one year:</b>		
Local authorities	<b>1</b>	110
Public corporations and trading funds	<b>-</b>	27
Central government bodies	<b>1,680</b>	480
Bodies external to government	<b>2,908</b>	2,155
	<b>4,589</b>	2,772

Non-current other receivables of £4k (2010:£15k) comprise interest free staff car loans.

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Legal Services Commission Notes to the financial statements (*continued*)**Note 15 - Cash and cash equivalents**

	2011 £000	2010 £000
Balance at 1 April	14,849	12,055
Net change in cash and cash equivalent balances	(7,900)	2,794
<b>Balance at 31 March</b>	<b>6,949</b>	14,849

All cash balances at 31 March 2011 were held with a commercial bank.

**Note 16 - Trade and other payables**

	2011 £000	2010 £000
<b>Amounts falling due within one year:</b>		
Other payables	2,748	81
Amounts due to HMCTS	1,425	2,919
Amounts due to MoJ	2,974	-
Other taxation and social security costs	1,446	1,242
Corporation tax	-	34
Finance lease creditors	512	-
Accruals and deferred income	10,713	14,206
	<b>19,818</b>	18,482
<b>Amounts falling due within one year:</b>		
Local authorities	31	1
Public corporations and trading funds	-	8
Central government bodies	6,480	8,434
Bodies external to government	13,307	10,039
	<b>19,818</b>	18,482
For payables with a life of one year or less, the carrying amount is deemed to reflect fair value.		
<b>Amounts falling due after more than one year:</b>		
Finance lease creditors	929	-
Accruals and deferred income	371	512
	<b>1,300</b>	512
<b>Amounts falling due after more than one year:</b>		
Central government bodies	93	24
Bodies external to government	1,207	488
	<b>1,300</b>	512

Legal Services Commission Notes to the financial statements (*continued*)**Note 17 - Going concern**

The statement of financial position at 31 March 2011 shows net assets of £62.5m.

The going concern principles outlined in note 1 r) have been followed.

**Note 18 - Capital commitments**

Contracted capital commitments at 31 March 2011 not otherwise included in these financial statements

	<b>2011</b>	2010
	<b>£000</b>	£000
Property, plant & equipment	-	519
Intangible assets	2,911	6,332
	<b>2,911</b>	<b>6,851</b>

**Note 19 - Commitments under leases****a) Operating leases**

Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

	<b>Land and buildings</b>	<b>Other</b>	<b>Total</b>	Land and buildings	Other	Total
	<b>2010-11</b>	<b>2010-11</b>	<b>2010-11</b>	2009-10	2009-10	2009-10
	<b>£000</b>	<b>£000</b>	<b>£000</b>	£000	£000	£000
<b>Obligations under operating leases comprise:</b>						
Not later than one year	<b>5,164</b>	<b>373</b>	<b>5,537</b>	5,373	438	5,811
Later than one year and not later than five years	<b>18,146</b>	<b>577</b>	<b>18,723</b>	19,231	930	20,161
Later than five years	<b>7,636</b>	-	<b>7,636</b>	11,142	-	11,142
	<b>30,946</b>	<b>950</b>	<b>31,896</b>	35,746	1,368	37,114

Under the terms of the lease agreements, no contingent rents are payable and there are no rights to purchase.

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Legal Services Commission Notes to the financial statements (*continued*)**Note 19 - Commitments under leases (*continued*)****b) Finance leases**

Total future minimum lease payments under finance leases are given in the table below for each of the following periods.

	2010-11 £000	2009-10 £000
<b>Obligations under finance leases comprise:</b>		
Other than Buildings		
Not later than one year	614	-
Later than one year and not later than five years	1,010	-
Less interest element	(183)	-
<b>Present value of obligations</b>	<b>1,441</b>	-

	2010-11 £000	2009-10 £000
<b>Present value of obligations under finance leases comprise:</b>		
Other than Buildings		
Not later than one year	512	-
Later than one year and not later than five years	929	-
<b>Total present value of obligations</b>	<b>1,441</b>	-

**Note 20 - Provision for liabilities and charges**

	Provision for contractual claims £000	Provision for legal costs £000	Provision for restructuring costs £000	Provision for dilapidations £000	Total £000
At 1 April 2010	-	145	200	2,923	3,268
Additions and increases to provision	96	550	68	347	1,061
Amounts used in the period	-	(395)	(268)	-	(663)
Unused amounts reversed in the period	-	(70)	-	(447)	(517)
Finance charges (note 10)	-	-	-	46	46
<b>At 31 March 2011</b>	<b>96</b>	<b>230</b>	<b>-</b>	<b>2,869</b>	<b>3,195</b>

Legal Services Commission Notes to the financial statements (*continued*)**Note 20 - Provision for liabilities and charges (*continued*)**

	Provision for legal costs £000	Provision for restructuring costs £000	Provision for dilapidations £000	Total £000
At 1 April 2009	-	80	2,944	3,024
Additions and increases to provision	145	200	669	1,014
Amounts used in the period	-	(80)	(18)	(98)
Unused amounts reversed in the period	-	-	(793)	(793)
Finance charges (note 10)	-	-	121	121
<b>At 31 March 2010</b>	<b>145</b>	<b>200</b>	<b>2,923</b>	<b>3,268</b>

The provision for contractual claims covers supplier claims against the Commission.

The restructuring provision related to additional costs expected to be incurred as a result of the restructuring programmes undertaken by the Commission, and was fully utilised in the year.

Provision is made for estimated dilapidation costs on leasehold buildings. The provision has been estimated with reference to the condition and location of the buildings and discounted at 2.2% (2010: 2.2%). The costs are expected to be incurred between 2011 and 2019 as each lease expires. A dilapidation provision on vacated buildings is maintained until dilapidation negotiations have been finalised.

Analysis of expected timing of discounted flows	Provision for contractual claims £000	Provision for legal costs £000	Provision for dilapidations £000	Total £000
Not later than one year	96	230	98	424
Later than one year and not later than five years	-	-	1,489	1,489
Later than five years	-	-	1,282	1,282
<b>Balance at 31 March 2011</b>	<b>96</b>	<b>230</b>	<b>2,869</b>	<b>3,195</b>

There are no provisions expected to be called beyond 2022.

**Note 21 - Contingent liability**

The Commission is currently involved in three cases for which there is a potential liability of £200k.

## Financial reports 2010-11

### Legal Services Commission Notes to the financial statements (*continued*)

#### Note 22 - Related party transactions

The Commission is a non-departmental public body sponsored by the Ministry of Justice. The Ministry of Justice is regarded as a related party. During the year, the Commission had various material transactions with the Ministry of Justice. The Commission has also had various material transactions with Her Majesty's Courts and Tribunals Service, an agency of the Ministry of Justice, relating to work provided by the Courts Service on behalf of the Commission.

During the year the Commission entered into material transactions with the related party detailed below.

Payments totalling £71,412 were made to barristers at Hardwicke Chambers for work carried out under instruction by the Commission's legal team. Amanda Iling is Practice Director at Hardwicke Chambers, and barristers at Hardwicke Chambers contribute a percentage of their earnings to its central costs which includes Amanda Iling's salary. Amanda Iling is married to David Wolfe, a Commissioner of the Legal Services Commission.

#### Note 23 - Financial instruments

##### a) Carrying amount and fair values

The fair value of cash and short-term deposits, trade payables and other liabilities approximate their carrying amount largely due to the short-term maturities of these instruments.

##### b) Financial risk identification and management

The Commission's financial risk management process seeks to enable the early identification, evaluation and effective management of key risks facing the Commission. Systems have been established to review and reflect changes in the legal aid market and the Commission's activities.

The Commission is exposed to the following financial risks from its use of financial instruments:

##### Liquidity risk

The Commission is financed by grant-in-aid received from the Ministry of Justice. As such it is not exposed to significant liquidity risks.

##### Credit risk

Credit risk is the risk that counterparties to financial instruments do not perform according to the terms of the contract or instrument. The Commission is exposed to credit risk from certain financing activities.

The immediate credit exposure of financial instruments is represented by those instruments that have a net positive fair value by counterparty at 31 March 2011. The Commission considers its maximum exposure to credit risk to be:

	31 March 2011 £000	31 March 2010 £000
Cash at bank	6,949	14,849
Trade and other receivables	4,593	2,787
	<b>11,542</b>	17,636

Cash balances are maintained with strong investment grade banks or financial institutions.

Though the Commission has seen no direct evidence of changes to the credit risk of its counterparties, the current economic condition has increased financial volatility.

The Commission uses market knowledge and changes in credit ratings to identify significant changes to the financial profile of its counterparties.

##### Interest rate risk

The Commission is not exposed to any significant interest rate risk.

##### Foreign currency risk

The Commission presents its accounts in Sterling. The Commission procures legal aid in England and Wales. Foreign currency would not usually form part of the Commission's assets or liabilities and the Commission is not exposed to any significant foreign currency risks.

Legal Services Commission Notes to the financial statements (*continued*)**Note 24 - Accountability notes****Losses**

There were no known incidences of cash reported stolen in the period (2009-10: Nil).

There were no known incidents of fraud in the year (2009-10: Nil).

**Special payments**

The Commission made no disclosable ex-gratia or special payments in the year.

**Note 25 - Subsequent events**

In accordance with the requirements of IAS10 *Events after the Reporting Period*, events are considered up to the date on which accounts are authorised for issue, which is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

There are no subsequent events to report.



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