

Legal Services Commission Annual Report and Accounts 2009/10

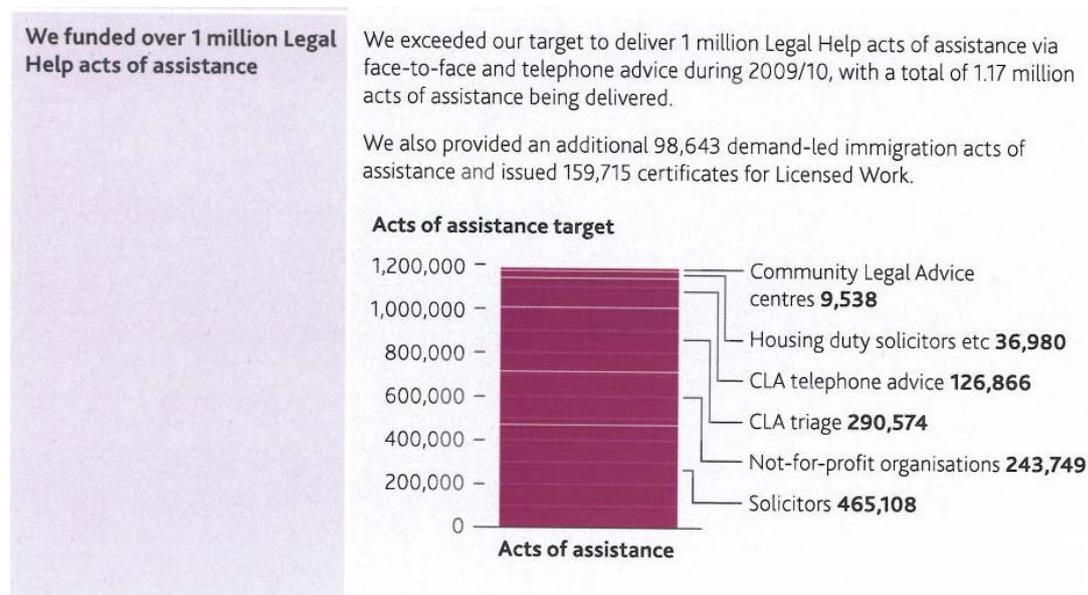
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CORRECTION

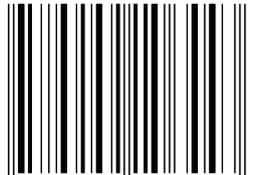
Page 7 – Correction

The figures along the right hand side of the chart were originally placed in reverse order and have now been corrected. The figures should read as shown below:



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Annual Report and Accounts **2009/10**

legal aid – fair access to justice

Legal Services Commission Annual Report and Accounts 2009/10

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

2009/10 was characterised by a period of refocusing for the Legal Services Commission, particularly on governance and financial control over the £2.2 billion (net) legal aid spend.

Sir Ian Magee's *Review of legal aid delivery and governance*, published in March 2010, made a number of recommendations to strengthen and improve the legal aid system and provided clarity and rigour in defining the way ahead for the delivery of legal aid.

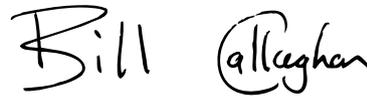
The LSC made changes at the highest level and I would like to thank Commissioners Jane Hickman (who stood down at the end of her term of appointment) as well as Angus Andrew, Tina Fahm, Lionel Joyce and Peter Smith (who left when we restructured the Board in the Spring) for their hard work and dedication.

I would also like to thank Carolyn Regan who stepped down as Chief Executive to be replaced by Carolyn Downs on an interim basis, as the organisation changes to become an executive agency of the Ministry of Justice.

Finally, I would like to express my gratitude to our staff who continue to work hard and move legal aid forward in a difficult time.

We are working collaboratively with the MoJ to achieve our future priorities, in the context of our transition to an executive agency, the savings required by the comprehensive spending review and the fundamental policy assessment on which the MoJ is now consulting. It is now more important than ever that we retain our focus on legal aid clients and maintain a constructive dialogue with legal aid providers, to find common purpose in improving service delivery and building greater efficiency.

As we move through this challenging period, the LSC remains committed to providing the best possible services within the available funds to those who require them, and adapting to the wider political and financial climate, as well as the changing business and delivery structures of the legal services market.



Sir Bill Callaghan

Chair

Legal Services Commission
November 2010

Legal aid – fair access to justice

The Legal Services Commission (LSC) is responsible for delivering, through high quality service providers, legal aid (publicly funded advice and representation) to people with legal problems 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 justice and fair trials with professional representation.

The LSC employs around 1,500 people based in 13 sites across England and Wales. We commission the services people need from solicitors, barristers and advice agencies. The skills and commitment of legal aid service providers are essential to helping people resolve their problems.

We deliver legal services through two schemes: the Community Legal Service (CLS) and the Criminal Defence Service (CDS). 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 is a network of solicitors, barristers and advice agencies which provides and promotes 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. It replaced the Legal Aid Board in April 2000. It is currently a non-departmental public body sponsored by the Ministry of Justice (MoJ), although the MoJ intends to abolish the LSC as a non-departmental public body and transfer its functions into an executive agency of the MoJ. The Lord Chancellor and Secretary of State for Justice is accountable to Parliament for our activities and performance.

Our strategy

Our Vision	Legal aid – fair access to justice		
Our Values	An organisation which is <ul style="list-style-type: none"> • competent • clear • confident • courageous 		
Our Strategic Objectives	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 delivery of justice and wider government priorities

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 (CLS) and the Criminal Defence Service (CDS).

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 2009/10, including comparisons with 2008/09, can be found on our website at www.legalservices.gov.uk/aboutus/how/strategic_publications.asp.

Expenditure and acts of assistance 2009/10¹

	Resource spend £m	Acts of assistance 000s
CLS Licensed Work (gross) ²	1,014.3	164.9
less operating receipts	(209.2)	-
Interest receivable/received etc.	(12.8)	-
CLS Licensed Work (net)	792.3	-
CLS Controlled Work ³	324.1	1,266.3
CLS total (net)	1,116.4	1,431.2
Crime lower (gross) ⁴	463.1	1,407.7
Crime higher (gross) ⁵	658.7	126.1
less operating receipts, etc.	(1.3)	-
CDS total (net)	1,120.5	1,533.8
CLS and CDS total (net)	2,237.0	2,965.0
LSC administration excluding HMCS fees	108.4	-
LSC administration HMCS fees only	12.3	-
LSC administration total	120.7	-

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 is 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 is based on the number of representation orders issued.

The year in focus

Key facts and figures																
We funded nearly 3 million legal aid acts of assistance overall	The LSC continued to help many individuals across England and Wales by funding even more acts of assistance than last year, when we delivered nearly 2.9 million acts of assistance.															
£2,237.0m total (net) legal aid expenditure	The final administration resource expenditure was £120.7m (net).															
As at 31 March 2010 we held 2,390 civil and 1,697 criminal contracts with legal service providers	In April 2007 we introduced the civil Unified Contract. This replaced the two separate contracts for not-for-profit organisations and solicitor firms. We also introduced the Unified Contract for crime in July 2008. Under the Unified Contract the LSC contracts with organisations rather than individual offices.															
	<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>2,058</td> <td>2,802</td> </tr> <tr> <td>Civil – not-for-profit</td> <td>332</td> <td>404</td> </tr> <tr> <td>Total civil</td> <td>2,390</td> <td>3,206</td> </tr> <tr> <td>Total crime</td> <td>1,697</td> <td>2,137</td> </tr> </tbody> </table>	Contract type	Number of contracts	Number of offices	Civil – solicitor	2,058	2,802	Civil – not-for-profit	332	404	Total civil	2,390	3,206	Total crime	1,697	2,137
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	Civil – solicitor	2,058	2,802													
	Civil – not-for-profit	332	404													
Total civil	2,390	3,206														
Total crime	1,697	2,137														

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 ways:

Controlled Work	Licensed Work
<ul style="list-style-type: none"> Covers basic levels of advice and representation Providers assist clients directly, with no need to apply to the LSC for each case Also referred to as Legal Help or Family Help Lower Encompasses Help at Court and representation in front of mental health review and asylum and immigration tribunals A Controlled Work act of assistance is each instance in which a provider gives legal help to a client, not including representation in court. 	<ul style="list-style-type: none"> Accounts for all other types of civil work, with the exception of Very High Cost Cases, which are managed under specialist contracts 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.

<p>We are ensuring access to justice by funding 1.43 million CLS acts of assistance overall</p>	<p>Our core purpose remains to provide access to quality legal services for clients, from initial advice to representation in court.</p> <p>During 2009/10 the LSC funded 1.43 million CLS acts of assistance, a 9% increase on last year.</p>														
<p>We spent £1,116.4m (net) on funding civil legal aid</p>	<p>Not-for-profit organisations continue to be major providers of civil Legal Help, accounting for 32% of all Legal Help work claimed in 2009/10, and 67% of our provision in social welfare law.</p>														
<p>79% of cases resulted in a substantive benefit for the client</p>	<p>This shows the overall success rate of Controlled and Licensed Work.</p>														
<p>We funded over 1 million Legal Help acts of assistance</p>	<p>We exceeded our target to deliver 1 million Legal Help acts of assistance via face-to-face and telephone advice during 2009/10, with a total of 1.17 million acts of assistance being delivered.</p> <p>We also provided an additional 98,643 demand-led immigration acts of assistance and issued 159,715 certificates for Licensed Work.</p> <p>Acts of assistance target</p> <table border="1"> <thead> <tr> <th>Provider</th> <th>Acts of assistance</th> </tr> </thead> <tbody> <tr> <td>Solicitors</td> <td>9,538</td> </tr> <tr> <td>Not-for-profit organisations</td> <td>36,980</td> </tr> <tr> <td>CLA triage</td> <td>126,866</td> </tr> <tr> <td>CLA telephone advice</td> <td>290,574</td> </tr> <tr> <td>Housing duty solicitors etc</td> <td>243,749</td> </tr> <tr> <td>Community Legal Advice centres</td> <td>465,108</td> </tr> </tbody> </table>	Provider	Acts of assistance	Solicitors	9,538	Not-for-profit organisations	36,980	CLA triage	126,866	CLA telephone advice	290,574	Housing duty solicitors etc	243,749	Community Legal Advice centres	465,108
Provider	Acts of assistance														
Solicitors	9,538														
Not-for-profit organisations	36,980														
CLA triage	126,866														
CLA telephone advice	290,574														
Housing duty solicitors etc	243,749														
Community Legal Advice centres	465,108														

The year in focus

Community Legal Advice

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

community
legal advice

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.

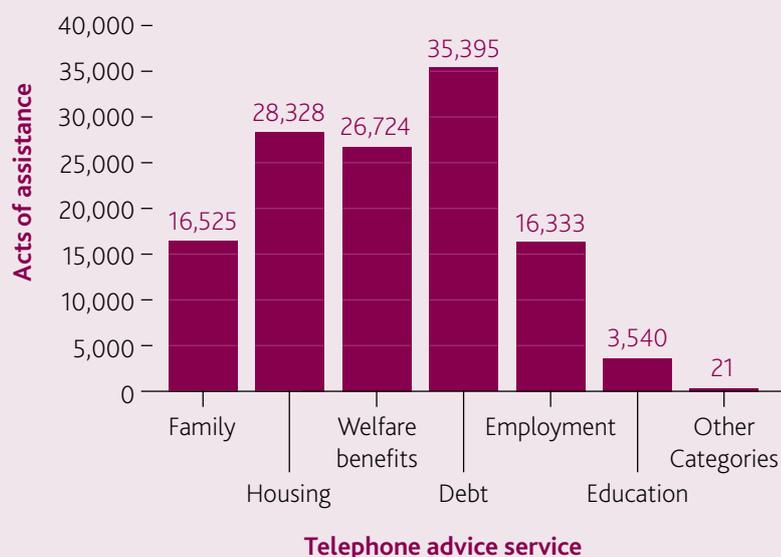
CLA services include:

- A telephone helpline, providing initial advice and assistance in finding further help. Those seeking advice can call 0845 345 4 345
- A 'call me back' service, which can be in a language other than English, available via the website or by texting "legalaid" to 80010
- The CLA website, found at www.communitylegaladvice.org.uk
- Digital interactive television, where CLA can be accessed via remote control, for those with limited access to the internet
- Community Legal Advice centres and networks, providing advisory and representation services for a broad range of issues. We now have five centres and in 2009/10 we opened our first network
- Leaflets on individual categories of law, which are available at a wide variety of locations across England and Wales.

CLA provided 417,440 acts of assistance

Specialist telephone advisers handled 126,866 acts of assistance (as shown in the chart below) and 290,574 enquiries were closed at the triage stage, by the operator resolving the issue to the clients' satisfaction or referring them to a non-LSC funded source.

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.

Scheme ¹	Type of funding	Number of claims	Value of claims (£000)
Crime Lower: Services provided to suspects who had not yet been charged	Police station attendance	672,021	174,533
	Total telephone advice and administration	170,751	11,144
	Other police station work	10,314	1,598
Crime Lower: Services provided to defendants who had been charged	Total where a representation order is required	490,400	232,931
	Total where no representation order is required or representation order is refused	18,118	8,097
	Court duty solicitor	87,740	22,666
	Prison law	47,539	25,211
Crime Higher	All higher crime schemes	293,947	733,610

¹ Definitions and more detailed statistical analysis can be found on our website at www.legalservices.gov.uk/aboutus/how/strategic_publications.asp.

The overall CDS spend of £1,120.5m (net) enabled us to provide over 1.5 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 170,751 telephone advice matters in 2009/10, 126,968 were delivered by CDS Direct. In terms of response times, over 98% 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 3 minutes and 30 seconds.

The remaining 43,783 was 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>100% coverage of the 24-hour duty solicitor schemes</p>	<p>The CDS continued to maintain total coverage of the duty solicitor schemes at police stations across England and Wales.</p>
<p>Access to justice - from police stations to higher courts</p>	<p>Under the crime Unified Contracts we funded 1.41 million acts of assistance at police stations and magistrates' courts and 126,083 at the higher courts.</p>
<p>The Public Defender Service (PDS) opened 3,310 files in 2009/10</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 (KPIs). 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 15 KPIs, partially achieved 5 and missed 2. This information is not audited.

Finance				
Strategic Objective	KPI headline	KPI	Status	
Deliver a sustainable legal aid scheme and an efficient and diverse organisation	Scheme transformation	Deliver civil and crime elements of the transformation programme on time, on cost and delivering anticipated benefits		
	Process transformation	Deliver internal elements of the transformation programme	 ¹	
	Financial control	Live within administration budget for 2009/10 – near cash		
		Live within fund budget for 2009/10 – cash and resource		 ²
		Reduce the overall debt owed to the LSC to £300m		 ³
	Reconciliation (of payments to providers for work done) - maintain 98% of contracts within 90-110%			

1 This was impacted by a delay in planned headcount reductions and a delay in benefits from implementing the 'e-forms' electronic working initiative.

2 Final spend is reported in the 'Year in Focus' chapter on page 5. Pressures on the legal aid budget included the recession, increases in civil representation and Crown Court volumes of work.

3 We reduced gross debt from £315m to £308m by 31 March 2010. Changes in the housing market impacted on our secured debts, which meant that the level of repayment was significantly below previous years.

Our performance

Customers			
Strategic Objective	KPI headline	KPI	Status
Maximise access to quality services to meet the diverse needs of the clients we serve	Access to services	i. 95% police station duty calls accepted within 30 minutes ii. 100% provision of court duty solicitors	
		Deliver 1 million acts of assistance: 700,000 face-to-face; 200,000 Community Legal Advice triage; 100,000 Community Legal Service specialists	
		90% of calls to Language Line (which offers interpretation on the CLA telephone helpline) to be accepted within 2 minutes	
		i. Maintain current access with over 90% of legal aid contracting procurement areas with at least one provider offering one of each social welfare law category with a minimum capacity of 50 new matter starts ii. Maintain current access with over 95% of procurement areas with at least 5 public law family providers and 2 private law family providers within a minimum capacity of 50 new matter starts	 ⁴
	Quality	i. Peer review a proportion of active contracts in both crime and civil legal aid, delivering to 801 reviews ii. Reduce the number of active peer reviewers from 185 to 147 iii. Publish peer review fail results by provider and anonymous statistical data	 ⁵
		80% of providers with a risk rating (highlighting concerns with performance in terms of cost, quality or access) to receive a positive intervention by the LSC	
	Developing services to meet diverse client needs	Implement client and public engagement strategy	
		Maintain national customer service score at 90%	

4 One procurement area failed to meet its target. This is because one provider did not use as much funding as expected to help people with debt problems.

5 We achieved parts i and ii of this target but we did not publish the results of providers who had failed peer reviews by year-end.

People and processes

Strategic Objective	KPI headline	KPI	Status
Deliver a sustainable legal aid scheme and an efficient and diverse organisation	Internal transformation	Implement learning and development framework	 ⁶
		Achieve 90% score on people scorecard	 ⁷
		Ensure workforce diversity	

Innovation

Strategic Objective	KPI headline	KPI	Status
Facilitate the efficient delivery of justice and wider government priorities	Whole system initiatives	i. Improve efficiency in the civil justice system	
		ii. Improve efficiency in the crime justice system	
	Corporate social responsibility	Deliver the Aspire programme (providing mentoring for young people)	
		Sustainability: Reduce electricity consumption by 15% relative to 2007/08 levels; Reduce carbon emissions from cars used for business travel by 5%; Reduce overall waste arising by 5% relative to 2008/09 levels; 70% of office waste to be recycled	
		Better regulation – reduce administrative burdens (on legal aid providers) by £20m	
Information assurance	Progress is made against a 13-point plan (to improve the security of data and information systems)		

⁶ The programme was delayed owing to a review of the LSC's priorities.

⁷ The people scorecard is comprised of key measures such as sickness absence and its management, headcount, and the quality of performance and development reviews. Performance was impacted by the fact that not all planned headcount reductions could be made due to additional work required around financial controls.

Financial reports 2009/10

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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), although the MoJ intends to abolish the LSC as a non-departmental public body and transfer its functions into an executive agency of the 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).

A description of the LSC's main role, activities and performance is set out in earlier chapters of our Annual Report and Accounts 2009/10.

Senior directors

Executive Team

As at 31 March 2010, our Executive Team was made up of:

- Carolyn Downs, Chief Executive (from 8 March 2010)
- Hugh Barrett, Executive Director for Commissioning
- Phil Lambert¹, Executive Director for Business Support
- Hazel Parker-Brown, Executive Director for Corporate Services.

Carolyn Regan, former Chief Executive, left the LSC on 5 March 2010.

Non-executive Commissioners

As at 31 March 2010, our non-executive Commissioners were:

- Sir Bill Callaghan, Chair
- Angus Andrew²
- Barry Elliott
- Tina Fahm²
- Carolyn Hamilton
- Jane Hickman²
- Tom Jones OBE
- Lionel Joyce OBE²
- Julian Lee
- Beryl Seaman CBE JP
- Peter Smith²
- 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.

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 2009/10 membership of the LSC's Audit Committee comprised of:

- Barry Elliott (Chair)
- Tina Fahm
- Tom Jones OBE
- Julian Lee (from November 2009).

¹ Phil Lambert left the LSC in the 2010/11 financial year.

² These non-executive Commissioners left the LSC in the 2010/11 financial year.

Financial reports 2009/10

Management commentary (*continued*)

Parliamentary scrutiny

Welsh Affairs Committee (WAC)

Following the WAC hearing on 24 March 2009, the LSC submitted a written memorandum in January 2010, updating WAC members on developments and advising them of the latest position with regard to the LSC's Cardiff office.

On 9 February 2010, the then Executive Director for Business Support (Phil Lambert) and the Wales Director (Paul Davies) gave evidence at a subsequent WAC hearing. The WAC published its full report, *Wales and Whitehall*, on 26 March 2010. We will carefully consider the recommendations in this report during 2010/11.

Public Accounts Committee (PAC)

On 27 November 2009, the National Audit Office (NAO) published their report, *The Procurement of Criminal Legal Aid in England and Wales by the Legal Services Commission*. The key findings of the report were:

- The division of policy responsibilities between the MoJ and the LSC was confusing and posed a risk of duplication on some issues and a lack of coverage of others
- The LSC did not hold enough information centrally about its legal aid providers or users of legal aid and their perceptions of the services offered, to be an intelligent commissioner. In addition, only around half of people detained at the police station took up their right to free legal representation
- The data that the LSC used to make payments for criminal legal aid services was inaccurate and incomplete.

The NAO also qualified the LSC's financial accounts for 2008/09. They highlighted weaknesses in financial controls, in particular with respect to controls over contracted provider payments.

Following the above events, the LSC's then Chief Executive (Carolyn Regan), Executive Director for Commissioning (Hugh Barrett), and MoJ Access to Justice Director General (Peter Handcock), appeared before the PAC on 9 December 2009. After thorough considerations of the recommendations made by the PAC, the LSC and MoJ submitted a formal response on 26 March 2010.

The LSC has now incorporated all agreed action points flowing from the PAC into a wider stewardship plan and is regularly reporting progress to MoJ. The Audit Committee also has a clear responsibility to provide guidance and support and to oversee the assurance framework, the corporate assurance programme of work and the preparation of the annual accounts.

Principal risks

The LSC continuously monitors our key risks and our policy for managing risk is set out in our *Risk Management Statement*, which is available at www.legalservices.gov.uk. For more information on our risks, please refer to the 2009/10 'Statement on internal control' (SIC) on page 30.

The risks relating to financial instruments are disclosed in note 20 of the CLS Fund and CDS financial statements and note 25 of the LSC administration financial statements.

Key achievements in 2009/10

In 2009/10 the LSC was faced with immense challenges not least because of the need to continue to provide quality legal advice against a backdrop of a constrained budget. We also had to reprioritise our resources in order to deliver the recommendations made by the NAO as well as the PAC. Looking back however, the LSC, working in partnership with our providers, had achieved a significant amount including:

- We achieved 15 Key Performance Indicators (KPIs), partially achieved 5 and missed 2
- The LSC continued to help many individuals across England and Wales by funding nearly 3 million acts of assistance overall (CLS and CDS) with net resource expenditure of £2,237.0m
- During 2009/10 the LSC funded 1.43 million CLS acts of assistance overall, a 9% increase on last year, and we spent £1,116.4m on funding civil legal aid
- We exceeded our target to deliver 1 million Legal Help acts of assistance via face-to-face and telephone advice during 2009/10, with a total of 1.17 million acts of assistance being delivered
- The overall CDS spend of £1,120.5m enabled us to provide over 1.5 million acts of assistance
- Administration spend has reduced from £124.3m in 2008/09 (restated in 2009/10) to £120.7m

Management commentary (*continued*)

- Staff numbers have reduced from 1,690 at 31 March 2009 to around 1,500 people a year on.

More information can be found earlier in this document at pages 2-13.

Forward look

We did not publish a three year plan in 2010/11 as we have done previously, as it seemed inappropriate in light of the period of change we face, including the future transition to move towards executive agency status and possible reforms of legal aid. Instead, we published a one year business plan for 2010/11, which can be found at www.legalservices.gov.uk, and outlines the work we will undertake in the coming year.

We have categorised four priorities for 2010/11, which are:

- **Delivering a structure and framework for the future administration of legal aid** - This priority will define how the LSC administers legal aid in the future and includes: implementing the action plan that was developed in response to the review by Sir Ian Magee; progressing the work streams that support a move to executive agency; defining the governance procedures and operational systems required; and drawing up requirements for workforce capability and estates infrastructure.
- **Delivering improved financial management and control** - In the light of the NAO qualification of the 2008/09 accounts and subsequent PAC report, we have implemented some immediate changes to the way we work to improve control over our expenditure. This financial stewardship work will continue to have the highest priority and is focussed on; improving our processes, checks and controls, recouping overpaid monies and debts owed to the LSC, working with our contracted providers to improve their performance where required and implementing the actions that came out of the PAC report.
- **Meeting the budget and resource challenges we face and maintaining access for those most at need** - This work will look to use the available funding to do all we can to serve those most in need of legal advice. To meet this priority we will continue with key reform projects such as Crown Court Means Testing, develop and implement internal change projects (including a greater use of electronic working), promoting early resolution of issues and their diversion

from courts where possible and, delivering quality legal advice.

- **Engaging our people and building their capability** - Throughout this difficult period for the organisation, we need to ensure that we are taking our staff with us on the journey, and building the skills within the LSC to meet the challenges that will face us in the future. To enable us to do this, we will increase and strengthen the capability of all our people and our staff engagement.

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Management commentary (*continued*)

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Improving the financial control framework

2009/10 has seen considerable effort to improve the financial control environment of the LSC. Responding to the significant internal control weaknesses set out in the SIC on page 30, the LSC has implemented a programme to improve financial governance. The 17 activities as set out in the SIC can be categorised into four main elements:

Additional external reviews	<p>We appointed a firm of accounting advisors to undertake a comprehensive review of operational and financial controls, where a number of immediate improvements were identified and implemented. In addition, reviews were undertaken on major fund initiatives providing improved assurance. For the 2009/10 accounting year, we reviewed and rebuilt the models used to calculate liabilities to providers and to identify debt owed. This has provided a clearer audit trail, more accountable figures and improved assurance. The progress and results of this work were shared with the MoJ.</p>
Improved internal reviews	<p>Management has driven improvements which have increased the profile and quality of risk management, increased internal audit and assurance reviews and set up independent monitoring (through a secondment from the NAO).</p> <p>Detailed reviews were undertaken to identify and improve the operational and financial controls on a cost benefit basis. These control improvements are seen as a short term measure, whilst more permanent solutions are put in place, to reduce the occurrence of inaccurate claims from providers and claimants, together with other errors resulting in overpayments.</p> <p>Provider Assurance auditors and Relationship Managers have undertaken 600 comprehensive and targeted reviews looking at the accuracy of providers' claims and contract compliance.</p> <p>In addition, the LSC's Central Contract Assurance team, including Contract Compliance Audit and Peer Review teams, has increased its assurance activity with a more targeted approach to anomalies in claiming.</p> <p>This has resulted in the issue of 495 contract notices in the period April to October 2010, compared to 259 in 2009/10 (2008/09: 14) and 90 Termination Notices for the same period compared to 13 in 2009/10 (2008/09: Nil).</p> <p>We have been working hard to identify recoverable examples of incorrect claims and ineligible cases granted. £4.76m has been recovered in respect of 2008/09 and a further £6.8m identified in respect of 2009/10 where work continues in this area to maximise recovery.</p>
Improved structures	<p>The Executive Team and Commission Board structures have been strengthened through the appointment of an experienced Interim Finance Director. A permanent appointment has now been made and Owen Mapley, previously Finance Director of the HMCS, will take up post in December 2010. All assurance, internal audit, fraud and debt recovery activities have been consolidated within the Finance Department to provide the focus to improving the operational and financial control environment.</p>

Management commentary (*continued*)

Improved systems

We are investing in a new strategic operational and financial system, using the same core applications as the MoJ. It is intended that this will support more electronic working, integrate financial accounting with operational systems, improve controls on authorisation of fund expenditure and streamline operational case management. We are reviewing the current work plans including for covering all legal aid schemes.

Production of the 2009/10 year-end accounts

Amounts due to providers for work done but not yet settled and debtors are the two most significant balances in the LSC's CLS and CDS financial statements. 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 creditors 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 CDS 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 8.0% 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 full reconciliation of activity through our case management system adjusted for any write offs. A new, more transparent model for identifying our debtor balances was produced this year, and the intention is to use this work to achieve a significant level of data cleansing within our case management systems.

In year commentary

We continued to apply pressure on our own administration costs and these have reduced in the year

by 3.0% or £3.7m to £120.7m. Further cost reductions are planned during 2010/11.

Although there have been some offsetting costs and savings, the most significant savings have resulted from a reduction in our staffing by an average of 181 full time equivalent staff. This has reduced our employment costs by £4.7m in the year. This staff saving followed a review of how we deliver assurance to our providers through our relationship management function, and through reducing the number of staff working on lower priority projects.

We administer the legal aid fund and net costs in the fund have increased from £1,882m in 2008/09 to £2,237m this year. There is a small decrease in the CDS fund expenditure of £54m due to a combination of planned savings initiatives on Crime Lower and a reduced revaluation of liabilities by the use of new models. The CLS fund has increased expenditure by £409m. The significant increase in CLS expenditure is due to a number of factors. Firstly, the prior year comparative contained a release of the dormant cases provision of £180m, which will no longer be repeated. Secondly, the impairment provision for debts based on updated models was adjusted by £108m to better reflect the recovery history of such debts. And thirdly, significant volume demand has been experienced in both Public Law Children and Legal Help cases, the former driven largely by local authorities' reactions to the Baby P case and the latter as a consequence of the recession. The modelling of the impairment provision uses a number of assumptions. Under other reasonable alternative assumptions, the valuation of the gross fair value of debt could reduce by up to £6.8m or increase by up to £4.1m. Further details are available in note 20 to the financial statements.

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

In order to improve the disclosure of liabilities at year-end, significant work was undertaken to identify the element of total obligations to providers that could be accrued.

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Management commentary (*continued*)

This work resulted in CLS accruals increasing by £138m largely due to the recognition of liabilities advised by providers through payment on account returns on Civil Representation cases. This was partially offset by a reduction in provisions on CLS cases of £20m due to the overall increase in liabilities at the year end resulting principally from the increased demand volumes on both Public Law Children and Legal Help cases, as noted above. In CDS cases, accruals have increased by £44m with a reduction in provisions of £133m, a net reduction of year-end liabilities of £89m. Around £50m of the reduction in year-end liabilities arose from the earlier introduction of fixed fees for litigators which accelerated the payment of criminal case liabilities in the Crown Court.

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 £57.4m or increase by up to £56.4m. Further details are available in note 20 to the financial statements.

Post balance sheet events

There are two post balance sheet events reported. The LSC launched a procurement exercise for providers to undertake publicly funded work under the new 2010 contracts. This exercise was conducted in accordance with Part B of the Public Contract Regulations 2006. Crime contracts were let in July 2010 but, after the announcement of the awards in July and August 2010, the Law Society successfully challenged the awards in family law on the basis that one of the selection criteria had not been announced in time to allow providers to be able to meet it (i.e. some time before the tender actually opened). In the circumstances, all civil contracts were extended to 14 November 2010 when the majority of 2010 contracts were let, except for family law which has been extended until the end of November 2011.

On 15 November 2010, the MoJ issued a consultation paper, *Proposals for the Reform of Legal Aid in England and Wales*. This outlines proposals from the Government for fundamental reform of the legal aid scheme which would save approximately £350m per annum by the end of the spending review period. The consultation closes in mid-February 2011 and a number of the changes proposed will require primary legislation. Until the Government decides which proposals to implement, it is not possible to fully quantify the impact on the LSC.

However, the volume of cases administered is likely to reduce and some of the proposals could lead to increased administrative complexity.

Going concern

The going concern basis is set out in note 1s) and note 15 of the CLS Fund and CDS financial statements and in note 1r) and note 19 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 5 of the CLS Fund and CDS accounts; Direct Services, grants and similar.

Pension fund

An advance payment of £10.4m was made in February 2010 with the agreement of the MoJ. This will help towards meeting future liabilities. Details of the pension scheme's assets, liabilities and contributions are set out in note 5 of the LSC financial statements.

Charitable donations

During 2009/10, the LSC made two charitable donations:

- A single £500 donation to the charity Crisis
- A single donation of £50 to the charity Changing Faces, in lieu of speaker's payment to speak at the Senior Leadership Group meeting in January 2010.

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.

Payment of suppliers and performance

We calculate creditor days as at 31 March 2010 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

Management commentary (continued)

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 also excludes Crime Higher spend.

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 which contributes towards an organisation's Standard Monthly Payments. Non-standard bills from a legal aid provider are only eligible for payment once it has been assessed. Performance against internal targets for the timely payment of non-standard bills is set out in Table A below.

In 2008/09, we reported a 99% performance standard on bills paid for criminal non-standard fee. In 2009/10, due to changes to how we fund criminal legal aid work, we are now measuring performance targets against Investigative Exceptional cases and Litigator Fee claims as well as criminal non-standard fee (see Table A).

We aim to collect receipts and promptly pay all properly authorised invoices from the administration budget in accordance with the terms of contracts or within 30 days. We paid 97% of properly authorised administrative invoices within 30 days during 2009/10. We will continue to monitor payment performance on a monthly basis during 2010/11. The payment performance figures are unaudited.

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.

Equal opportunities and diversity

We are committed to equality of opportunity both as an employer and in the provision of services. In September 2010 we reported on the second year of our Single Equality Scheme. Our report, *The Single Equalities Scheme Annual Report 2010*, which also contains a report of our workforce equal opportunities monitoring, can be found at www.legalservices.gov.uk.

As many of the actions were completed or reprioritised, the action plan is coming to a natural end. Our focus is now on preparing the LSC for the new duty under the Equality Act 2010.

The environment, social and community issues

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 achieved ISO 14001 certification for our London head office, Bristol and Manchester sites in March 2010. ISO 14001 is the most recognised international standard for Environmental Management Systems. Our actions are consistent with the Government Sustainable Development Strategy. The LSC is committed to

Table A: Bills paid and performance

Bills paid	Targets 2009/10	Performance 2009/10	Targets 2008/09	Performance 2008/09
Civil bills – taxed & assessed	4 weeks (90%)	97%	8 weeks (100%)	94%
Family Graduated Fee bills	4 weeks (90%)	96%	8 weeks (100%)	95%
Criminal non-standard fee	20 days (90%)	99%	8 weeks (100%)	99%
Investigative Exceptional cases	5 days (90%)	90%	N/A	N/A
Litigator Fee claims	40 days (95%)	94%	N/A	N/A

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Management commentary (*continued*)

minimising waste, using energy efficiently and promoting good environmental practice amongst staff.

Performance against our corporate social responsibility KPIs can be found in the 'Our performance' chapter.

Employee involvement

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, Executive Directors and the Senior Management Team have kept staff updated via face-to-face briefings, intranet discussion forums and a regular update from the Chief Executive. We have conducted staff surveys which included questions about communication, change and leadership, and we use the results to improve how we communicate with staff.

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.

Sickness absence data

As part of our people scorecard KPI (see page 13), we had a target for annual sickness absence per full time equivalents to be no more than 7.66 days. Our performance against this target was 6.8 days. This excludes absences due to cold and flu-like symptoms during the swine flu period, in accordance with Government-wide agreed arrangements.

Reporting of personal data related incidents

In 2009/10 we formally reported no personal data related incidents to the Information Commissioner's Office. 95 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. In 2009/10 we conducted 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 2009/10

Category	Nature of incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	10
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	2
IV	Unauthorised disclosure	68
V	Other	8

Accounting standards

Under the 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 the 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

Management commentary (*continued*)

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.

The financial statements for the LSC's administration and the CLS Fund and the CDS are prepared in accordance with the Treasury's *Government Financial Reporting Manual* and applicable accounting standards. The accounts to March 2010 were prepared for the first time under International Financial Reporting Standards as adapted or interpreted for the public sector context.

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 9 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 of. 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.

Signed for and on behalf of the Legal Services Commission

Carolyn Downs

Chief Executive and Accounting Officer
25 November 2010

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Remuneration report

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

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

The Pay Committee

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

Pay Committee members include three 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 in 2009/10 were:

- Beryl Seaman CBE JP (Chair)
- Tina Fahm
- Julian Lee
- Helen Murlis¹
- Beverley Shears¹.

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.

Remuneration policy

Executive Team

The Chief Executive, Carolyn Downs, is seconded from the Ministry of Justice (MoJ) from 8 March 2010 for 12 months. The previous Chief Executive, Carolyn Regan, left the LSC on 5 March 2010.

The Executive Directors are employed on a permanent full time basis with a normal retirement age of 60.

Base pay

Executive Director base pay was determined on appointment in December 2008 following evaluation of the jobs and informed by market research and reflecting the higher pension contributions paid relative to the civil service. Base pay was frozen in 2009.

Non-consolidated performance payments

The Chief Executive and Executive 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. In the event, it was decided not to pay any non-consolidated performance payments at all for 2009/10. Non-consolidated performance payments relate to performance during the prior financial year, therefore the payments shown in Table A relate to 2008/09.

The non-consolidated performance payment scheme for 2008/09 placed emphasis on shared responsibility and, as well as being tied to our Key Performance Indicators (KPIs), there were culture and leadership targets for all Executive Directors.

The 2008/09 scheme consisted of three elements: corporate performance, determined by the achievement of ten strategic objectives each of which is underpinned by a number of KPIs; individual performance, determined by the achievement of three individual objectives; and a discretionary award that may be made against four additional criteria.

The 2010/11 remuneration report will report on any non-consolidated performance payments to the Executive Team relating to 2009/10.

Benefits in kind

With the exception of one Executive Director who was reimbursed in 2009/10 with relocation expenses, no Executive Directors are entitled to benefits in kind.

¹ 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 is the Director of Offender Management at the National Offender Management Service and has a background in change management and organisational transformation and also specialises in HR matters. Beverley Shears was unable to attend the Pay Committee meeting on 19 May 2009.

Remuneration report (*continued*)

Table A: Senior employees – employment costs (for the year ending 31 March 2010)

Executive Team	Actual salary and allowances £000	Full year equivalent salary and allowances £000	Non-consolidated performance payments ¹ £000	Benefits in kind £000	Total 2009/10 £000	Total 2008/09 £000
Carolyn Downs ² <i>Chief Executive</i> (from 8 March 2010)	10.9	169.0	N/a	N/a	10.9	N/a
Carolyn Regan ³ <i>Chief Executive</i> (to 5 March 2010)	283.4	194.8	23.4	N/a	306.8	213.6
Hugh Barrett ⁴ <i>Executive Director for Commissioning</i>	140.0	140.0	5.6	8.0	153.6	46.7
Phil Lambert ⁵ <i>Executive Director for Business Support</i>	140.0	140.0	5.6	N/a	145.6	46.7
Hazel Parker-Brown <i>Executive Director for Corporate Services</i>	134.0	134.0	5.4	N/a	139.4	43.7

Notes

1 Non-consolidated payments awarded relate to performance for the 2008/09 financial year.

2 Carolyn Downs is seconded from the MoJ.

3 As provided by her contract of employment, the salary and allowances paid to Carolyn Regan in 2009/10 includes payment of 6 months' salary in lieu of notice on her resignation on 5 March 2010.

4 Hugh Barrett is a part time non-executive Director with the Criminal Records Bureau, which compensates the LSC for his time (£7,200 in 2009/10). The figure disclosed in the table above is Hugh Barrett's gross remuneration. The benefits in kind paid were incurred in 2009/10 for relocation assistance. The LSC also received a fee of £125 from the Legal Aid Foundation of Taiwan for a speech given by Hugh Barrett at the 2009 International Forum on Legal Aid.

5 Phil Lambert left the LSC in the 2010/11 financial year.

In addition to the information provided in the above table, in 2009/10 the LSC also made a £7,400 non-consolidated performance payment to Richard Collins (former Executive Director for Policy) for his performance in 2008/09, and benefits in kind of £5,500 to Helen Riley (former Executive Director for Transformation) and £1,600 to Jonathan Lindley (former Executive Director for Change and Organisational Transformation). The benefits in kind payments related to tax paid in 2009/10 on accommodation expenses incurred in prior years.

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Remuneration report (continued)

Pensions

The Chief Executive is a member of civil service 'Nuvos' pension scheme. All other Executive Team members were members of the LSC's No. 4 Staff Pension and Life Assurance Scheme. Details of the LSC's pension schemes are shown in note 5 of the administration accounts. Executive Team pension costs are shown at Table B.

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 Board.

Commissioners are appointed with different time commitments but are paid the same daily rate, with the

exception of the Chair. Commissioners are also reimbursed for travel and other expenses they incur and any taxation paid by the LSC on those expenses.

Appointment to the Commission Board does not attract any other benefits, special arrangements or other remuneration. Commissioners are not members of the LSC's pension scheme.

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. There were no terminations of Commissioner appointments in 2009/10.

Table B: Senior employees – pension costs

	Total accrued pension payable at age 60 at 31 March 2010 and related lump sum £000		Real movement in pension and related lump sum payable at age 60 £000		CETV at 31 March 2010 £000	CETV at 31 March 2009 £000	Real increase in CETV £000	Employer contribution to pension account including risk benefit cover ⁴ £000
Carolyn Downs ¹	Pension	0.2	Pension	0.2	44.0		2.0	2.6
Carolyn Regan ² (to 5 March 2010)	Pension	67.9	Pension	1.6	1,619.0	1,405.0	32.0	38.4
	Lump sum	203.8	Lump sum	4.9				
Hugh Barrett	Pension	2.1	Pension	1.6	49.0	10.0	29.0	38.4
	Lump sum	6.2	Lump sum	4.7				
Phil Lambert ³	Pension	3.3	Pension	2.9	72.0	9.0	37.0	38.4
	Lump sum	10.0	Lump sum	8.6				
Hazel Parker-Brown ³	Pension	47.8	Pension	47.3	1,300.0	12.0	338.0	38.4
	Lump sum	143.3	Lump sum	142.0				

Notes

- 1 Carolyn Downs is a member of the civil service 'Nuvos' pension scheme.
- 2 CETV at both 31 March 2009 and 2010 includes a transfer relating to 25 years' service in the NHS pension scheme.
- 3 CETV at 31 March 2010 includes a transfer from the civil service pension scheme.
- 4 Employer contribution is at the rate of 20.6% with an additional 10.5% paid in 2009/10 towards the pension deficit. However, pension contributions are restricted to the 'Scheme Notional Earnings Cap' which was set at £123,600 in 2009/10 and based on the employer contribution of 31.1%. As a result, all senior directors have the same annual maximum contribution of £38,440. A one-off payment of £10.4m and an additional payment of £200,000 towards the pension scheme deficit made during 2009/10 have not been reflected in these costs.

Remuneration report (continued)

Cash Equivalent Transfer Value (CETV)

A CETV is the actuarially assessed capitalised value of a member's pension scheme benefits at a particular 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 the benefits accrued in their former scheme, the CETV is a payment made by a pension scheme that secures pension benefits in another pension scheme.

The pension figures shown relate to benefits accrued for total membership of the pension scheme, and include the value of any pension benefit in another scheme, which has been transferred to the LSC's pension scheme. CETVs

are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries. The CETV value for Carolyn Regan who left in 2009/10 was calculated up to her date of leaving (5 March 2010).

Real increase in CETV

Real increase 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 contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Table C: Non-executive Commissioners' remuneration (for the year ending 31 March 2010)

Commissioner (date appointed)	Date current term commenced	Unexpired years in current term (as at 31 March 2010)			Total 2009/10 £000	Total 2008/09 £000
			Remuneration ¹ £000	Expenses ² £000		
Sir Bill Callaghan (member from 28 July and Chair from 1 September 2008)	28 July 2008	1.4	54.0	2.7	56.7	34.3
Angus Andrew ³ (from 1 March 2004)	1 March 2007	0.9	16.6	0.5	17.1	24.3
Barry Elliott (from 1 June 2007)	1 June 2007	1.2	21.4	3.3	24.7	26.8
Tina Fahm ³ (from 1 November 2004)	1 November 2007	1.6	31.4	1.8	33.2	35.2
Carolyn Hamilton (from 1 April 2008)	1 April 2008	2.0	10.7	0.0	10.7	11.1
Jane Hickman ³ (from 1 June 2007)	1 June 2007	0.2	12.1	2.6	14.7	16.1
Tom Jones OBE (from 1 March 2004)	1 March 2008	1.9	31.4	10.7	42.1	46.3
Lionel Joyce OBE ^{3 & 4} (from 1 July 2005)	1 July 2008	1.3	32.5	6.1	38.6	42.8

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Remuneration report (continued)

Table C: Non-executive Commissioners' remuneration (for the year ending 31 March 2010) (continued)

Commissioner (date appointed)	Date current term commenced	Unexpired years in current term (as at 31 March 2010)	Remuneration ¹ £000	Expenses ² £000	Total 2009/10 £000	Total 2008/09 £000
Julian Lee (from 1 November 2008)	1 November 2008	1.6	10.7	1.3	12.0	4.9
Beryl Seaman CBE JP (from 1 July 2005)	1 July 2008	1.3	31.4	9.9	41.3	44.1
Peter Smith ³ (from 1 April 2008)	1 April 2008	2.0	10.7	0.3	11.0	12.1
Dr David Wolfe (from 1 October 2005)	1 October 2008	2.5	10.7	0.5	11.2	10.8

Notes

- 1 With the exception of the Chair, Commissioners are appointed with different time commitments but are paid the same daily rate.
- 2 The cost of expenses varies according to the distance between their 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.
- 3 These non-executive Commissioners left the LSC in the 2010/11 financial year.
- 4 Lionel Joyce provided professional services in an advisory position to the experts pilot project in 2008/09. The cost of his services which amounted to £1,071 was met by the Department of Health. The figure disclosed above is his gross remuneration.

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

Carolyn Downs

Chief Executive and Accounting Officer

25 November 2010

A statement of the responsibilities of the Accounting Officer of the Commission

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 LSC 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*.

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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 joined the LSC as its Interim Chief Executive in 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 the requisite quality, and deliver value for money.

The past year has been extremely challenging for the LSC in relation to two main events. These were the publication of Sir Ian Magee's *Review of legal aid – delivery and governance* (the Magee review) published in March 2010, and the accounts for 2008/09 being qualified by the National Audit Office (NAO). Both events were crucial in the operational activity of the LSC and I am accountable for both addressing and embedding change to rectify and protect the LSC from such future events.

With regards to the Magee review, I am working closely with the MoJ to gain greater clarity of accountability and governance as we prepare to transfer the LSC's functions into an executive agency of the MoJ.

Projects are ongoing to address the qualification of the accounts 2008/09, of which I am solely responsible and accountable for the resolution of the areas about which the NAO raised concerns.

The qualification of the accounts arose due to the material errors in respect of payments made to solicitors and not-for-profit organisations. Additionally, the NAO reported on the value for money study of the procurement of criminal legal aid and the demonstration of the way criminal legal aid has been both administered and procured in England and Wales in their report published in November 2009. This was subject to a hearing before the Public Accounts Committee (PAC) in December. The Committee published their report in February 2010.

A series of recommendations are now being addressed for which I am responsible. My responses in addressing these matters are detailed further within this statement under 'significant internal control weaknesses'.

The purpose of the system of internal control

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it therefore provides reasonable but not 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 'significant internal control weaknesses'), it would be unrealistic for me to give absolute assurances that the internal control system has been in place or thoroughly applied throughout the

Statement on internal control (*continued*)

duration of this financial year ended 31 March 2010. Nevertheless I can give assurance that the LSC is addressing these issues with pace and rigour.

Capacity to handle risk

I manage and provide leadership to the LSC's risk management with my Executive Team. I have support from the MoJ (Executive Management 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 events arising during the approval of the 2008/09 accounts by the NAO have allowed the LSC to review the integration and connectivity of the risk management process. At the time of this statement, this is an ongoing project which will see implementation throughout 2010/11. The initial assessment of the risk management process has identified that the 'building blocks' with regards to policies and procedures are in place. However, the degree to which practices are fully embedded and proactively managed need to be further developed.

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 independent challenge by Internal Audit and 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 2009/10 the annual Internal Audit opinion reflected the same systemic control weaknesses within the operational and financial environment as detailed later within this statement.

The risk and control framework

On my behalf 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. Directors are responsible for refreshing their risk assessment and mitigating action on a continuous basis appropriate to the risk in hand. We are working now to ensure that our business planning is fully informed by risk awareness and that we work to mitigate risks in all we do.

I note here my concern that the complexity and volume of change (which is either underway in the LSC or likely following the policy assessment of legal aid) will increase the risk of the LSC's capacity to manage such high volume and complex change and I, the Executive Team and the Commission Board are fully aware of this increased risk which we will manage accordingly as necessary with the MoJ.

The Information Assurance Working Group is chaired by the Director of Planning and Assurance, in his role in supporting the Senior Information Risk Owner. The role of this group is to work to develop and implement an information security management system that is compliant with the Cabinet Office requirements for data security.

Throughout the year we have complied with mandatory requirements for information assurance contained within the HMG Security Policy Framework, the Data Handling Review and the Information Assurance Standard No. 6. Given the current uncertainties, we have made good progress in implementing new procedures to improve our controls which will maintain our commitment to keeping personal data secure. The following have contributed to this:

- Introduction of detailed information security requirements within our 2010 contracts with legal services providers
- Achievement of a conditional accreditation of the security built into our 'e-forms' IT system, which is subject to continuing with the information assurance programme of work

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Statement on internal control (*continued*)

- Implementation of revised policies and procedures on information security
- Provision of information assurance training to all our staff to raise awareness, and training specific staff who are handling subject access requests under the Data Protection Act 1998
- Commissioning of CLAS (Information Assurance Accreditation) consultants to prepare Risk Management and Accreditation Documentation Sets for accreditation of new IT systems being developed as part of our Integrated Delivery Programme (IDP), formerly known as the Delivery Transformation Programme
- An annual information risk assessment of the assets included in our information asset register, which identified the key areas of risk on which we are taking action to manage or reduce
- Reporting on information security incidents that have arisen during the year, monitoring of trends, and changes to our procedures in order to minimise the risk of incidents occurring again (such as reviewing our postal operations and strengthening procedures to avoid correspondence going missing in transit), or introducing new procedures (such as verifying callers' identities before disclosing information over the telephone).

My Information Assurance Programme Manager has assured me that there have been no significant incidents reported during the year, although due to an incident brought to our attention by the Information Commissioner's Office, the introduction of strengthened controls with our third party managed service providers was required, ensuring that our IT equipment is securely disposed of in accordance with government standards.

Our strategy for 2010/11 will set out the programme of work to implement a full information security management system by the end of 2010/11.

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 and comments made by the external auditors in their Management Letter and other reports. Plans to address weaknesses and ensure the continuous improvement of the system are in place.

I have described above the framework we have in place for ensuring that identified risks are managed effectively, but significant issues have arisen and I am not yet satisfied that risk management and effective internal control are sufficiently embedded in all of our activity. As a result, improvement areas and actions are detailed within the section of 'significant internal control weaknesses' below.

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.

The LSC's Accounting Officer of 2008/09 reported the following significant internal control weaknesses:

- The controls over the accuracy of providers' claims for civil Legal Help, including immigration and family
- The controls over the means assessment of the eligibility of applicants for civil representation
- 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.

In response to these findings we have already taken a number of significant steps to address the issues, recommendations and associated risks arising from these areas of concern. These significant improvements are documented below.

During 2009, the LSC and MoJ jointly commissioned an independent external review of fund forecasting and financial management which was conducted by Ernst & Young. This highlighted that the issues disclosed in the 'Statement on internal control' for 2008/09 continued to

Statement on internal control (*continued*)

require considerable attention. In addition to this, work undertaken by the LSC highlighted a number of further significant control weaknesses as follows:

- The lack of a conventional accounting system
- Insufficient financial controls designed into or implemented within our operational systems, some of which are ageing and not robust
- Fund forecasting and accounting arrangements which are not integrated or in accordance with best practice
- The controls to prevent and detect fraud.

Accordingly, I immediately prioritised the need to rectify these matters as part of the financial stewardship programme. I have given priority to this within my own work programme for the next year and I will address the risks and actions required of me and my Executive Team to strengthen controls over these areas of significant weaknesses.

This programme has begun to deliver the following changes which when implemented will strengthen the internal control framework:

- The independent review of the fund forecasting and accounting arrangements are now complete. We have commenced implementation of the resultant recommendations, with the support of external accounting advisers. The initial phase of their work focused on helping us to prepare the 2009/10 accounts and to strengthen financial controls before the start of the 2010/11 financial year. They are also required to help us develop our finance function and to transfer skills by October 2010, so that the knowledge and learning is retained within the business
- A Financial Stewardship Plan with a clear timetable for delivering improvements to our financial management and controls that will enable us to meet our obligations set out in *Managing Public Money*. We are implementing the plan in phases with a number of critical business process control improvements implemented already. We implemented a number of key changes by September 2010 and aim to have an improved system of operational and accounting controls in place during the financial year 2011/12
- The Executive Team now reviews corporate risks each month in addition to ongoing monitoring of implementation of plans to address identified internal control issues. The Commission Board is also updated on corporate risks at each meeting
- We have reviewed the structure and terms of reference of the Risk Management Committee as part of a general review of risk and governance arrangements. The Risk Management Committee is now chaired by an Executive Team member
- For 2010/11 I have re-focused the LSC's assurance activity to cover core business systems and processes in response to concerns raised through our own process reviews and by the NAO and Public Accounts Committee
- In April 2010 I strengthened the Executive Team and the Commission Board through the appointment of an experienced Interim Finance Director. This will ensure that the financial stewardship programme is at the heart of the organisation
- I have appointed a permanent Finance Director who will take up post in December 2010
- In addition, in July 2010, I restructured the Finance Department to bring together Finance, Internal Audit, Debt Recovery, Fraud Investigation and Contract Compliance staff under the Finance Director. This has been done to ensure that the finance function is able to be at the forefront of the LSC in coordinating financial control activities in addition to enhancing its strengthened status within the organisation. Contract compliance audit has strengthened the finance and financial control work considerably. We have also increased the checking of claims from providers, as much of what they report to us can only be validated through physical file inspection. This is not well received by providers
- There is still further work to do building on recommendations made by external accounting advisers. In particular, we are strengthening pre-payment controls and systems, including addressing the overall performance of providers and their compliance with contractual responsibilities. Increased checking has enabled the LSC to recover more than £4.76m in respect of overpayment made in 2008/09 from incorrect claims
- We will appoint a Head of Fraud to lead a central unit bringing the management of fraud into one team, providing strategic direction to fraud management and investigations relating to clients, providers, contractors and staff

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Statement on internal control (*continued*)

- We have implemented more checks in relation to litigator fee claims, which have enabled us to better identify duplicate payments and recover excess payments
- 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
- We have in place a secondee from the NAO whose role is to ensure that the implementation of recommendations required to strengthen the control framework are instigated
- Stronger focus on business systems such as our Corporate Information System and Supplier Management System has been brought to ensure an appropriate strengthening of controls. In order to deliver this, we are implementing the IDP which will upgrade the legacy systems currently in operation at the LSC. This is currently being scoped and is to be implemented over the next year
- The current legacy systems do not allow system access controls, segregation of duties and internal delegated authority limits to be embedded. As a result, the above IDP IT system will ensure that these functions are embedded within the new system. Further to this, 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 throughout 2010/11
- We are working closely with the MoJ to strengthen control and progress is reported every two weeks to a formal monitoring meeting chaired by the MoJ's Director General of Finance and Resources
- A workstream is also in place working on the appropriate organisational design for the efficient and effective administration of legal aid in a future executive agency.

However, in driving the change programme forward in order to strengthen the control framework and deliver the items noted above, myself and the Commission Board face significant risks in enabling these deliverables, such as:

- 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.

There is a point at which there may need to be consideration of a reduction in service as well as the constant, and correct, drive for efficiencies. These pressures also impact on our administration budget, which means that we must continue to reduce the costs of the organisation. The work that I have outlined above requires significant resource and we will have to stop some committed projects. We continue to review our priorities, to consider additional resources required to address our risks and to take decisions on that basis

- Significant areas that impact on spend of the legal aid fund 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 (e.g. the number of arrests) or within local government (e.g. child protection cases). In addition our ability to make changes that impact on fund spend in-year in categories other than Legal Help is very limited (and even for Legal Help the scope for fund control reduces quickly as the year progresses)
- The reform of legal aid will result in high volume 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 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 as to the future 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
- Ageing legacy 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.

Our business and financial controls process review programme is ongoing. I would anticipate that other issues will surface as part of this work and I am therefore unable to give as strong an assurance as I would prefer that all significant internal control issues have been detailed in this statement.

Statement on internal control *(continued)*

I am 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

25 November 2010

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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 for the year ended 31 March 2010 under the Access to Justice Act 1999. These comprise the Net Expenditure Account, 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 Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is 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 applicable law and 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 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.

Qualified opinion on Regularity

In the year to 31 March 2010 the Legal Services Commission incurred £2.2 billion of net expenditure. My testing identified an error of £76.5m 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. In addition, I identified £2.1m of contributions paid by clients which should not have been levied by the Commission. Such payments and receipts 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.

In my opinion, except for the irregular transactions referred to above, in all material respects, the income and expenditure has been applied to the purposes intended by Parliament.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Community Legal Service Fund and Criminal Defence Service's affairs as at 31 March 2010 and of its net expenditure, changes in taxpayers' equity and cash flows 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 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 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

Details of these matters are set out in my accompanying report.

Amyas C E Morse

Comptroller and Auditor General

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

29 November 2010

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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 2010

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 qualification of my audit opinion on the Community Legal Service Fund and Criminal Defence Service accounts for the year ended 31 March 2010 in respect of material error in payments to legal aid providers. I also outline the steps the Commission has taken or plans to take, since I last reported, to address the weaknesses in the system of control.

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, on a test basis, 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.

Audit Opinion

Qualified audit opinion due to material error in payments to legal aid providers

4. As part of my audit of the accounts, 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.

I have qualified my opinion on the Commission's accounts for the year ended 31 March 2010 as I identified material errors 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 eligible applicants and that it levied the correct level of contributions on clients. My testing identified an estimated total error of £78.6 million in the Commission's accounts for 2009-10. This error represents 3.2 per cent of the Commission's expenditure during the year.

5. The errors relate either to:
 - legal aid providers' claims paid at amounts higher than that supported by evidence (£43.6 million) or payments for legal aid to applicants whose eligibility could not be demonstrated (£32.9 million). This expenditure error totals £76.5 million, or
 - contributions paid by clients which should not have been levied by the Commission (£2.1 million).
6. My opinion is based on an estimated total error, which is the combined extrapolated error identified based on testing of a sample of claims and applications across the different legal aid schemes. This sampling basis is

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

statistically valid and is an appropriate method for concluding on the level of error within a set of accounts. The projected total error is an estimate based on the identified sample errors and, therefore, it would not be appropriate for the Commission to recover overpayments amounting to this projected sum. This is because the Commission can make recoveries from legal aid providers based only on individual claims where errors have been identified, not on the wider population of all claims paid.

7. I qualified my opinion on the Commission's 2008-09 accounts¹ based on an estimated error of £24.7 million. The estimated error has increased considerably, therefore, during 2009-10.

Significant developments since my last report

8. The Accounting Officer's Statement on Internal Control² provides a comprehensive account of the internal control issues facing the Commission. The Statement also notes significant developments within the Commission in the past year, which can be summarised as follows:

Date	Development
October 2009	The Commission develops an action plan to strengthen financial controls and management
29 October 2009	Publication of C&AG's qualified opinion and report on the Commission's 2009-10 accounts
9 December 2009	Public Accounts Committee hearing on the Legal Services Commission
25 January 2010	Publication of Public Accounts Committee Report on the Legal Services Commission
3 March 2010	Publication of Sir Ian Magee's review of legal aid delivery and governance
8 March 2010	New Chief Executive appointed
1 April 2010	New interim Finance Director appointed

9. Following the Public Accounts Committee's examination of the Commission's accounts on 9 December 2009, the Commission agreed a Financial Stewardship Plan with the Ministry of Justice. This set out a clear timetable for delivering improvements in the Commission's financial management and controls. The implementation of the Stewardship Plan is monitored at fortnightly senior management meetings between the Ministry and the Commission.
10. Sir Ian Magee's *Review of legal aid delivery and governance*³, published in March 2010, made a number of recommendations to strengthen and improve the legal aid system, including actions to strengthen governance and accountability arrangements, streamline policy and to establish a more rigorous approach towards legal aid fund forecasting and financial management. The Government's response to this review was to announce that the Commission would become an executive agency of the Ministry of Justice on the basis that this change in status would result in a new and stronger relationship between the Ministry and the Commission and tighter financial control.⁴
11. The Commission appointed a new Chief Executive, on secondment from the Ministry of Justice in March 2010. In April, the Commission appointed an experienced interim Director of Finance, who is now responsible for overseeing all of the Commission's key assurance providers on financial control: Internal Audit, Debt Recovery, Fraud Investigations and Contract Compliance. These appointments, and the continuing support of the Ministry, have provided added impetus to the implementation of the Financial Stewardship Plan.
12. The Public Accounts Committee held a hearing on 2 November 2010 to review financial management across the Ministry of Justice. On the subject of my qualification of the Commission's accounts, the witnesses acknowledged that, although significant work has begun to address the root causes of the errors identified during 2009-10, these would take time to resolve. This means that it is highly unlikely that the Commission will be able to deliver unqualified accounts for 2010-11.

1 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 2009. HC 731, 2008-09.

2 See page 30.

3 <http://www.justice.gov.uk/publications/docs/legal-aid-delivery.pdf>.

4 March 2010, written Ministerial Statement to the House of Commons regarding legal aid, by the Secretary of State for Justice. <http://www.publications.parliament.uk/pa/cm200910/cmhansrd/cm100303/wmstext/100303m0001.htm#10030354000009>.

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

Legal aid payments to legal aid providers

13. During 2009-10, the Commission incurred net expenditure of £2,237 million and funded almost three million acts of assistance. Legal aid for criminal cases through the Criminal Defence Service, covering work at the police station and Magistrates' Court (Crime Lower) and at the Crown Court (Crime Higher), totalled £1,121 million. Legal aid for civil cases through the Community Legal Service, covering Legal Help (advice on civil matters) and Civil Representation (representation of clients at the County Court and Family Court), totalled £1,116 million.
14. The Commission contracts legal aid providers to provide advice and representation to eligible applicants through a number of legal aid schemes. The way in which the Commission pays the legal aid providers⁵ varies depending on the scheme but is based on the claims the legal aid providers submit for work done on each case. The provision of legal aid through some schemes is subject to an eligibility assessment of a client's financial means. The means assessments are completed by different parties, dependent on the scheme, as set out below.

Community Legal Service	Criminal Defence Service
1. Legal Help <i>Means tested by the legal aid provider</i>	1. Crime Lower: Police Station <i>Not means tested</i>
2. Civil Representation <i>Means tested by the Commission</i>	2. Crime Lower: Magistrates' Court <i>Means tested by the Court</i>
	3. Crime Higher: Crown Court <i>Mostly not means tested⁶</i>

15. In order to confirm that payments to legal aid providers were in line with the relevant legislation, I tested the accuracy of a sample of claims for each scheme. In order to ensure that legal aid was provided only to eligible applicants I placed reliance on the work of the Commission's own means-testing assurance teams.

I identified an error rate for each exercise and extrapolated this across each population to calculate an estimated total error for the Commission's accounts.

16. The estimated total error in the Commission's accounts for 2009-10 is £78.6 million, of which £76.5 million is an overstatement of expenditure and £2.1 million is an overstatement of income. A proportion of the expenditure error (£43.6 million, 57 per cent) relates to net overpayments made to legal aid providers across both the civil and criminal schemes. The remaining expenditure error of £32.9 million (43 per cent) relates to payments made to legal aid providers where legal aid was provided to claimants whose eligibility could not be demonstrated. The estimated error of £2.1 million relates to contributions paid by clients which should not have been levied by the Commission. The majority of errors relate to income and expenditure through the Community Legal Service (£53.2 million), with the expenditure through the Criminal Defence Service accounting for an estimated total error of £25.4 million.
17. I set out in the following paragraphs further details of the payment and eligibility errors identified during the audit of the 2009-10 accounts.

⁵ Legal aid providers include solicitors, barristers and not-for-profit organisations.

⁶ The Commission introduced means testing for criminal legal aid cases heard in Crown Courts in five courts in the final three months of 2009-10; this will be rolled out to all courts during 2010-11.

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

18. During my audit I have estimated £43.6 million of net overpayments to legal aid providers as set out in the following table:

Estimated error on accuracy of payments

Legal Aid Scheme	Population £'m	Financial Errors £	Error rate %	Estimated Error £'m	2008-09 Estimated Error £'m
Civil					
Legal Help: Immigration and Family	131.2	13,026	12.0	15.7	10.5
Legal Help: Other	131.5	209	0.6	0.8	2.3
Civil Representation: Very High Cost Cases (VHCC) payments	80.0	17,487	2.6	2.0	(0.1)
Crime					
Crime Lower: Police Station and Magistrates' Court claims	463.7	5,071	5.1	23.4	3.6
Crime Higher: Crown Court payments to advocates	284.1	1,001	0.3	0.7	1.7
Crime Higher: Very High Cost Cases (VHCC) payments	95.3	11,437	1.0	1.0	0.3
Total of Accuracy Errors	-	48,231	-	43.6	18.3

19. I have outlined below further details of the most significant errors – on Legal Help and Crime Lower payments. I also report on the Commission's own assurance mechanisms over the payment of legal aid providers through these schemes; the extent of my own testing, and the type and incidence of errors identified.

Legal Help and Crime Lower

20. For Legal Help and Crime Lower, the Commission pays legal aid providers through various fixed and standard fee schemes, with rates largely determined by the category of work. Legal aid providers input their claims in respect of work undertaken into the Commission's LSC Online system. The claims determine the standard monthly payments that suppliers receive from the Commission. Due to the high volume and low value of individual claims, the Commission has determined not to validate these claims before monthly payments are processed. Instead, throughout the year, the Commission's Contract Compliance Audit (CCA) team reviews a sample of claims, confirming that the suppliers have discharged their contractual requirements, including whether the file supports the fee claimed.

21. Following the findings of my 2008-09 audit, where I was unable to rely on the assurance work conducted by this team, the Commission made changes to the structure of the team and assurance processes. In particular, the Commission established a dedicated team of staff to conduct the CCA work and extended the quality control checking of the results of the audit team's work to confirm that the CCA process was identifying all errors and treating them consistently.

22. I planned my audit to take assurance from the Commission's CCA review of 2009-10 claims against supporting solicitor case files. However, my reperformance of a sample of these case file reviews found that the Commission's auditors had not identified every error. As a result, I was not able to rely on the Commission's work and so my team undertook their own testing of a sample of claims in order to test their accuracy.

23. My testing of the Crime Lower scheme expenditure identified a significant increase in the error rate compared to 2008-09 and, therefore, total estimated net overpayment error for the Fund. For many of the errors identified, the solicitor had claimed an incorrect category or level of work and the majority of such errors resulted in over claims.

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

24. The Crime Lower fee regime specifies that providers can claim different levels of fees dependent on where the work is undertaken. The fee regime also specifies that providers can claim travel and waiting costs where they undertake work in geographical areas attracting lower fees. My testing identified a number of cases where the fees claimed did not agree to the fees specified for the area. Furthermore, I found examples where the legal aid provider had incorrectly claimed travel and waiting costs in addition to a higher area fee. Finally, I also identified a number of instances where legal aid providers had claimed for a case that was not within the statutory scope for legal aid funding. This included claims where the solicitor could not demonstrate that they had been authorised, by the Commission, to provide advice to a client. The Commission is unable to identify the causes for the increase in error in payments made under this scheme compared to 2008-09.

25. My testing of payments made under the Legal Help scheme also identified an increase in the error rate and, therefore, the total estimated net overpayment error for the Fund, compared to 2008-09. As in 2008-09, I found the highest level of financial error was in relation to Family and Immigration claims within Legal Help; my testing here indicated that 35 percent of all Family and Immigration claims were incorrect or not fully supported. For many of the errors in relation to the family claims, the solicitor had incorrectly claimed a Level 2 fee instead of the correct (and lower) Level 1 fee. The fee level reflects the number of face-to-face meetings the solicitor has held with their client.

26. My 2008-09 Report identified the complexity of the Commission's 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. The Commission introduced a fixed fee scheme within Legal Help in October 2007 and received a higher proportion of claims under this new regime during 2009-10 compared to 2008-09. This partly explains the increased error rate for 2009-10.

Eligibility errors

27. I have identified an estimated £32.9 million of payments to legal aid providers for legal aid provided to ineligible clients. In addition, I have identified an estimated £2.1 million of contributions paid by clients which should not have been levied by the Commission. I have set out below the details of the most significant errors – on Legal Help and Civil Representation. I also

report on the Commission's own assurance mechanisms over the payment of legal aid providers through these schemes, the extent of my own testing, and the type and prevalence of errors identified.

Estimated error on eligibility

Legal Aid Scheme	Population £'m	Estimated Error £'m	2008-09
			Estimated Error £'m
Legal Help	228.7	9.1	2.3
Crime Lower: Magistrates' Court	208.8	0.3	2.3
Civil Representation	179.2	23.5	1.6
Civil Representation Income Contributions	11.0	2.1	0.0
CLS Direct		0.0	0.2
Total of Eligibility Errors		35.0	6.4

Civil Representation

28. The Commission must complete a means assessment of an applicant's financial eligibility for legal aid before a solicitor can represent a client at the County Court or the Family Court. In addition, Civil Representation is the one scheme for civil legal aid where clients may be eligible for legal aid but may also be required to contribute towards the cost of the case.

29. During my audit of the Commission's 2008-09 accounts, I identified that the Commission may have been determining an applicant's eligibility for legal aid, under the Civil Representation scheme, based on inaccurate or incomplete information provided by applicants. Therefore, for 2009-10, the Commission undertook an additional assurance exercise specifically to test client eligibility using alternative sources of evidence in order to estimate the total risk to the legal aid budget. Having satisfied myself of the scope and quality of this work, I placed reliance on the Commission's work in this area for the external audit of the accounts.

30. The Commission identified an estimated error of £23.5 million from this exercise (based on a 13% error rate), which indicates the Commission may have paid this amount to legal aid providers for representation in court of individuals who were not eligible for legal aid. The majority of this error (£19.9 million, 85 per cent)

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

relates to cases where further evidence has established that legal aid applicants did not provide complete and accurate information on their means at the outset of the assessment. Errors resulted from clients either misstating or not disclosing all the information required in the application form. For example, this included a client who recorded their rent payments in their initial application without disclosing the housing benefit they received. The remaining error of £3.6 million (15 per cent) relates to assessment errors made by the Commission in calculating eligibility for legal aid.

31. As part of this exercise, the Commission also identified an estimated £2.1 million of contributions paid by clients which should not have been levied by the Commission. These errors relate to cases where the Commission received income from applicants who were not entitled to legal aid or where further information demonstrated that there was an error in the level of contribution paid by the applicant. Where the applicant was not entitled to legal aid, the income received by the Commission effectively offsets the expenditure paid to legal aid providers. Where the level of contribution paid by the applicant was incorrect, this resulted in the Commission receiving more or less income than it was due. 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 information as the basis for making specific recoveries or repayments of incorrect contributions in other cases.
32. In the light of these results, the Commission has undertaken to enhance its controls in this area by probing more the evidence on means provided by applicants. From 15 November 2010, all applicants for civil representation were required to provide bank or financial statements for all the bank and building society accounts they hold. In addition, applicants must now supply copies of their wage slips, if available, to support their disclosure of earnings. The Commission is also undertaking a review of its eligibility assessment processes for civil representation cases with a view to strengthening its internal control framework.

Legal Help

33. A legal aid provider must complete a means assessment of their client's financial eligibility for legal aid before providing advice to clients on a civil matter.
34. The Contract Compliance Audit (CCA) testing conducted by the Commission includes testing claims
- to confirm client eligibility for the receipt of legal aid. However, the CCA results identified a high number of potentially ineligible clients due to legal aid providers not always retaining sufficient evidence to support their assessment of a client's eligibility. As in 2008-09, the Commission conducted an additional 'file review' exercise specifically to test client eligibility using alternative sources of evidence. Having satisfied myself of the scope and quality of this work, I placed reliance on the Commission's work in this area for my audit of the accounts.
35. The Commission identified an estimated error of £9.1 million from this exercise, which indicates the Commission may have paid this amount to legal aid providers for advice provided to individuals who were not eligible for legal aid. The estimated error has increased considerably compared to the prior year results and the Commission has not been able to establish any obvious reason for these results.

Crime Lower: Magistrates' Court

36. The Criminal Defence Act 2006 introduced means testing for the representation of clients in the Magistrates' Court from October 2006 onwards. Staff in Magistrates' Courts complete the means assessment of an applicant's financial eligibility for legal aid.
37. Due to the limited evidence of client eligibility provided by the legal aid providers and maintained by the Courts, the Commission's National Courts Core team undertake a separate exercise to confirm the eligibility of clients to alternative sources of evidence. Having satisfied myself of the scope and quality of this exercise, I placed reliance on the results of the Commission's work in this area.
38. The estimated error has reduced compared to the prior year results. The low and reducing error rate indicates that this is a well-controlled scheme and the assurance mechanism is operating effectively.

Developments in systems and controls since my last report

39. My previous Report identified that the Commission needed to take action in the following areas:
- Working with its providers;
 - Improving the quality of the work of its Contract Compliance Audit team's assurance work;
 - Reviewing its use of sanctions against providers;

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

- Data validation and enhancing the controls in its online solicitor payment system; and,
- Reducing the complexity of fee regimes.

Working with providers

40. In the past year, the Commission has changed the nature and focus of its 'provider assurance' activity. This works covers the Commission's oversight of legal aid providers paid for Legal Help and Crime Lower work. The Commission has been more active in providing training and guidance to providers on the fees regime. For example, the Commission has advised its providers on the major sources of errors and concerns identified in its assurance work, including publication in July 2010⁷ of the key trends from its Contract Compliance Audit work.
41. In addition, the Commission has enhanced the roles of its Relationship Managers, who are the primary contact points for providers. With effect from April 2010, this role now encompasses compliance checking and review of provider claims in all areas of Legal Help and, from October 2010, Crime Lower.

Improving the quality of the Contract Compliance Audit team's assurance work

42. Following the results of my interim audit earlier in the year, the Commission increased the size of the CCA team from 12 to 16 in January 2010 and will increase further to 20 in January 2011. The Commission has also bolstered its level of quality assurance over CCA assessments: with effect from April 2010 it moved from 20% to 100% reperformance of assessments in order to increase the accuracy of this review process. In addition, since April 2010, the CCA team has enhanced its review process to include a more detailed 'claims audit' on selected suppliers. For each supplier selected, the team review a representative sample of claims and then extrapolate these results in order to calculate a total estimated error amount for recovery.

Use of sanctions

43. From October 2009, the Commission reduced its tolerance for errors in provider claims, and this now takes account of partial errors in claims. For error rates of less than 10%, the Commission recovers the specific

overpayments identified. For error rates greater than or equal to 10%, the Commission's recovery is based on an extrapolation across the firm's other claims. The Commission now issues formal warnings (contract notices) to providers whose error rates exceed 20% and terminates the contracts of providers with error rates in consecutive claims of 20% or above.

44. As set out in the Commission's Annual Report⁸, the Commission has increased its use of existing contract sanctions against providers where the Commission's review has identified significant systematic errors in claims or non-compliance with contractual requirements. This has resulted in the issue of 495 contract notices in the period April to October 2010, compared to 259 in 2009-10 (2008-09: 14) and 90 Termination Notices for the same period compared to 13 in 2009-10 (2008-09: Nil).

Data validation and new controls within the solicitor payment system

45. The Commission has undertaken a data validation exercise to identify overpayments and recover amounts from legal aid providers within the Legal Help scheme. This exercise concentrated on the risk areas identified by my testing last year, including incorrect fee claims for family and immigration cases. This exercise, and other work, has identified £6.8 million of overclaims, although much of this is still subject to appeal by legal aid providers. The Commission will recover at least £1.7 million of this sum through reduced monthly payments to its providers during 2010-11.
46. The Commission had to make other changes to the operation of its online solicitor payment system during 2009-10, so it has made limited progress in developing system controls to check the correct input of claims prior to payment. Therefore, the Commission remains reliant on gaining post-payment assurance on the accuracy of paid claims.

Reducing the complexity of the fee regimes

47. The Commission has been liaising closely with legal aid providers and their representative bodies to ensure claimants are aware of the need for, and better able to make, accurate claims under the existing fee regimes.

⁷ [http://www.legalservices.gov.uk/docs/civil_contracting/Contract_Compliance_Audit_Trends\(1\).pdf](http://www.legalservices.gov.uk/docs/civil_contracting/Contract_Compliance_Audit_Trends(1).pdf).

⁸ See the 'Management commentary' on page 18.

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

In addition, as part of the Financial Stewardship Plan, the Ministry of Justice and the Commission intend to review legal aid fee schemes with a view to reducing their complexity. This is a longer-term project, however, as it requires the agreement of the representative bodies for legal aid providers. My audit confirms the views of the Commission and providers that this is a key reason for errors.

Further steps planned and required by the Commission

48. For all means tested schemes I recommend that the Commission continues to undertake separate assurance exercises to estimate the total payment error relating to legal aid provided to applicants where the supporting information was inaccurate or incomplete. The Commission should review these findings to identify the applicants at greater risk of ineligibility. Following this, the Commission will be better able to focus its assurance work on these higher risk applicants and then design suitable preventative controls to reduce the level of incorrect applications approved, by either legal aid providers or the Commission. Where appropriate, the Commission should also ensure that it imposes suitable sanctions on legal aid providers for failing to comply with the Commission's means testing criteria.
49. Going forward, the Commission faces further means testing challenges with the introduction of full means testing within Crown Courts from 1 April 2010. The Commission will need to consider carefully what controls should be established to confirm and provide assurance over client eligibility to support this initiative.
50. My audit indicates that the Commission faces significant challenges in administering a complex legal aid system in a cost effective way. In particular, schemes with means tested entitlement are more inherently prone to error due to their complexity. Different assessor teams (within HM Courts Service, the Commission and in individual legal aid providers) need to make difficult eligibility assessments based on limited information. In addition, as my testing has shown, there is also significant complexity within the fee schemes the Commission operates across both criminal and civil legal aid. The Commission cannot simplify fee structures quickly: any revisions have to be agreed with the representative bodies for legal aid providers, such as the Law Society. Forthcoming reforms to legal aid schemes may bring additional complications to these negotiations.
51. Between March 2008 and March 2010 the number of full time equivalent staff within the Commission reduced by 218 (12.5%). The Ministry of Justice has recently agreed a Spending Review settlement for the four years to 2014-15 requiring a reduction in the Ministry's resource budget by 23% in real terms over the period. In view of this, the Commission will have to make further significant staff reductions over this period. This will put further pressure on the Commission's assurance activities and it will need to consider carefully where best to deploy its resources to deliver its objectives whilst minimising the financial risks to the legal aid fund.
52. In this environment, it is disappointing but not surprising that many of the underlying control weaknesses in respect of the various legal aid schemes identified in my previous Report have continued into 2009-10. I am satisfied that the Commission has recognised the need to enhance its financial management and has now undertaken an assessment of the remedial action necessary. The Commission has made progress: it now has a better understanding of the full extent of risks to the legal aid fund from fraud and error and has improved the data quality and validation of key balances within the accounts. However, the success of the Financial Stewardship Plan will depend on a sustained focus at senior levels to deliver the Plan and the cultural changes necessary to support effective financial management across the Commission's activities.
53. I will be assessing progress by the Commission to reduce the level of error and address the control issues, raised in my report, as part of my audit of the Commission's financial statements for 2010-11.

Conclusions

50. My audit indicates that the Commission faces significant challenges in administering a complex legal aid system in a cost effective way. In particular, schemes with means tested entitlement are more inherently prone to error due to their complexity. Different assessor teams (within HM Courts Service, the Commission and in individual legal aid providers) need to make difficult eligibility assessments based on limited information. In addition, as my testing has shown, there is also significant complexity within the fee schemes the Commission operates across both criminal and civil legal aid. The Commission cannot simplify fee structures quickly: any revisions have to be agreed with the representative bodies for legal aid providers, such as the Law Society. Forthcoming

Amyas C E Morse

Comptroller and Auditor General

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29 November 2010

Financial reports 2009/10

Community Legal Service Fund and Criminal Defence Service
Net expenditure account

For the year ended 31 March 2010

	Note	2009-10 CLS £000	2009-10 CDS £000	2009-10 Total £000	2008-09 CLS £000	Restated 2008-09 CDS £000	2008-09 Total £000
Income	4	209,197	1,289	210,486	195,904	1,547	197,451
Expenditure	5	(1,338,307)	(1,121,827)	(2,460,134)	(914,722)	(1,176,337)	(2,091,059)
Operating expenditure		(1,129,110)	(1,120,538)	(2,249,648)	(718,818)	(1,174,790)	(1,893,608)
Interest receivable		12,788	-	12,788	11,468	-	11,468
Interest payable		(122)	-	(122)	(150)	-	(150)
Other finance costs		-	(6)	(6)	-	(7)	(7)
Cost of capital credit		11,021	16,754	27,775	11,531	18,525	30,056
Net expenditure after cost of capital credit and interest		(1,105,423)	(1,103,790)	(2,209,213)	(695,969)	(1,156,272)	(1,852,241)
Reversal of cost of capital credit		(11,021)	(16,754)	(27,775)	(11,531)	(18,525)	(30,056)
Net expenditure for the year		(1,116,444)	(1,120,544)	(2,236,988)	(707,500)	(1,174,797)	(1,882,297)

All income and expenditure are derived from continuing operations

The notes on pages 50 to 71 form part of these financial statements.

Community Legal Service Fund and Criminal Defence Service Statement of financial position

At 31 March 2010

	Note	2010	2010	2010	Restated			Restated		
		CLS	CDS	Total	2009	2009	2009	2008	2008	2008
		£000	£000	£000	£000	£000	£000	£000	£000	£000
Non-current assets										
Intangible assets	6	-	57	57	-	85	85	-	113	113
Property, plant and equipment	7	2	5	7	12	38	50	22	113	135
Total non-current assets		2	62	64	12	123	135	22	226	248
Current assets										
Trade and other receivables	9	155,634	4,231	159,865	212,316	6,787	219,103	221,839	5,973	227,812
Cash and cash equivalents	8	1,185	3,862	5,047	2,924	1,972	4,896	3,031	1,007	4,038
Total current assets		156,819	8,093	164,912	215,240	8,759	223,999	224,870	6,980	231,850
Total assets		156,821	8,155	164,976	215,252	8,882	224,134	224,892	7,206	232,098
Current liabilities										
Trade and other payables	11	(188,982)	(77,688)	(266,670)	(50,610)	(33,194)	(83,804)	(80,318)	(46,866)	(127,184)
Total current liabilities		(188,982)	(77,688)	(266,670)	(50,610)	(33,194)	(83,804)	(80,318)	(46,866)	(127,184)
Non-current assets plus/(less) net current assets/(liabilities)		(32,161)	(69,533)	(101,694)	164,642	(24,312)	140,330	144,574	(39,660)	104,914
Non-current liabilities										
Provisions	13	(370,761)	(365,013)	(735,774)	(391,460)	(498,515)	(889,975)	(576,690)	(496,120)	(1,072,810)
Total non-current liabilities		(370,761)	(365,013)	(735,774)	(391,460)	(498,515)	(889,975)	(576,690)	(496,120)	(1,072,810)
Assets less liabilities		(402,922)	(434,546)	(837,468)	(226,818)	(522,827)	(749,645)	(432,116)	(535,780)	(967,896)
Reserves										
General reserve		(402,922)	(434,546)	(837,468)	(226,818)	(522,827)	(749,645)	(432,116)	(535,780)	(967,896)
		(402,922)	(434,546)	(837,468)	(226,818)	(522,827)	(749,645)	(432,116)	(535,780)	(967,896)

Carolyn Downs

Chief Executive and Accounting Officer

25 November 2010

The notes on pages 50 to 71 form part of these financial statements.

Financial reports 2009/10

Community Legal Service Fund and Criminal Defence Service
Statement of cash flows

For the year ended 31 March 2010

		2009-10	2009-10	2009-10	2008-09	Restated	2008-09
	Note	CLS	CDS	Total	CLS	CDS	Total
		£000	£000	£000	£000	£000	£000
Cash flows from operating activities							
Net deficit after cost of capital and interest		(1,105,423)	(1,103,790)	(2,209,213)	(695,969)	(1,156,272)	(1,852,241)
Adjustments for:							
Cost of capital credit	1j	(11,021)	(16,754)	(27,775)	(11,531)	(18,525)	(30,056)
Depreciation	7	10	33	43	8	61	69
Loss on disposal of property, plant and equipment		-	-	-	2	15	17
Amortisation	6	-	28	28	-	28	28
Decrease/(increase) in trade and other receivables		56,682	2,556	59,238	9,523	(814)	8,709
Increase/(decrease) in trade and other payables		138,372	44,494	182,866	(29,708)	(13,672)	(43,380)
(decrease)/increase in provisions		(20,699)	(133,502)	(154,201)	(185,230)	2,395	(182,835)
Net cash outflow from operating activities		(942,079)	(1,206,935)	(2,149,014)	(912,905)	(1,186,784)	(2,099,689)
Cash flows from investing activities							
Purchase of property, plant and equipment	7	-	-	-	-	(1)	(1)
Net cash outflow from investing activities		-	-	-	-	(1)	(1)
Cash flows from financing activities							
Grants from the Ministry of Justice		940,340	1,208,825	2,149,165	912,798	1,187,750	2,100,548
Net cash inflow from financing activities		940,340	1,208,825	2,149,165	912,798	1,187,750	2,100,548
Net (decrease)/increase in cash and cash equivalents in the period		(1,739)	1,890	151	(107)	965	858
Cash and cash equivalents at the beginning of the period	8	2,924	1,972	4,896	3,031	1,007	4,038
Cash and cash equivalents at the end of the period	8	1,185	3,862	5,047	2,924	1,972	4,896

The notes on pages 50 to 71 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 2010

	Note	CLS £000	CDS £000	Total £000
Balance at 31 March 2008		(432,104)	(535,753)	(967,857)
Changes due to accounting policies				
First time adoption of International Financial Reporting Standards (IFRS)	2	(12)	(27)	(39)
Restated balance at 1 April 2008		(432,116)	(535,780)	(967,896)
Changes in taxpayers' equity 2008-09				
Net expenditure		(707,500)	(1,174,797)	(1,882,297)
Total recognised income and expense for 2008-09		(707,500)	(1,174,797)	(1,882,297)
Grant from the Ministry of Justice		912,798	1,187,750	2,100,548
Balance at 31 March 2009		(226,818)	(522,827)	(749,645)
Changes in taxpayers' equity for 2009-10				
Total recognised income and expense for 2009-10		(1,116,444)	(1,120,544)	(2,236,988)
Grant from the Ministry of Justice		940,340	1,208,825	2,149,165
Balance at 31 March 2010		(402,922)	(434,546)	(837,468)

The notes on pages 50 to 71 form part of these financial statements.

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Community Legal Service Fund and Criminal Defence Service Notes to the financial statements

For the year ended 31 March 2010

Note 1 - Statement of accounting policies

The financial statements have been prepared in accordance with the 2009-10 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The FReM follows International Financial Reporting Standards (IFRS) as adapted and or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy that 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.

These are the Commission's first financial statements prepared under IFRS and therefore IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The last financial statements under UK Generally Accepted Accounting Principles (UK GAAP) were for the year to 31 March 2009. An explanation of the transition to IFRS is provided in note 2.

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 fixed assets, where material. Non current assets are carried at the lower of cost or valuation in use. 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 not yet effective

The Commission has reviewed the IFRSs in issue but not yet effective, to determine if it needs to make any disclosures in respect of those new IFRSs that are or will be applicable. References to 'new IFRSs' includes new interpretations and any new amendments to IFRSs and interpretations. It has been determined the following new IFRSs are relevant to the Commission but will have no significant impact on the Commission's financial statements.

Amendments to IFRSs

IAS 24 *Related Party Disclosures*

Amendments to IFRSs resulting from Annual Improvements to IFRSs (May 2008 and April 2009)

IFRS 8 *Operating Segments*

IAS 7 *Statement of Cash Flows*

Major FReM changes for 2010-11

Chapter 8 *Impairments*

The Commission has identified the following accounting change as significant.

Chapter 11 *Income and Expenditure*. The removal of cost of capital charging from the financial statements. From 1 April 2010 notional costs should not be recorded for cost of capital. Cost of capital charging will be excluded from the Commission's financial statements. The initial application will have an impact of approximately £27m on both the Commission's income and expenditure for 2010-11.

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.

All intangible assets are deemed to have a finite life and are stated at cost less accumulated amortisation and impairment charges.

Computer software

Computer software licences are carried at cost less accumulated amortisation and any impairment loss. Externally acquired computer software is capitalised and amortised on a straight-line basis over its economic life of three to five years.

There are no internally generated intangible assets and all intangible assets are deemed to have a finite life.

d) Property, plant and equipment

Depreciated historic 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 (2009: £1,000) 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.

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

f) Impairment of non-financial assets

At each full year balance sheet 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 indications exist the asset value in use is estimated in order to determine the extent of the impairment loss.

Any impairment charge is recognised in the net expenditure account 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) Revenue

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

h) 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 4 to the accounts of the Commission.

i) Grants receivable

Grants receivable for revenue 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.

j) Cost of capital charge

As required by HM Treasury a charge is made to the net expenditure account for the notional cost of capital. The notional capital charge, which reflects the cost of

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

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

financing capital employed, is calculated at 3.5% (2009: 3.5%) of average net assets employed during the year. As the Commission has net liabilities a negative charge applies (this is shown as a credit in the accounts).

k) Cash and cash equivalents

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

l) Provisions

Amounts outstanding on funded cases

The Community Legal Service (CLS) and Criminal Defence Service (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 dependent on the nature of available information. The provision is then based on such factors as the number of outstanding cases, the elapsed time on each case and estimated average costs based on closed case data.

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% (2009: 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 Commission.

m) Leased assets

Operating leases

Rental payments are charged to the net expenditure account as they fall due.

n) Financial instruments

Financial assets

The Commission'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 net expenditure account.

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

The Commission'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 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.

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 20.

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 1 - Statement of accounting policies
(continued)****o) 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 Commission'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 is included at note 20, while actual impairments against the Commission's receivables are described in note 10.

p) 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.

q) Third party assets***Deposit accounts for funded clients***

Awards for damages to funded clients are initially payable to the Commission. 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 accounts.

The movement in third party funds is reported in note 21 to these accounts.

Awards for damages paid to the Commission 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 Commission 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. The funds are due to the Commission, once the final judgement and costs have been determined, if the applicant is found guilty.

The movement in third party funds is reported in note 21 to these accounts.

r) 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 sampling outstanding leave across all pay bands in the Commission.

s) 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.

On 3 March 2010, Sir Ian Magee published a review of legal aid. As a result of the review, Ministers stated their intention to change the Commission's status from that of a non-departmental public body to an agency of the Ministry of Justice. This change will require primary legislation and does not impact on the going concern basis as the functions and activities will still continue.

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 2010-11 on 7 July 2010 (2009-10 on 18 June 2009).

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

Note 2 - First-time adoption of International Financial Reporting Standards (IFRS)

	CLS £000	CDS £000	Total £000
Taxpayers' equity at 31 March 2009 under UK GAAP	(226,794)	(522,799)	(749,593)
Adjustments for IAS 19 - Employee benefits	(24)	(28)	(52)
Taxpayers' equity at 1 April 2009 under IFRS	(226,818)	(522,827)	(749,645)
Net expenditure for 2008-09 under UK GAAP	(707,488)	(1,174,796)	(1,882,284)
Adjustments for IAS 19 - Employee benefits	(12)	(1)	(13)
Net expenditure for 2008-09 under IFRS	(707,500)	(1,174,797)	(1,882,297)

This is the first year that the Commission has presented their financial statements under IFRS. The last financial statements under UK GAAP were for the year to 31 March 2009 and the date of transition to IFRS was 1 April 2008. Under UK GAAP, no accrual was made for untaken holiday pay. IAS 19 *Employee Benefits*, introduces the requirement to accrue for untaken leave at the end of the year.

All references to restated prior year numbers are in relation to the IFRS adjustments detailed in this note or the IFRS requirement to disclose intangible assets separately.

Cash flow

There are no material differences between the cash flow statement presented under UK GAAP and the cash flow statement presented under IFRS.

Note 3 - Segmental analysis

The Commission'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, Criminal Cases and Immigration and Asylum. The accounts of the CLS Fund and CDS report income and expenditure by these categories (note 4 and 5) and as such no further segmental reporting is disclosed.

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

	2009-10 CLS £000	2009-10 CDS £000	2009-10 Total £000	2008-09 CLS £000	2008-09 CDS £000	2008-09 Total £000
Civil representation						
Contributions by funded clients	38,238	-	38,238	16,240	-	16,240
Costs recoverable	136,408	-	136,408	132,179	-	132,179
Recoveries from damages and statutory charge	34,474	-	34,474	47,427	-	47,427
	209,120	-	209,120	195,846	-	195,846
Civil Legal Help						
Costs recoverable	77	-	77	58	-	58
	77	-	77	58	-	58
Criminal cases						
Costs recoverable	-	-	-	-	116	116
Recovery of defence costs orders	-	1,289	1,289	-	1,431	1,431
	-	1,289	1,289	-	1,547	1,547
Total	209,197	1,289	210,486	195,904	1,547	197,451

Note 5 - Operating expenditure

	2009-10 CLS £000	2009-10 CDS £000	2009-10 Total £000	2008-09 CLS £000	Restated 2008-09 CDS £000	2008-09 Total £000
Civil representation						
Solicitors' charges, counsel fees and disbursements	903,269	-	903,269	803,141	-	803,141
Refund of contributions	1,415	-	1,415	4,387	-	4,387
Costs of successful unassisted parties	1,036	-	1,036	2,450	-	2,450
Miscellaneous	11	-	11	12	-	12
	905,731	-	905,731	809,990	-	809,990
Release of provision on dormant cases	-	-	-	(179,649)	-	(179,649)
	905,731	-	905,731	630,341	-	630,341

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

Note 5 - Operating expenditure (continued)

	2009-10 CLS £000	2009-10 CDS £000	2009-10 Total £000	2008-09 CLS £000	Restated 2008-09 CDS £000	2008-09 Total £000
Civil Legal Help						
Solicitors' charges, counsel fees and disbursements	198,154	-	198,154	163,272	-	163,272
Direct services	23,845	-	23,845	22,200	-	22,200
Grants and similar	6,413	-	6,413	2,802	-	2,802
	228,412	-	228,412	188,274	-	188,274
Immigration and asylum						
Solicitors' charges, counsel fees and disbursements	95,582	-	95,582	83,593	-	83,593
Public Immigration Legal Services	-	-	-	47	-	47
Direct services	-	-	-	1,846	-	1,846
Grants and similar	133	-	133	94	-	94
	95,715	-	95,715	85,580	-	85,580
Criminal cases						
Solicitors' charges, counsel fees and disbursements - crime higher	-	659,526	659,526	-	677,417	677,417
Solicitors' charges, counsel fees and disbursements - crime lower	-	449,840	449,840	-	485,451	485,451
Public Defender Service	-	3,123	3,123	-	3,018	3,018
Direct services	-	2,814	2,814	-	3,221	3,221
Grants and similar	-	288	288	-	256	256
Duty solicitor call service	-	7,072	7,072	-	6,232	6,232
	-	1,122,663	1,122,663	-	1,175,595	1,175,595
Impairment provision (note 10)	108,449	(836)	107,613	10,527	742	11,269
	108,449	1,121,827	1,230,276	10,527	1,176,337	1,186,864
Total	1,338,307	1,121,827	2,460,134	914,722	1,176,337	2,091,059

An explanation for the increase in CLS expenditure is included in the management commentary (page 19).

Figures for the Public Defender Service (PDS) and for the Public Immigration Legal Service (PILS) include the depreciation charge, loss on disposal and amortisation for capital items. Note 6 shows the PDS intangible assets with the amount amortised in the year and note 7 shows the PDS and CLS property, plant and equipment along with the amount depreciated in the year.

Staff costs included within operating expenditure, together with the numbers employed, are disclosed in note 4 of the accounts of the Commission.

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 6 - Intangible assets**

Criminal Defence Service	Computer software	Restated
	£000	Total £000
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
		Restated
Cost at 1 April 2008	141	141
Additions	-	-
Cost at 31 March 2009	141	141
Amortisation at 1 April 2008	28	28
Charged in year	28	28
Amortisation at 31 March 2009	56	56
Net book value at 31 March 2009	85	85
Net book value at 31 March 2008	113	113

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Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 7 - Property, plant and equipment**

Community Legal Service	Furniture and equipment £000	Information technology £000	Total £000
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
Cost at 1 April 2008	12	38	50
Disposals	-	(6)	(6)
Cost at 31 March 2009	12	32	44
Depreciation at 1 April 2008	4	24	28
Charged in year	2	6	8
Disposals	-	(4)	(4)
Depreciation at 31 March 2009	6	26	32
Net book value at 31 March 2009	6	6	12
Net book value at 31 March 2008	8	14	22

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 7 - Property, plant and equipment (*continued*)**

Criminal Defence Service	Restated			Total £000
	Fixtures and fittings £000	Furniture and equipment £000	Information technology £000	
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
		<i>Restated</i>		
Cost at 1 April 2008	934	117	211	1,262
Additions	-	-	1	1
Disposals	(49)	-	(92)	(141)
Cost at 31 March 2009	885	117	120	1,122
Depreciation at 1 April 2008	879	98	172	1,149
Charged in year	34	10	17	61
Disposals	(49)	-	(77)	(126)
Depreciation at 31 March 2009	864	108	112	1,084
Net book value at 31 March 2009	21	9	8	38
Net book value at 31 March 2008	55	19	39	113

These assets relate to the Public Defender Service.

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Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 8 - Cash and cash equivalents**

	2009-10 CLS £000	2009-10 CDS £000	2009-10 Total £000	2008-09 CLS £000	2008-09 CDS £000	2008-09 Total £000
Cash and cash equivalents						
Balance at 1 April	2,924	1,972	4,896	3,031	1,007	4,038
Net change in cash and cash equivalent balances	(1,739)	1,890	151	(107)	965	858
Balance at 31 March	1,185	3,862	5,047	2,924	1,972	4,896

All cash balances at 31 March 2010 were held with a commercial bank.

Note 9 - Trade and other receivables

	2010 CLS £000	2010 CDS £000	2010 Total £000	2009 CLS £000	2009 CDS £000	2009 Total £000	2008 CLS £000	2008 CDS £000	2008 Total £000
Amounts falling due within one year									
Contributions due from funded clients	13,480	-	13,480	26,507	-	26,507	26,391	-	26,391
Costs to be recovered	5,698	-	5,698	13,878	-	13,878	16,566	-	16,566
Statutory charge	198,037	-	198,037	199,538	-	199,538	214,466	-	214,466
Damages	11,324	-	11,324	23,494	-	23,494	12,281	-	12,281
Amounts due from service providers	44,460	3,195	47,655	69,306	6,418	75,724	82,644	5,608	88,252
Recovery of defence costs orders	-	4,338	4,338	-	5,437	5,437	-	4,826	4,826
	272,999	7,533	280,532	332,723	11,855	344,578	352,348	10,434	362,782
Impairment provision (note 10)	(117,365)	(3,302)	(120,667)	(120,407)	(5,068)	(125,475)	(130,509)	(4,461)	(134,970)
	155,634	4,231	159,865	212,316	6,787	219,103	221,839	5,973	227,812

The valuation of trade and other receivables includes an element of estimation. 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 13 of these accounts.

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, the interest rate was set at 8% from 1 October 2005.

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 9 - Trade and other receivables (*continued*)**

The gross amounts secured by a charge against property were:

	2010 CLS £000	2010 CDS £000	2010 Total £000	2009 CLS £000	2009 CDS £000	2009 Total £000	2008 CLS £000	2008 CDS £000	2008 Total £000
Statutory charge on damages	149,632	-	149,632	158,212	-	158,212	178,981	-	178,981
Accrued interest to date	48,405	-	48,405	41,326	-	41,326	35,485	-	35,485
	198,037	-	198,037	199,538	-	199,538	214,466	-	214,466

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:

	2010 CLS £000	2010 CDS £000	2010 Total £000	2009 CLS £000	2009 CDS £000	2009 Total £000	2008 CLS £000	2008 CDS £000	2008 Total £000
Bodies external to government	155,634	4,231	159,865	212,316	6,787	219,103	221,839	5,973	227,812
	155,634	4,231	159,865	212,316	6,787	219,103	221,839	5,973	227,812

Note 10 - Receivables impairment provision

	2010 CLS £000	2010 CDS £000	2010 Total £000	2009 CLS £000	2009 CDS £000	2009 Total £000	2008 CLS £000	2008 CDS £000	2008 Total £000
Balance at 1 April	120,407	5,068	125,475	130,509	4,461	134,970	176,209	3,013	179,222
Trade and other receivables written off	(111,491)	(930)	(112,421)	(20,629)	(135)	(20,764)	(14,757)	(90)	(14,847)
Charge to income and expenditure account	108,449	(836)	107,613	10,527	742	11,269	23,147	5,414	28,561
Prior year adjustment	-	-	-	-	-	-	(54,090)	(3,876)	(57,966)
Balance at 31 March	117,365	3,302	120,667	120,407	5,068	125,475	130,509	4,461	134,970

Trade and other receivables written off total £112,421k in 2010, have significantly increased from the prior year (£20,764k : 2009). This is the result of a detailed review undertaken by the Commission of the collectability of all debts.

Trade receivables not impaired at 31 March 2010 total £11,377k, comprising of CLS £8,182k and CDS £3,195k. Due to the nature of this debt, it can not be accurately aged and it is assumed to be repayable within 90 days.

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

Note 11 - Trade payables and other liabilities

	2010	2010	2010	Restated			Restated		
	CLS	CDS	Total	2009	2009	2009	2008	2008	2008
	£000	£000	£000	CLS	CDS	Total	CLS	CDS	Total
Amounts falling due within one year									
Amounts due to solicitors', counsel and advice agencies	30,913	43,195	74,108	46,616	33,109	79,725	79,322	46,458	125,780
Contribution refunds due to funded clients	157	-	157	991	-	991	-	-	-
Amounts due (from)/to the Legal Services Commission	(22)	338	316	662	57	719	157	381	538
Accruals and deferred income	157,934	34,155	192,089	2,341	28	2,369	839	27	866
	188,982	77,688	266,670	50,610	33,194	83,804	80,318	46,866	127,184

An explanation for the increase in accruals and deferred income is included in the management commentary (page 20).

For payables with a remaining life of one year or less the carrying amount is deemed to reflect fair value.

Amounts falling due (from)/to within one year:

	2010	2010	2010	Restated			Restated		
	CLS	CDS	Total	2009	2009	2009	2008	2008	2008
	£000	£000	£000	CLS	CDS	Total	CLS	CDS	Total
Other central government bodies	(22)	338	316	662	57	719	157	381	538
Bodies external to government	189,004	77,350	266,354	49,948	33,137	83,085	80,161	46,485	126,646
	188,982	77,688	266,670	50,610	33,194	83,804	80,318	46,866	127,184

Note 12 - Fair values

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

Carrying amounts and fair values	2010	2010	2010	Restated			Restated		
	CLS	CDS	Total	2009	2009	2009	2008	2008	2008
	£000	£000	£000	CLS	CDS	Total	CLS	CDS	Total
Trade and other receivables	155,634	4,231	159,865	212,316	6,787	219,103	221,839	5,973	227,812
Cash and short-term deposits	1,185	3,862	5,047	2,924	1,972	4,896	3,031	1,007	4,038
Trade payables and other liabilities	(188,982)	(77,688)	(266,670)	(50,610)	(33,194)	(83,804)	(80,318)	(46,866)	(127,184)
Total at 31 March	(32,163)	(69,595)	(101,758)	164,630	(24,435)	140,195	144,552	(39,886)	104,666

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 12 - Fair values (*continued*)**

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

Trade and other receivables have been discounted over the period from the balance sheet 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 that involves 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 (2009: 3.5% p.a.). The discount rate used is the cost of capital rate issued by HM Treasury. 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;

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 Commission'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 13 - Provisions for liabilities and charges

	CLS £000	CDS £000	Total £000
Provision for amounts outstanding on funded cases			
Balance at 1 April 2009	391,460	498,025	889,485
Provided in year	1,041,401	1,075,246	2,116,647
Provisions utilised in the year	(1,062,100)	(1,208,683)	(2,270,783)
Balance at 31 March 2010	370,761	364,588	735,349
Provision for dilapidations			
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
Provision for onerous contracts			
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	370,761	365,013	735,774

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Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 13 - Provisions for liabilities and charges (*continued*)**

	CLS £000	CDS £000	Total £000
Provision for amounts outstanding on funded cases			
Balance at 1 April 2008	576,621	495,496	1,072,117
Provided in year	1,050,006	1,162,868	2,212,874
Provisions utilised in the year	(1,055,518)	(1,160,339)	(2,215,857)
Provisions not required written back	(179,649)	-	(179,649)
Balance at 31 March 2009	391,460	498,025	889,485
Provision for dilapidations			
Balance at 1 April 2008	-	346	346
Provisions not required written back	-	(25)	(25)
Finance charges	-	7	7
Balance at 31 March 2009	-	328	328
Provision for onerous contracts			
Balance at 1 April 2008	69	278	347
Provided in year	47	30	77
Provisions utilised in the year	(116)	(146)	(262)
Balance at 31 March 2009	-	162	162
Balance at 31 March 2009	391,460	498,515	889,975
Balance at 31 March 2008	576,690	496,120	1,072,810

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 balance sheet date. In estimating the provision, the Commission has adopted prudent measurement techniques based on the latest data available. Improved data capture techniques have been utilised in the Commission's estimate for the current year (see note 20). Based on average historical case lengths the majority 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 2010 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 current onerous rental agreements will have ended by February 2011.

An explanation for the decrease in provisions is included in the management commentary (page 20).

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 13 - Provisions for liabilities and charges (*continued*)**

Analysis of expected timing of discounted flows	Provision for amounts outstanding on funded cases		Provision for onerous contracts	Provision for amounts outstanding on funded cases		Provision for onerous contracts
	Provision for dilapidations	Provision for dilapidations		Provision for dilapidations	Provision for dilapidations	
	CLS £000	CLS £000		CDS £000	CDS £000	
In the remainder of the spending review period (to 2011)	370,761	-	-	364,588	43	78
Between 2012 and 2016	-	-	-	-	148	-
Between 2017 and 2022	-	-	-	-	156	-
Balance at 31 March 2010	370,761	-	-	364,588	347	78

Note 14 - Financial investment

	2009-10 CLS £000	2009-10 CDS £000	2009-10 Total £000	2008-09 CLS £000	2008-09 CDS £000	2008-09 Total £000
Interest received	5,709	-	5,709	5,627	-	5,627

Note 15 - Going concern

The balance sheet at 31 March 2010 shows an excess of liabilities over assets of £837m.

On 3 March 2010, Sir Ian Magee published a review of legal aid. The review recommended that the Commission's status change from that of a non-departmental public body, to an agency of the Ministry of Justice. This change will require primary legislation and as such the going concern principle outlined in note 1 s) has been followed.

Note 16 - Financial commitments

A provision is made for amounts outstanding on funded cases at the balance sheet date. The Commission recognises that there is a continuing obligation to fund cases past the balance sheet date but the amount of the liability is dependent on the future outcome of each case. It is estimated that this liability is in the order of £925m (31 March 2009: £889m).

Note 17 - Contingent liability

The Commission does not have a contingent liability at the balance sheet date.

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

Note 18 - Commitments under operating leases

The total future minimum lease payments under operating leases are shown below.:	2009-10 £000	Restated 2008-09 £000
Obligations under operating leases comprise:		
Within one year - land and buildings	136	177
Within one year - other	3	9
Between two to five years - land and buildings	416	511
Between two and five years - other	-	9
Over five years - land and buildings	64	149
Total	619	855

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 19 - 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 Service, an agency of the Ministry of Justice, relating to work provided 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 2009-10, the Commission entered into a number of material transactions with some Commissioners, other related parties or their close family members. These transactions are also detailed below.

Unless otherwise stated, the disclosures relate to transactions in respect of funded work and do not reflect an 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 2009 to 31 March 2010 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 2009-10 but not yet billed. The transactions for all schemes, excluding civil representation, represent payments made. For civil representation, 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 19 - Related party transactions (*continued*)**

		Transactions
Ministry of Justice ministers and related parties		
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.	£31,321
Shahid Malik (until May 2009)	Khan Solicitors is a legal services contracted firm of solicitors in which Sundus Malik is a trainee solicitor. Sundus Malik is married to Shahid Malik, the then Parliamentary Under Secretary of State.	£219,572 to 15 May 2009
Commissioners and related parties		
Carolyn Hamilton	(1) The Children's Legal Centre is a legal services contracted not-for-profit organisation of which Commissioner Carolyn Hamilton is a Director (seconded from the University of Essex).	£592,239
	(2) Carolyn Hamilton is a barrister who receives payments in respect of legal aid casework. The negative transactions arose as repayable payments on account exceeded the total payments made to Carolyn Hamilton in the period. The LSC is pursuing the balance through its routine account balancing activities.	(£911)
Jane Hickman (until May 2010)	Hickman and Rose is a legal services contracted firm of solicitors in which Jane Hickman is a Partner.	£251,694
Tom Jones OBE (until September 2009)	Geldards LLP is a legal services contracted firm of solicitors. Tom Jones' son, Owain Jones was a trainee lawyer at Geldards LLP.	£42,068 to 3 September 2009
Dr David Wolfe	(1) David Wolfe is a barrister who receives payments in respect of legal aid casework.	£176,982
	(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.	£726,181 from 6 July 2009
Chief Executive and related parties		
Carolyn Regan (until March 2010)	Darbys Solicitors LLP is a legal services contracted firm of solicitors in which Andrew Regan was a solicitor. Andrew Regan is Carolyn Regan's brother.	£873,235 to 30 September 2009

Balances outstanding as at 31 March 2010 have not been disclosed, as these could only be estimated.

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

Note 20 - 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 Commission is financed by a grant received from the Ministry of Justice. As such it is not exposed to significant liquidity risks.

Interest rate risk

Interest rate risk comprises two primary elements:

1. Interest price risk results from financial instruments bearing fixed interest rates. Changes in floating interest rates may affect the fair value of these fixed rate instruments.
2. Interest cash flow risk results from financial instruments bearing floating rates. Changes in floating interest rates affect cash flows on interest receivable or payable.

The Commission is not exposed to significant interest price risk or interest cash flow risk.

At 31 March 2010, £95.2m (2009: £99.3m) of statutory charge debt was secured and 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.

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, £13.9m 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 Commission's operating activities are denominated, and the accounts are prepared, in Sterling. The Commission procures legal aid in England and Wales. The Commission 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 commission 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 2010. The Commission considers its maximum exposure to credit risk to be:

	2009-10 £000	2008-09 £000
Credit risk		
Cash at bank and in hand	5,047	4,896
Trade and other receivables	159,865	219,103
	164,912	223,999
Third party assets	15,272	20,287
	180,184	244,286

As at 31 March 2010 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 majority of the Commission's trade receivables and other current assets (£198m out of a total exposure of £280.5m before impairment) is the result of a statutory charge and a high proportion of this is secured on property. This, along with other receivables, carries an impairment provision based on forecast cashflows.

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

The Commission provides for impairment of financial assets based on known events and makes a collective provision for losses yet to be identified, based on historic data. The majority of the provision is estimated based on historic events.

The impairment model used utilises historic recovery profiles by asset category to estimate the provision required against the financial assets as at the balance sheet date. The impairment model assumes that debts have an average life of 10 years, income received against a debt occurs evenly throughout the year, and the discount rate is 3.5%. The impact of the following reasonably possible alternatives to these assumptions has been quantified:

- average life of debt +/- 1 year;
- income received against a debt at the end of the year;
- discount rate. This rate is set by HM Treasury and is not subject to management judgement and so has not been calculated.

Assumptions tested	Increase/(decrease) in net financial asset	
	Assumption	£m
Average life of debt	+1 year	4.1
Average life of debt	-1 year	(4.3)
Income received	Year end	(2.5)

Using these reasonably possible alternative assumptions, the fair value of the financial assets at 31 March 2010 could be higher by £4.1m or lower by £6.8m.

The current model utilises an average debt life of 10 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. Any future changes in the average life of debt are likely to be focused on the statutory charge principle debt.

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 Commission uses complex valuation models to estimate the value of unbilled amounts on live cases. These models utilise inputs for historic price, quantity profiles, forecast spend, and underlying business knowledge, to estimate work completed but not yet billed at the balance sheet 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 in net financial liability		(Decrease) in net financial liability	
	Assumption	£m	Assumption	£m
Price profiles	+ 10%	10.0	- 10%	(10.0)
Quantity profiles	+ up to 10%	10.1	- up to 10%	(11.1)
Forecast spend	+ 10%	36.3	- 10%	(36.3)

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

The above assumptions testing excludes the model variables used in the calculation of the civil representation work in progress provision of £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.

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Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 20 - Financial risk identification and management (*continued*)****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 Commission's day-to-day banking requirements. The credit ratings are monitored on a continuing basis. The Commission 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.

Note 21 - Third party assets

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

	31 March 2009 £000	Inflows £000	Outflows £000	31 March 2010 £000
Monetary assets such as bank balances and monies on deposit	20,287	3,595	(8,620)	15,262

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 balance sheet date comprise pooled investment funds and cash and building society deposits as follows:

	31 March 2010 £000	31 March 2009 £000
Cash	1,278	1,450
Building Society deposits	4,886	4,790
Pooled investment funds	9,098	14,047
	15,262	20,287

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

	Cost at 31 March 2009 £000	Inflows £000	Outflows £000	31 March 2010 £000
Monetary assets such as bank balances and monies on deposit	-	10	-	10

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 Commission or is returned to the third party. The assets held at the balance sheet date comprise cash as follows:

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 21 - Third party assets (*continued*)**

	31 March 2010	31 March 2009
	£000	£000
Cash	10	-
	10	-

In addition to the above contributions received to 31 March 2010, a further £11,022 at 31 March 2010 was due to be paid.

Note 22 - Accountability notes**Losses statement**

There were 9,501 (2009: 7,343) accounts involving losses totalling £32.1m (2009: £20.8m). In accordance with *Managing Public Money* losses over £250,000 are separately disclosed. There were 10 supplier balances written off over £250,000. The balances were £267,171, £279,809, £343,458, £356,624, £377,791, £616,631, £631,819, £883,247, £939,554, and £1,305,657. 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 2 funded client balances written off over £250,000. The balances were £287,394 and £475,000. The funded client cases related to revoked cases that are now over six years old.

In addition to the above losses, there were other debts (offset against opening provisions) written-off during the 2009-10 year. The circumstances and age of each debt were taken into account in determining whether to write these debts off. There were 86,165 accounts involving losses totalling £80.3m and the debts arose from the normal course of business. In accordance with *Managing Public Money* losses over £250,000 are separately disclosed. There were 22 supplier balances written off over £250,000. The balances were £250,445, £255,012, £288,870, £288,934, £296,808, £301,335, £318,161, £332,657, £339,283, £345,170, £355,664, £372,517, £373,169, £375,471, £377,551, £390,477, £408,028, £424,552, £437,104, £463,064, £521,675, and £1,277,160. The Commission have applied these debts against the provision.

Under the terms of the Unified Contract agreed with the Law Society in April 2008, in respect of historic 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 Commission. 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 £12.4m (2009: £24m). Before the Unified Contract the Commission 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 96% of the cases expected to be closed through the Unified Contract agreement have been processed at 31 March 10.

Note 23 - 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.

On 15 November 2010, the Ministry of Justice issued a consultation paper, *Proposals for the Reform of Legal Aid in England and Wales*. This outlines proposals from the Government for fundamental reform of the legal aid scheme which would save approximately £350m per annum by the end of the spending review period. The consultation closes in mid-February 2011 and a number of the changes proposed will require primary legislation. Until the Government decides which proposals to implement, it is not possible to fully quantify the impact on the Commission. However, the volume of cases administered is likely to reduce and some of the proposals could lead to increased administrative complexity.

There are no other subsequent events to report.

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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 2010 under the Access to Justice Act 1999. These comprise the Net Expenditure Account, 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 Accounting Officer and auditor

As explained more fully in the Statement of the Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is 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 applicable law and 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 Service 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 am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

In my opinion, in all material respects, the income and expenditure 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 Commission's affairs as at 31 March 2010 and of its net expenditure, changes in taxpayers' equity and cash flows 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 there under by the Secretary of State and Lord Chancellor with the approval of HM Treasury.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with 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 are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse

Comptroller and Auditor General

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

29 November 2010

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Legal Services Commission Net expenditure account

For the year ended 31 March 2010

	Note	2009-10 £000	Restated 2008-09 £000
Other income	14	121	99
Employment costs	4	(65,169)	(69,840)
Amortisation	7	(1,791)	(1,348)
Depreciation	8	(3,217)	(2,317)
Other operating charges	9	(47,511)	(51,084)
Operating deficit		(117,567)	(124,490)
Interest receivable	10	156	1,048
Interest payable	11	-	(871)
Other finance costs	12	(1,725)	2
Tax expense	13	(34)	-
Cost of capital charge	1 i)	(358)	(244)
Net expenditure after cost of capital charge and interest		(119,528)	(124,555)
Reversal of cost of capital charge	1 i)	358	244
Net expenditure for the year before notional recharges		(119,170)	(124,311)
Notional recharge from the Ministry of Justice	15	(1,484)	-
Net expenditure for the year		(120,654)	(124,311)

The notes on pages 78 to 101 form part of these financial statements.

Comparatives have been restated as explained in note 4.

Legal Services Commission

Statement of financial position

At 31 March 2010

	Note	2010 £000	Restated 2009 £000	Restated 2008 £000
Non-current assets				
Intangible assets	7	17,718	6,625	4,881
Property, plant and equipment	8	9,256	9,223	6,062
Other receivables	16	15	71	-
Total non-current assets		26,989	15,919	10,943
Current assets				
Trade and other receivables	16	2,772	3,077	3,937
Cash and cash equivalents	17	14,849	12,055	5,997
Total current assets		17,621	15,132	9,934
Total assets		44,610	31,051	20,877
Current liabilities				
Trade and other payables	18	(18,482)	(14,895)	(8,380)
Total current liabilities		(18,482)	(14,895)	(8,380)
Non-current assets less net current liabilities		26,128	16,156	12,497
Non-current liabilities				
Trade and other payables	18	(512)	(486)	(288)
Provisions	22	(3,268)	(3,024)	(4,023)
Pension liability	5	(9,218)	(5,333)	(1,568)
Total non-current liabilities		(12,998)	(8,843)	(5,879)
Assets less liabilities		13,130	7,313	6,618
Reserves				
Revaluation reserve		2,446	-	-
General reserve		10,684	7,313	6,618
		13,130	7,313	6,618

Carolyn Downs

Chief Executive and Accounting Officer
25 November 2010

The notes on pages 78 to 101 form part of these financial statements.

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Legal Services Commission
Statement of cash flows

For the year ended 31 March 2010

	Note	2009-10 £000	Restated 2008-09 £000
Cash flows from operating activities			
Net deficit after cost of capital and interest		(119,528)	(124,555)
Adjustments for:			
Cost of capital charge		358	244
Depreciation		3,217	2,317
Amortisation		1,791	1,348
Loss on disposal of property, plant and equipment		-	44
Interest received	10	(156)	(1,048)
Interest expense	11	-	871
Decrease in trade and other receivables		361	789
Increase in trade payables		1,581	6,244
Increase/(decrease) in provisions		123	(823)
Pension payment		(7,674)	58
Other finance costs	12	1,725	(2)
Cash generated from operations		(118,202)	(114,513)
Interest paid	11	-	(871)
Net cash outflow from operating activities		(118,202)	(115,384)
Cash flows from investing activities			
Purchase of intangible assets	6	(9,600)	(3,048)
Purchase of property, plant and equipment	6	(1,210)	(5,098)
Interest received		156	1,048
Net cash outflow from investing activities		(10,654)	(7,098)
Cash flows from financing activities			
Financing - grant-in-aid: capital		12,000	8,615
Financing - grant-in-aid: revenue		119,650	119,925
Net cash inflow from financing activities		131,650	128,540
Net Increase in cash and cash equivalents in the period		2,794	6,058
Cash and cash equivalents at the beginning of the period		12,055	5,997
Cash and cash equivalents at the end of the period	17	14,849	12,055

The notes on pages 78 to 101 form part of these financial statements.

Legal Services Commission

Statement of changes in taxpayers' equity

For the year ended 31 March 2010

	Note	Revaluation Reserve £000	Restated General Reserve £000
Balance at 31 March 2008		-	7,351
Changes due to accounting policies			
First time adoption of International Financial Reporting Standards (IFRS)	2	-	(733)
Restated Balance at 1 April 2008		-	6,618
Changes in taxpayers' equity for 2008-09			
Actuarial loss recognised - No. 4 Pension Scheme		-	(3,546)
Actuarial gain recognised - No. 3 Pension Scheme		-	12
Net expenditure		-	(124,311)
Total recognised income and expense for 2008-09		-	(127,845)
Grant from the Ministry of Justice			
Grant-in-aid: capital		-	8,615
Grant-in-aid: revenue		-	119,925
Balance at 31 March 2009		-	7,313
Changes in taxpayers' equity for 2009-10			
Net gain on revaluation of intangible assets	7	1,920	-
Net gain on revaluation of property, plant and equipment	8	1,152	-
Transfers between reserves		(626)	626
Actuarial loss recognised - No. 4 Pension Scheme	5	-	(9,963)
Actuarial gain recognised - No. 3 Pension Scheme	5	-	8
Net expenditure for the year before notional recharges		-	(119,170)
Notional recharge from the Ministry of Justice	15	-	(1,484)
Total recognised income and expense for 2009-10		2,446	(129,983)
Grant from the Ministry of Justice			
Grant-in-aid: capital		-	12,000
Grant-in-aid: revenue		-	119,650
Transfer of furniture	8	-	220
Notional credit	15	-	1,484
Balance at 31 March 2010		2,446	10,684

The notes on pages 78 to 101 form part of these financial statements.

Financial reports 2009/10

Legal Services Commission Notes to the financial statements

For the year ended 31 March 2010

Note 1 - Statement of accounting policies

The financial statements have been prepared in accordance with the 2009-10 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The FReM follows International Financial Reporting Standards (IFRS) as adapted and or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy that 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.

These are the Commission's first financial statements prepared under IFRS and therefore IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The last financial statements under UK Generally Accepted Accounting Principles (UK GAAP) were for the year to 31 March 2009. An explanation of the transition to IFRS is provided in note 2.

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

under the circumstances, 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 not yet effective

The Commission has reviewed the IFRSs in issue but not yet effective, to determine if it needs to make any disclosures in respect of those new IFRSs that are or will be applicable. References to 'new IFRSs' includes new Interpretations and any new amendments to IFRSs and Interpretations. It has been determined that the following new IFRSs are relevant to the Commission, but will have no significant impact on the Commission's financial statements.

Amendments to IFRSs

IAS 24 *Related Party Disclosures*

Amendments to IFRSs resulting from Annual Improvements to IFRSs (May 2008 and April 2009)

IFRS 8 *Operating Segments*

IAS 7 *Statement of Cash Flows*

Major FReM changes for 2010-11

Chapter 8 *Impairments*

The Commission has identified the following accounting change as significant.

Chapter 11 *Income and Expenditure*. The removal of cost of capital charging from the financial statements. From 1 April 2010 notional costs should not be recorded for cost of capital. Cost of capital charging will be excluded from the Commission's financial statements. The initial application will have an impact of approximately £27m on both the Commission's income and expenditure for 2010-11.

Legal Services Commission 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.

All intangible assets are deemed to have a finite life. All intangible non-current assets, 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. The estimated useful lives are generally deemed to be no longer than 5 years.

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 (2009: £1,000) 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
Information technology	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 balance sheet 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 net expenditure account 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.

h) Grant-in-aid

Grant-in-aid receivable for revenue purposes or for the acquisition of property, plant and equipment and intangible assets is accounted for as financing and credited directly to the general reserve.

i) Financing charges**Costs of capital**

As required by HM Treasury a charge is made to the income and expenditure account for the notional cost of capital. The notional capital charge, which reflects the cost of financing capital employed, is calculated at 3.5% (2009: 3.5%) of average net assets employed during the year. In accordance with HM Treasury guidance the notional charge is reversed out of the net expenditure

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

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

account before determining the retained surplus or deficit for the year.

Interest

The Commission may also receive 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 receipts and payments are shown in 'interest receivable and similar income' and 'interest payable and similar charges' respectively in the net expenditure account.

j) Cash and cash equivalents

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

k) Provisions

Restructure

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 and dilapidation provisions are discounted at 2.2% (2009:2.2%).

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

The commission does not have any finance leases.

Operating leases

Rental payments are charged to the net expenditure account as they fall due.

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.

Legal Services Commission Notes to the financial statements (*continued*)**Note 1 - Statement of accounting policies**
(continued)**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 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 25.

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 cost of capital rate, currently 3.5% (2009:3.5%)

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 income and expenditure account. Actuarial gains and losses incurred by the pension schemes are detailed in note 5.

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 as at the year end. The cost of untaken leave is derived from sampling outstanding leave across all pay bands in the Commission.

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.

On 3 March 2010, Sir Ian Magee published a review of legal aid. As a result of the review, Ministers stated their intention to change the Commission's status from that of a non-departmental public body to an agency of the Ministry

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

of Justice. This change will require primary legislation and does not impact on the going concern basis.

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 2010-11 on 7 July 2010 (2009-10 on the 18 June 2009).

Note 2 - First-time adoption of International Financial Reporting Standards (IFRS)

	£'000
Taxpayers' equity at 31 March 2009 under UK GAAP	7,937
Adjustments for IAS 19 - Employee benefits	(624)
Taxpayers' equity at 1 April 2009 under IFRS	7,313
Net expenditure for 2008-09 under UK GAAP	(124,420)
Adjustments for IAS 19 - Employee benefits	109
Net expenditure for 2008-09 under IFRS	(124,311)

This is the first year that the Commission has presented their financial statements under IFRS. The last financial statements under UK GAAP were for the year to 31 March 2009 and the date of transition to IFRS was 1 April 2008. Under UK GAAP, no accrual was made for untaken holiday pay. IAS 19 *Employee Benefits*, introduces the requirement to accrue for untaken leave at the end of the year. Under UK GAAP, software including internally generated software was recorded within property, plant and equipment. Under IFRS all software costs have been reclassified from property, plant and equipment and recorded within intangible assets. There is no impact to the net expenditure account.

Cash flow

There are no material differences between the cash flow statement presented under UK GAAP and the cash flow statement presented under IFRS.

Note 3 - Segmental analysis

The Commission's accounts cover the costs of managing and accounting for the Community Legal Service Fund and the Criminal Defence Service. There are no reported operating segments within the Commission's administration costs, and as such no segmental information is disclosed.

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

	2009-10	2009-10	2009-10	2008-09	Restated 2008-09	2008-09
	Permanently employed staff	Other	Total	Permanently employed staff	Other	Total
	£000	£000	£000	£000	£000	£000
Salaries and wages	42,717	6,446	49,163	44,218	9,319	53,537
Social security costs	3,486	158	3,644	3,782	238	4,020
Other pension costs	8,225	-	8,225	9,467	-	9,467
	54,428	6,604	61,032	57,467	9,557	67,024
Less recoveries in respect of outward secondments	(122)	-	(122)	(76)	-	(76)
Redundancy *	3,920	-	3,920	2,518	-	2,518
	58,226	6,604	64,830	59,909	9,557	69,466
Commissioners' costs:						
Fees to non-executives	313	-	313	348	-	348
Social security costs	26	-	26	26	-	26
	339	-	339	374	-	374
	58,565	6,604	65,169	60,283	9,557	69,840

*Redundancy costs disclosed in the above table relates to 130 full time equivalent staff.

'Other staff' includes contractors and agency staff. Staff costs and numbers for 2008-09 have been restated for IT contractors which were included in 'Other operating charges' (note 9). The effect has been to transfer £1,750,000 from 'Other operating charges' to 'Employment costs', and to recognise an increase of 16 full time equivalent staff shown under 'Other'.

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 Executive Team and Non-Executive Commissioners' remuneration is included in the remuneration report.

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

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

	2009-10	2009-10	2009-10	2008-09	Restated 2008-09	2008-09
	Permanently employed staff	Other	Total	Permanently employed staff	Other	Total
Employees	1,357	159	1,516	1,431	266	1,697
					2009-10	2008-09
The average number of Commissioners in post during the year were					12	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.

Public Defender Service (PDS) and Criminal Defence Service (CDS) and Duty Solicitor Call Centre	2009-10	2009-10	2009-10	2008-09	Restated 2008-09	2008-09
	Permanently employed staff £000	Other £000	Total £000	Permanently employed staff £000	Other £000	Total £000
Aggregate payroll costs were as follows:						
Salaries and wages	2,093	4	2,097	1,766	27	1,793
Social security costs	141	-	141	145	-	145
Other pension costs	198	-	198	268	-	268
	2,432	4	2,436	2,179	27	2,206
Less recoveries in respect of outward secondments	-	-	-	(39)	-	(39)
Redundancy *	129	-	129	221	-	221
	2,561	4	2,565	2,361	27	2,388

*Redundancy costs disclosed in the above table relates to 3 full time equivalent staff.

Legal Services Commission Notes to the financial statements (continued)

Note 4 - Employment costs (continued)

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

	2009-10 Permanently employed staff	2009-10 Other	2009-10 Total	2008-09 Permanently employed staff	2008-09 Other	2008-09 Total
Public Defender Service	48	-	48	55	1	56
Criminal Defence Service and Duty Solicitor Call Centre	7	-	7	1	1	2
	55	-	55	56	2	58

Community Legal Service (CLS)	2009-10	2009-10	2009-10	2008-09	Restated 2008-09	2008-09
	Permanently employed staff £000	Other £000	Total £000	Permanently employed staff £000	Other £000	Total £000
Aggregate payroll costs were as follows:						
Salaries and wages	251	39	290	884	166	1,050
Social security costs	22	-	22	87	-	87
Other pension costs	23	-	23	167	-	167
	296	39	335	1,138	166	1,304
Redundancy*	90	-	90	208	-	208
	386	39	425	1,346	166	1,512

*Redundancy costs disclosed in the above table relates to 2 full time equivalent staff.

The average number of full-time equivalent persons employed within the Community Legal Advice and Other Projects team during the year was as follows:

	2009-10 Permanently employed staff	2009-10 Other	2009-10 Total	2008-09 Permanently employed staff	2008-09 Other	2008-09 Total
Community Legal Advice and Other Projects	8	2	10	19	5	24

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

Note 5 - 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 income and expenditure account 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 formal valuations were as at 31 March 2008. 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 assets are measured using market values. Both pension scheme liabilities are measured using a projected unit method and discounted at the current fixed rate of 1.8% p.a. (2009: 3.0%) above the expected future price inflation. The discount rate this year has been set based on long dated AA rated corporate bonds. A degree of subjectivity has been required to set the discount rate due to the varying spread of yields in light of the current economic conditions.

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

A full actuarial valuation of the Scheme was carried out at 31 March 2008 by qualified independent actuaries Hymans Robertson LLP.

The Commission made an advanced payment of £10.4m into the No. 4 Scheme in 2009-10 (2008-09: £6m). The Commission also paid £3.7m (2008-09: £3.1m) to the Scheme, to cover the cost of a total of 16 benefit improvements under the terms of the early retirement and early severance scheme.

The Commission is not expected to contribute to the No. 4 Scheme in the next financial year beginning 1 April 2010 due to the early payment of contributions.

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

A full actuarial valuation of the Scheme was carried out at 31 March 2008 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 2010 (2009: nil).

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

	No. 4 Scheme	No. 3 Scheme	No. 4 Scheme	No. 3 Scheme
	% pa	% pa	% pa	% pa
	2010	2010	2009	2009
Discount rate	5.55	5.55	6.50	6.50
Rate of increase in salaries	4.75	n/a	4.50	n/a
Deferred pension increase before retirement	3.75	3.75	3.50	3.50
Rate of increase in pensions in payment	3.75	3.75	3.50	3.50
Inflation assumption	3.75	3.75	3.50	3.50

Legal Services Commission Notes to the financial statements (*continued*)**Note 5 - Pension costs (*continued*)****Future life expectancies**

The future life expectancies below are based on the 2010 post retirement mortality assumptions used for both schemes, namely standard actuarial tables 110% of PNA00 with an allowance for long cohort improvement (mortality rates are subject to a 1% underpin for annual improvements from 2008 onwards).

	Male years 2010	Female years 2010	Male years 2009	Female years 2009
Future life expectancy for a pensioner aged 60 at 31 March	27.8	30.5	27.7	30.4
Future life expectancy at age 60 for a non pensioner aged 45 at 31 March	29.5	32.0	29.4	31.9

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

	Expected long-term rate of return at 31 March 2010	Expected long-term rate of return at 31 March 2009
	%	%
No. 4 Pension Scheme Market value of assets		
Equities	7.5	7.2
Gilts and cash	4.5	4.2
Insured pensions	5.6	6.5

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 2010	Expected long-term rate of return 2009
	%	%
No. 3 Pension Scheme Market value of assets		
Equities	7.5	7.2
Gilts and cash	4.5	4.2
Insured pensions	5.7	6.5

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 2010 for the year to 31 March 2011). The return on equities has been taken as 3.00% per annum above the yield on government bonds at the year end. This is consistent with the approach followed at the previous year end.

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Legal Services Commission Notes to the financial statements (continued)

Note 5 - Pension costs (continued)

Pension scheme costs charged to operating costs include:

	No. 4 Scheme 2009-10 £000	No. 3 Scheme 2009-10 £000	No. 4 Scheme 2008-09 £000	No. 3 Scheme 2008-09 £000
Current service cost	4,439	-	6,915	-
Termination benefits	3,786	-	2,552	-
Commission - Operating charge	8,225	-	9,467	-
PDS and CLS - Operating charge	221	-	436	-
Total	8,446	-	9,903	-

The CLS and PDS operating charge is recognised in the Community Legal Service Fund and Criminal Defence Service accounts.

<i>Analysis of amounts charged to other finance income</i>	No. 4 Scheme 2009-10 £000	No. 3 Scheme 2009-10 £000	No. 4 Scheme 2008-09 £000	No. 3 Scheme 2008-09 £000
Expected return on Scheme assets	10,636	181	12,409	204
Interest on Scheme liabilities	(12,232)	(189)	(12,571)	(216)
Net return	(1,596)	(8)	(162)	(12)

The expected rate of return and market values of the assets of the No. 4 Pension Scheme at 31 March 2010 were as follows:

<i>Analysis of amount recognised in the Statement of changes in taxpayers' equity</i>	No. 4 Scheme 2009-10 £000	No. 3 Scheme 2009-10 £000	No. 4 Scheme 2008-09 £000	No. 3 Scheme 2008-09 £000
Actual return less expected return on Scheme assets	44,089	458	(44,073)	(246)
Experience gains and losses arising on Scheme liabilities	5,074	73	4,619	113
Changes in assumptions underlying the present value of the Scheme liabilities	(59,126)	(333)	35,908	483
Decrease in irrecoverable surplus *	-	(190)	-	(338)
Actuarial (loss)/gain included in the Statement of changes in taxpayers' equity	(9,963)	8	(3,546)	12
Cumulative actuarial loss	(51,780)	(11)	(41,817)	(19)

* 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.

Legal Services Commission Notes to the financial statements (continued)

Note 5 - Pension costs (continued)

Reconciliation of defined benefit obligation

	No. 4 Scheme 2009-10 £000	No. 3 Scheme 2009-10 £000	No. 4 Scheme 2008-09 £000	No. 3 Scheme 2008-09 £000
The movement in the liabilities during the year arose as follows:				
Liabilities at beginning of year	(185,592)	(3,065)	(206,054)	(3,748)
Current service cost - Commission	(4,439)	-	(6,915)	-
Current service cost - CLS and PDS	(221)	-	(436)	-
Interest cost	(12,232)	(189)	(12,571)	(216)
Benefits accrued in respect of contributions by plan participants	(2,510)	-	(2,578)	-
Actuarial (losses)/gains	(54,052)	(260)	40,527	596
Termination benefits	(3,786)	-	(2,552)	-
Benefits paid	5,650	291	4,987	303
Liabilities at end of year	(257,182)	(3,223)	(185,592)	(3,065)

Reconciliation of fair value of plan assets

	No. 4 Scheme 2009-10 £000	No. 3 Scheme 2009-10 £000	No. 4 Scheme 2008-09 £000	No. 3 Scheme 2008-09 £000
The movement in the assets during the year arose as follows:				
Assets at beginning of year	180,259	3,512	204,486	3,857
Expected return on assets	10,636	181	12,409	204
Contributions by plan participants	2,510	-	2,578	-
Contributions by the Commission	16,120	-	9,846	-
Actuarial gains/(losses)	44,089	458	(44,073)	(246)
Benefits paid	(5,650)	(291)	(4,987)	(303)
Assets at end of year	247,964	3,860	180,259	3,512
Net pension (liability)/asset	(9,218)	637	(5,333)	447

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

	No. 4 Scheme 2009-10 %	No. 3 Scheme 2009-10 %	No. 4 Scheme 2008-09 %	No. 3 Scheme 2008-09 %
Equities	53	25	51	23
Gilts and cash	43	56	43	55
Insured pensions	4	19	6	21

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Legal Services Commission Notes to the financial statements (*continued*)**Note 5 - Pension costs (*continued*)**

The No. 4 Pension Scheme history of experience gains and losses over the period 1 April 2005 to 31 March 2010 were as follows:

	No. 4 Scheme 2009-10	No. 4 Scheme 2008-09	No. 4 Scheme 2007-08	No. 4 Scheme 2006-07	No. 4 Scheme 2005-06
	£000	£000	£000	£000	£000
Fair value of plan assets	247,964	180,259	204,486	177,492	155,354
Present value of defined benefit obligation	(257,182)	(185,592)	(206,054)	(206,500)	(165,687)
Deficit	(9,218)	(5,333)	(1,568)	(29,008)	(10,333)
Experience adjustments on scheme assets Amount	44,089	(44,073)	(5,757)	348	16,930
Percentage of Scheme assets	17.8%	(24.4)%	(2.8)%	0.2%	10.9%
Experience adjustments on scheme liabilities Amount	5,074	4,619	-	11,252	-
Percentage of present value of scheme liabilities	2.0%	2.5%	-	5.4%	-
Total actuarial (losses)/gains on obligation Amount	(54,052)	40,527	18,208	(27,248)	(8,960)
Percentage of present value of Scheme liabilities	21.0%	21.8%	8.9%	(13.2)%	(5.4)%

There were no early retirements on ill-health grounds (2009: one).

The No. 3 Pension Scheme history of experience gains and losses over the period 1 April 2005 to 31 March 2010 were as follows:

	No. 3 Scheme 2009-10	No. 3 Scheme 2008-09	No. 3 Scheme 2007-08	No. 3 Scheme 2006-07	No. 3 Scheme 2005-06
	£000	£000	£000	£000	£000
Fair value of plan assets	3,860	3,512	3,858	4,062	4,149
Present value of defined benefit obligation	(3,223)	(3,065)	(3,748)	(3,782)	(4,255)
Surplus/(deficit)	637	447	110	280	(106)
Experience adjustments on scheme assets Amount	458	(246)	(57)	(140)	408
Percentage of Scheme assets	11.9%	(7.0)%	(1.5)%	(3.4)%	9.8%
Experience adjustments on scheme liabilities Amount	73	113	-	643	-
Percentage of present value of scheme liabilities	2.3%	3.7%	-	17.0%	-
Total actuarial (losses)/gains on obligation Amount	(260)	596	113	345	(425)
Percentage of present value of Scheme liabilities	8.1%	19.4%	(3.0)%	9.1%	10.0%

Legal Services Commission Notes to the financial statements (*continued*)**Note 5 - Pension costs (*continued*)****Liability and insured pension sensitivity at 31 March 2010 to changes in key assumptions**

The table below shows the sensitivity of the liability and insured pensions for both schemes as at 31 March 2010 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	13,600	74	(200)	(11)
Rate of pay escalation increased by 0.25%p.a	(10,800)	No Change	No Change	No Change
Pension increases and deferred pension increases increased by 0.25% p.a	(3,100)	65	No Change	No Change
1 year increase in member life expectancy	(7,200)	(168)	400	40

Note 6 - Reconciliation of asset additions to capital expenditure

	2009-10 £000	Restated 2008-09 £000	Restated 2007-08 £000
Payments to acquire intangible assets	9,600	3,048	3,094
Accruals	1,364	44	-
Intangible asset additions	10,964	3,092	3,094
Payments to acquire property, plant and equipment	1,210	5,098	2,335
Accruals	888	425	-
Property, plant and equipment additions	2,098	5,523	2,335
Non-current asset additions	13,062	8,615	5,429

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Legal Services Commission Notes to the financial statements (*continued*)**Note 7 - Intangible assets**

	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

	Assets under construction £000	Restated Computer software £000	Total £000
Cost at 1 April 2008	4,762	153	4,915
Additions	1,832	1,260	3,092
Transfers	(4,929)	4,929	-
Cost at 31 March 2009	1,665	6,342	8,007
Amortisation at 1 April 2008	-	34	34
Charged in year	-	1,348	1,348
Amortisation at 31 March 2009	-	1,382	1,382
Net book value at 31 March 2009	1,665	4,960	6,625
Net book value at 31 March 2008	4,762	119	4,881

Legal Services Commission Notes to the financial statements (*continued*)**Note 8 - 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 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

	Assets under construction £000	Fixtures and fittings £000	Restated Furniture and equipment £000	Computer equipment £000	Total £000
Cost at 1 April 2008	1,870	6,063	2,780	4,452	15,165
Additions	2,373	1,930	1,179	41	5,523
Disposals	-	(2,381)	(1,177)	(461)	(4,019)
Transfers	(3,769)	2,368	268	1,133	-
Cost at 31 March 2009	474	7,980	3,050	5,165	16,669
Depreciation at 1 April 2008	-	3,698	1,735	3,670	9,103
Charged in year	-	1,437	533	347	2,317
Disposals	-	(2,365)	(1,153)	(456)	(3,974)
Depreciation at 31 March 2009	-	2,770	1,115	3,561	7,446
Net book value at 31 March 2009	474	5,210	1,935	1,604	9,223
Net book value at 31 March 2008	1,870	2,365	1,045	782	6,062

*Included in furniture and equipment are £220,000 of assets transferred from the Ministry of Justice.

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Legal Services Commission Notes to the financial statements (*continued*)**Note 9 - Other operating charges**

	2009-10	Restated 2008-09
	£000	£000
Accommodation and related costs	4,844	7,413
Managed facility - outsourced contracts	6,081	2,589
Office, IT and service running costs	5,180	5,986
Staff and committee member related costs	2,855	4,441
Operating leases	5,826	5,422
Other administration costs	843	855
Audit fee	353	250
Legal and professional costs	6,698	4,908
Service level agreements with HMCS	12,341	16,929
Other legal aid service costs	2,490	2,291
	47,511	51,084

The audit fee for 2009-10 includes £15,000 of costs relating to the IFRS conversion of the Commission's accounts for 31 March 2009 (2008-09: £19,000).

Note 10 - Interest receivable and similar income

	2009-10	2008-09
	£000	£000
Interest from CLS Fund and CDS*	156	177
Other**	-	871
Interest receivable and similar income	156	1,048

* Interest from Criminal Legal Service (CLS) Fund and Criminal Defence Service (CDS) for 2008-09 has been restated for interest earned on the bank deposit account held in the accounts of CLS Fund and CDS. Interest earned on this account is used to meet bank charges accrued by the Commission. In these accounts bank charges for 2008-09 of £27,000 are now disclosed in note 9 'Other operating charges'.

** See note 11 'Interest payable and similar charges'

Note 11 - Interest payable and similar charges

	2009-10	2008-09
	£000	£000
Interest payable and similar charges**	-	871

** 'Other interest receivable' and 'interest payable and similar charges' for 2008-09 represents bank interest earned and paid over to the Ministry of Justice. This has been restated for bank interest earned and bank charges of £15,000.

Legal Services Commission Notes to the financial statements (*continued*)**Note 12 - Other finance costs**

	2009-10	2008-09
	£000	£000
Discount on provisions (note 22)	121	(176)
Return on Pension Scheme No. 4 (note 5)	1,596	162
Return on Pension Scheme No. 3 (note 5)	8	12
	1,725	(2)

Note 13 - Tax expense

	2009-10	2008-09
	£000	£000
Corporation tax at 28% on bank deposit interest	34	-

The Commission is liable to corporation tax on bank interest earned from 1 April 2009. The applicable rate of corporation tax is that which applies to the Ministry of Justice.

Note 14 - Other income

	2009-10	2008-09
	£000	£000
Other operating income	121	99

The income received in 2009-10 mainly relates to income from conferences. Operating income can also include grants from third parties and other miscellaneous receipts.

Note 15 - Notional recharge from the Ministry of Justice

	2009-10	2008-09
	£000	£000
Notional recharge	1,484	-

The notional recharge from the Ministry of Justice (MoJ) represents the Commission's usage of corporate services, namely the MoJ Private Office. The charge is shown for the first time in these accounts to reflect the full costs of the Commission's operations and is met by a credit to the General Fund. The equivalent prior year figure was £1,841,000.

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Legal Services Commission Notes to the financial statements (*continued*)**Note 16 - Trade and other receivables**

	2010	2009	2008
	£000	£000	£000
Non-current			
Other receivables	15	71	-
	15	71	-
Non-current			
Bodies external to government	15	71	-
	15	71	-
Current			
Other receivables	269	270	201
Amounts due from CLS Fund and CDS	316	719	538
Prepayments and accrued income	2,187	2,088	3,198
	2,772	3,077	3,937
Current			
Local authorities	110	-	-
Public corporations and trading funds	27	-	-
Central government bodies	480	767	591
Bodies external to government	2,155	2,310	3,346
	2,772	3,077	3,937

Non-current other receivables of £15k (2009:£71k) comprises of interest free staff car loans.

Note 17 - Cash and cash equivalents

	2010	2009
	£000	£000
Balance at 1 April	12,055	5,997
Net change in cash and cash equivalent balances	2,794	6,058
Balance at 31 March	14,849	12,055

All cash balances at 31 March 2010 were held with a commercial bank. In prior years cash balances were held with a commercial bank and cash in hand.

Legal Services Commission Notes to the financial statements (*continued*)**Note 18 - Trade and other payables**

	2010	Restated	Restated
	£000	2009	2008
		£000	£000
Current			
Other payables	81	90	136
Amounts due to HMCS on the service level agreement - Crime Higher	544	2,184	176
Amounts due to HMCS on the service level agreement - Transfer of Grant	2,375	2,559	-
Other taxation and social security costs	1,242	1,450	1,374
Corporation tax	34	-	-
Accruals and deferred income	14,206	8,612	6,694
	18,482	14,895	8,380
Current			
Local authorities	1	67	1
Public corporations and trading funds	8	34	2
Central government bodies	8,434	7,847	2,926
Bodies external to government	10,039	6,947	5,451
	18,482	14,895	8,380
For payables with a life of one year or less, the carrying amount is deemed to reflect fair value.			
Non-current liabilities			
Accruals and deferred income	512	486	288
	512	486	288
Non-current liabilities			
Central government bodies	24	76	-
Bodies external to government	488	410	288
	512	486	288

Note 19 - Going concern

The balance sheet at 31 March 2010 shows net assets of £13.1m.

On 3 March 2010, Sir Ian Magee published a review of legal aid. The review recommended that the Commission's status change from that of a non departmental public body, to an agency of the Ministry of Justice. This change will require primary legislation and as such the going concern principle outlined in note 1r) has been followed.

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

Note 20 - Capital commitments

There are commitments for capital expenditure of £6,851,000 (2009:£69,439) for which no provision has been made in the accounts.

Note 21 - Commitments under leases

a) Operating leases

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

	Land and buildings 2009-10 £000	Other 2009-10 £000	Total 2009-10 £000	Land and buildings 2008-09 £000	Other 2008-09 £000	Total 2008-09 £000
Obligations under operating leases comprise:						
Within one year	5,373	438	5,811	5,452	333	5,785
Between two and five years	19,231	930	20,161	20,457	30	20,487
Over five years	11,142	-	11,142	16,457	-	16,457
	35,746	1,368	37,114	42,366	363	42,729

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

b) Finance leases

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

	2009-10 £000	2008-09 £000
Obligations under finance leases comprise:		
Not later than one year	1,115	-
Later than one year and not later than five years	2,885	-
Less interest element	(253)	-
	3,747	-

Legal Services Commission Notes to the financial statements (continued)

Note 22 - Provision for liabilities and charges

	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 12)	-	-	121	121
At 31 March 2010	145	200	2,923	3,268

The restructuring provision relates to additional costs expected to be incurred as a result of restructuring programmes being undertaken by the Commission.

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% (2009: 2.2%). The costs are expected to be incurred between 2010 and 2019 as each lease expires. A dilapidation provision on vacated buildings is maintained until dilapidation negotiations have been finalised.

	Provision for legal costs £000	Provision for restructuring costs £000	Provision for dilapidations £000	Total £000
At 1 April 2008	-	741	3,282	4,023
Additions and increases to provision	-	80	2,118	2,198
Amounts used in the period	-	(353)	(1,960)	(2,313)
Unused amounts reversed in the period	-	(388)	(320)	(708)
Finance charges (note 12)	-	-	(176)	(176)
At 31 March 2009	-	80	2,944	3,024

Analysis of expected timing of discounted flows	Provision for legal costs £000	Provision for restructuring costs £000	Provision for dilapidations £000	Total £000
In the remainder of the spending review period (to 2011)	145	200	104	449
Between 2012 and 2016	-	-	961	961
Between 2017 and 2022	-	-	1,858	1,858
Balance at 31 March 2010	145	200	2,923	3,268

There are no provisions expected to be called beyond 2022.

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

Note 23 - Contingent liability

The Commission is aware of three claims for compensation which may materialise if complainants choose to refer the matters to tribunal or appeal to the Ombudsman. The overall cost of these claims is estimated to be £323,000 should all three cases succeed.

Note 24 - 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 Service, an agency of the Ministry of Justice, relating to work provided by the Courts Service on behalf of the Commission.

Note 25 - Financial instruments

a) Carrying amount and fair values and liabilities

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 2010. The Commission considers its maximum exposure to credit risk to be:

	31 March 2010	31 March 2009	31 March 2008
	£000	£000	£000
Cash at bank	14,849	12,055	5,997
Trade and other receivables	2,772	3,077	3,937
	17,621	15,132	9,934

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

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

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's bank balances carry floating interest rates and interest earned is paid over directly to the Ministry of Justice. All of the Commission's liabilities carry nil or fixed rates of interest and as such are not exposed to 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.

It was announced in the Budget on 22 June 2010 that the Government intends to adopt the Consumer Price Index for the indexation of public service pensions from April 2011. The Commission operates an independent pension scheme and until any legislative changes are made, the trustees will ensure that they continue to take decisions in line with the Trust Deed and Rules.

The LSC launched a procurement exercise for providers to undertake publicly funded work under the new 2010 contracts. This exercise was conducted in accordance with Part B of the Public Contract Regulations 2006. Crime contracts were let in July 2010 but, after the announcement of the awards in July and August 2010, the Law Society successfully challenged the awards in Family Law on the basis that one of the selection criteria had not been announced in time to allow providers to be able to meet it (i.e. some time before the tender actually opened). In the circumstances, all civil contracts were extended to 14 November 2010 when the majority of 2010 contracts were let, except for family law which has been extended until the end of November 2011.

Note 26 - Accountability notes

Losses

There were no known incidences of cash reported stolen in the period (2008-09: Nil).

There were no known incidents of fraud in the year (2008-09: Nil).

Special payments

Ex gratia payments are amounts paid to individuals claiming that mistakes were made by the Commission in dealing with their cases.

During the year there were 78 (2008-09: 70) ex gratia payments totalling £52,052 (2008-09: £35,306).

The Commission made no special payments during the year (2008-09: Nil).

Note 27 - 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.

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