



NORTHERN IRELAND  
Legal Services  
Commission

**Annual Report and Financial Statements**  
For the year ended 31 March 2008



NORTHERN IRELAND  
Legal Services  
Commission

## **Northern Ireland Legal Services Commission**

### **Annual report and financial statements for the year ended 31 March 2008**

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

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## Our Mission and Aim

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

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

# Annual Report Chief Executive's Report

## Introduction

The Northern Ireland Legal Services Commission (the Commission) is a body corporate as set out in paragraph 1 of Schedule 1 to the Access to Justice (Northern Ireland) Order 2003 (AJO 2003).

## Devolution of policing and justice functions

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

The Annual Report and Accounts of the Commission for the year ended 31 March 2008 relate entirely to the period before devolution and will be laid in Parliament. References continue to be made in this report to the NICtS and the Office of the Lord Chancellor as the parent organisations of the Commission during the reporting period.

When policing and justice functions in Northern Ireland were devolved to the NIA on 12 April 2010, the Department of Justice (DoJ) was established as a new Northern Ireland Department by the Department of Justice Act (Northern Ireland) 2010.

From this date, the Commission became a Non-Departmental Public Body (NDPB) of the DoJ. As such, it now complies with the corporate governance and accountability framework arrangements issued by the DoJ and also the guidance issued by the

Department of Finance and Personnel (DFP), including Managing Public Money Northern Ireland. The Annual Report and Accounts for years ended 31 March 2011 onwards will be laid in the NIA.

## Statement of Accounts

The accounts of the Commission for the financial year ended 31 March 2008 have been prepared in a form directed by the Lord Chancellor, with the consent of HM Treasury, in accordance with paragraph 17 of Schedule 1 to the AJO 2003.

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

## Statutory Background

The Commission was established on 1 November 2003 through the commencement of certain articles in the AJO 2003. The Commission assumed all responsibility for the administration of Legal Aid in Northern Ireland from the Legal Aid Department of the Law Society of Northern Ireland. With the devolution of justice powers to the NIA, from 12 April 2010, the Commission became a NDPB of the DoJ, reporting to the DoJ through the newly established Northern Ireland Courts and Tribunal Service (NICTS), an agency of the DoJ.

The Lord Chancellor gave the Commission specific objectives relating to the reform of civil legal aid in Northern Ireland. Prior to 12 April 2010 the Commission operated as a NDPB of the NICtS.

The Commission administers criminal legal aid on behalf of the DoJ supporting its programme of reform of criminal legal aid. The Commission provides services under the Legal Aid Advice and Assistance (Northern Ireland) Order 1981, certain articles of the AJO 2003 and a number of rules and directions made under this legislation.

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

Publicly-funded legal services help those people who need assistance to deal with problems that affect them most. Civil legal aid funds legal services for people of small or moderate means who could not otherwise afford to litigate, provided that they can show sufficient cause for being party to proceedings, and it is not reasonable to expect them to proceed unrepresented. It also funds the provision of legal advice and assistance to eligible people either free at the point of service or upon payment of a contribution. Criminal legal aid provides legal advice, assistance and representation to people who face criminal charges and funds legal advice from a solicitor at police stations.

### **The Northern Ireland Legal Services Commission**

The Commission operated as a NDPB sponsored by the NICTS, a department of the Lord Chancellor, until 11 April 2010. From 12 April 2010, the Commission operates as a NDPB of the DoJ sponsored by the NICTS. The accounts to 31 March 2008 were constituted under the corporate structures pertaining prior to 12 April 2010.

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

The key activities of the Commission are:

- (a) considering applications for civil family and non-family legal aid;
- (b) assessing claims for civil and criminal legal aid, including advice and assistance;
- (c) developing and implementing a programme of reform in civil legal aid, and in conjunction with the NICTS, implementing reformed procedures in criminal legal aid;
- (d) making payments and reporting on the expenditure in relation to civil and criminal legal aid; and
- (e) maintaining and developing the systems, procedures and relationships which support these key activities.

The Commission has operated under Transitional Arrangements from 2003, which has seen certain aspects of the system the Commission inherited from the Law Society continue. An Appeals Committee deals specifically with appeals against the refusal of civil legal aid. A Fees Assessment Committee advises on appeals against the assessment of claims for work done under civil legal aid certificates. The Appropriate Authority, a Committee established under the Legal Aid in Criminal Proceedings (Costs) Rules (NI) 1992, continues to deal with claims made for work done in criminal proceedings and related appeals for cases commenced prior to April 2005. These committees comprise for the most part external independent members

of the legal profession. The Commission processes all case work files, provides grant in aid and services these Committees.

During 2007/08 the Commission further developed procedures under the Legal Aid for Crown Court Proceedings (Costs) Rules (NI) 2005 which replaced the 1992 Rules. Under the Legal Aid for Crown Court Proceedings (Costs) Rules (NI) 2005, the Commission may grant certificates in relation to Very High Cost Cases (VHCC) and where it does, the assessment of any claims in relation to these certificates is carried out by the Taxing Master (an independent judicial officer) and the Commission makes payment on them.

In October 2007, as part of the ongoing development of its corporate governance framework, the Commission adopted a formal Scheme of Delegation to support the improvements in its decision-making during the preparations for the commencement of the remaining articles in the AJO 2003. The Commission anticipates that this legislation will commence in late 2010.

### Going Concern

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

### Commissioners

In accordance with the provisions of Article 4 of the AJO 2003, the Commission's membership was appointed by the Lord Chancellor. The membership comprised of a Chair and no fewer than 6 but no more than

10 members. Commissioners were appointed for a three year term. The following members served on the Board during the year to 31 March 2008.

Sir Anthony Holland (Chairman from 19 April 2004 to 31 July 2007)

Mr Jim Daniell (Chairman from 12 November 2007)

Mr Ronald Spence CB (Interim Chairman from 3 August 2007 to 11 November 2007)

Mr Les Allamby

Mr Joseph Donnelly

Mrs Fiona Donnelly

Mr Brian Fee QC  
(until 31 December 2007)

Ms Breidge Gadd CBE

Dr Jeremy Harbison CB

Mr Wilson Matthews

Mrs Hilary McCartan

Mr Miceal McCoy

The following changes to the membership of the Committee occurred from 1 April 2008 to the date of this report.

Mrs Gillian McGaughey  
(Appointed 10 February 2009)

Commission members have corporate responsibilities relating to the governance of the Commission as a non-departmental public body. Some Board members also chair committees within the Commission. The Commission works to a Corporate Governance Framework which sets out, among other

things, the Commission's committee structure and Scheme of Delegation. During 2007/08 the Commission worked through the Access to Justice Committee, the Service Delivery Committee, the General Purposes Committee and the Audit and Risk Committee. These committees, chaired by members of the Commission and attended by management, are charged with overseeing the operational, policy development and administrative functions of the Commission.

### **Corporate & Risk Management Audit**

Oversight of risk management within the Commission is the responsibility of the Audit Committee. The committee comprises representatives from the Commission's board, with senior management, internal audit consultants and the external audit representatives in attendance as required. Further detail on the Risk Management function within the Commission is included under The Risk and Control Framework section of the Statement on Internal Control on pages 25 - 30.

### **Commission Members Interest**

Details of company directorships and other significant interests held by Commission members are set out within the related party disclosures at note 18 on pages 48 - 49 and note 19 on page 75 - 76. The Commission maintains a Register of Interests which is updated as required and in addition, any conflicts of interest are declared by the Board members at each meeting. Access to the Register of Interests may be gained by contacting the Secretary to the Commission.

### **Pension Schemes and Liabilities**

The Commission contributes to the Northern Ireland Local Government Officers'

Superannuation Scheme (NILGOSC), membership of the scheme is optional for employees. In line with the requirements of Financial Reporting Standard 17: Retirement Benefits, the 2007/08 financial statements reflect the Commission's proportion of the pension deficit in the NILGOSC scheme.

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

Details of these pension schemes and the impact of applying FRS 17 are disclosed in note 3 on pages 64 - 68.

### **Post Balance Sheet Events**

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

### **Charitable Donations**

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

### **Fixed Assets**

The movement of fixed assets during the year is set out at notes 8(a) and 8(b) on pages 70 - 71. There were no significant changes during the year.

### **Equality of Opportunity**

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

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

### **Employee Involvement**

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

Senior management meet regularly to contribute to the corporate planning process and discuss any other aspects of business arising. Managers hold regular section and

team meetings with staff to communicate the Commission's plans, receive feedback and give staff the opportunity to contribute to the planning process. The Landscape Review has identified that communications with staff requires further improvement and a detailed action plan has been developed by the Commission to address this issue.

During 2007/08 the Commission published weekly staff bulletins and established a communications forum with a view to quality assuring the communications processes within the Commission. The Commission held a staff conference in June 2008 which included participation from the Commission's key partners, the legal profession, voluntary sector and a senior member of the Northern Ireland Judiciary.

### **Health & Safety**

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

### **Prompt Payment**

With respect to grant in aid costs, the Commission aims to pay all properly authorised invoices in accordance with the terms of the relevant contracts or within 30 days. Reviews conducted to measure how promptly the Commission paid its bills found that 82% of bills were paid within this standard, (2006/07:75%).

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

## Receipts

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

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

Statutory Charge and Exemptions are commented on at point 4 on page 29.

## Research & Development

During 2007/08, the Commission continued to progress key elements of the reform programme in pursuance of the objectives set for the Commission by the Lord Chancellor on its establishment. This included:

- (a) further research and consultation into potential alternatives to the current arrangements for funding money damages cases under civil legal aid;
- (b) the preparatory development of the evidence-based research to underpin the development of the Northern Ireland Funding Code and revisions to the financial eligibility tests for applicants for legal aid; and
- (c) a consultation was undertaken on the development of Community Legal Services in December 2007, ending in March 2008. The responses

to the paper will form the basis for development of legal advice and information services provided through pilots funded by the Commission under the AJO.

The Commission continued to develop its business assurance model during 2007/08, developing its corporate and business risk registers in support of improvements in service delivery and the development of the reform programme.

## Future Developments

During 2007/08, the Commission made further progress in the preparations for commencement of the remaining articles in the AJO 2003. The Commission will be ready to legislate in 2010.

The Commission adopted a Human Resource Framework which sets out the likely outline structure of the Commission following implementation of the reform programmes for civil and criminal legal aid.

In 2007/08, the Commission kept a watching brief on developments leading to the devolution of justice powers to the DoJ and NIA on 12 April 2010.

## Auditors

The financial statements are audited by the Comptroller and Auditor General (C&AG) in accordance with the AJO 2003. He is head of the National Audit Office (NAO). He and his staff are wholly independent of the Commission and he reports his findings to Parliament. The audit of the financial statements for 2007-08 resulted in an audit fee of £65,000 (2006/07 £65,000). This fee is included in grant in aid administration costs, as disclosed in note 4 on page 68 to these

accounts. The difference between the audit costs for 2007/08 and 2006/07 is due to under accruals in previous years. The C&AG did not provide any non-audit services during the year.

### **Disclosure of Audit Information**

So far as I am aware, there is no relevant audit information of which the Commission's auditors are unaware. I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the Commission's auditors are aware of that information.

### **Post Balance Sheet Events**

Other than the devolution of policing and justice functions in Northern Ireland on the 12 April 2010, as outlined to the notes in the

financial statements, there were no other post balance sheet events which impacted on the financial statements or required disclosure.

On 12 April 2010, policing and justice functions in Northern Ireland were devolved to the NIA and the DoJ came into existence as a new Northern Ireland Department. From this date, the lead policy responsibility for the Commission transferred from the NICtS to the DoJ.

The 2007-08 financial statements have been prepared on the basis that the Commission was a NDPB of the NICtS for the entire financial year and these will be laid in Parliament. There is no impact on the 2007-08 financial statements arising from the transfer of functions to the NIA on 12 April 2010.

## Management Commentary

### Development and Performance

The Commission provides access to justice in civil legal matters to people who meet certain financial eligibility criteria and for cases which meet certain merit tests.

The financial year 2007/08 is the fourth full year since the Commission came into existence. This commentary will begin by highlighting the key achievements in this period under three Strategic Themes as set out in the 2007/08 Business Plan.

#### **Strategic Theme 1**

##### **To improve the delivery of existing legal aid services**

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

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

In order to improve processing times, challenging targets were set by the Commission for civil and criminal legal aid in 2007/08. These targets did not include parallel work streams undertaken by staff to reduce service delivery backlogs. It is important to note that the targets set were met in most instances.

#### **Strategic Theme 2**

##### **To reform publicly funded legal services**

In addition to improving the efficiency of service delivery processing, the Commission was charged by the Lord Chancellor with developing and delivering a challenging reform programme in order to bring control and predictability to the civil legal aid fund. The legal aid budget is currently demand-led and increases in costs are not specifically volume driven. The reform programme led by the Commission is mainly focused on civil legal aid with reforms to criminal legal aid being led by the NICTS. In 2007/08, the Commission made progress with key elements of the reform programme including:

- (a) the preparatory development of the evidence-based research to underpin the development of the Northern Ireland Funding Code and revisions to the financial eligibility tests for applicants for legal aid;
- (b) the publication of an exposure document on the Commission's early thinking on a Northern Ireland Funding Code, followed by a consultation on proposals for a draft funding code together with draft code criteria and a draft Equality Impact Assessment;
- (c) further research and consultation into potential alternatives to the current

arrangements for funding money damages cases under civil legal aid;

- (d) the publication of an exposure document setting out the Commission's early thinking on a registration scheme for providers of publicly-funded legal services;
- (e) as noted a consultation was undertaken on the development of Community Legal Services in December 2007, ending in March 2008; and
- (f) the publication of the Commission's policy on Delivering Value for Money in publicly-funded legal services.

During 2007/08 the Commission continued to fund a contract with the Law Centre (NI) that covered the provision of assistance and services in relation to immigration and asylum issues in Northern Ireland; deal with some related casework and provide training and support to other service providers in this specialised and complex area. The funding of the Law Centre in this way has been an important step in giving effect to the Commission's commitment to a mixed model (legal services provision by providers from the private and voluntary sectors) of service delivery for legal aid in Northern Ireland.

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

and has provided a template that will be drawn upon as the payment of standard fees increases in the civil jurisdiction.

In 2006/07, the Commission developed and made preparatory arrangements for the introduction of revised appeal processes in relation to a range of civil matters under unreformed legislation. The Commission was not in a position to embed these processes into its business during 2007/08 and these procedures were subject to review in 2008/09. In order to support the human resource demands of bringing forward major organisational change the Commission adopted a Human Resource Framework which sets out the likely outline structure of the Commission following implementation of the reform programmes for civil and criminal legal aid.

The Commission is very aware of the importance of communication with the legal profession and other key stakeholders particularly as the reform of legal aid is developed. To that end specific consultative forums have been established with representatives from the not for profit advice sector such as the Law Centre, Housing Rights, Advice Northern Ireland, Citizens Advice Bureau, Law Society and Bar Council. A Civil Legal Services Stakeholder Forum has also been established which includes representation from the judiciary, Children's Law Centre, Children's Commissioner and Northern Ireland Guardian Ad Litem Agency.

### **Strategic Theme 3**

#### **To strengthen the governance arrangements to enable the Commission to carry out effectively all its responsibilities**

The Commission continued to develop its business assurance model during 2007/08, developing its corporate and business risk registers in support of improvements in service delivery and the development of the reform programme. During 2007/08, the Commission, in conjunction with the NICTS, strengthened its project management capacity through the appointment of a senior project manager to assist the Commission management in the development of the reform programme. The Commission published a Delivery Plan which sets out the key steps in the preparations for the commencement of the AJO 2003.

The Commission reviewed its risk management policy in June 2007. Throughout 2007/08, the Commission took action under this policy to analyse and define the risk to financial management posed by unreformed legal aid legislation and also to develop a joint financial risk management approach between the Commission and the NICTS, in its role as the sponsoring department for the Commission and as the body responsible for criminal legal aid policy. The Commission continued to develop its project management processes around the reform programme and to identify the risks to this programme. These risks were, and continue to be, mainly around resourcing the reform programme and ensuring that the Commission has the skills and experience in a relatively small organisation to deliver on fundamental reform of the legal aid provision in Northern Ireland.

The funding of legal aid in year and the forecasting of it for future years remained a challenge during 2007/08 and the Commission worked closely with the NICTS throughout the year to manage the Comprehensive Spending Review process.

The Commission has an Audit and Risk Committee, which also acts as the business assurance and risk management committee. The Commission received detailed reports, together with recommendations for the improvement of the Commission's system of internal control and risk management. A key issue for the Audit and Risk Committee was the late completion of the financial accounts and annual reports. The Commission has strived to make progress in the publication of its financial statements. Annual Report and Accounts for 2003/04 and 2004/05 were laid before Parliament in December 2008 and February 2009 respectively. Annual Report and Accounts for 2005/06 and 2006/07 were laid before Parliament on 25 March 2010 and 7 July 2010 respectively.

#### **Landscape Review and Financial Review**

In 2007 two major reviews of the Commission's effectiveness and funding arrangements were superimposed on the twin and inextricably linked agendas of sustaining quality service delivery and preparation for reform. The Landscape Review, with fieldwork carried out in March and April 2007, was one of the periodic reviews of effectiveness, governance arrangements and relations with the sponsor department that take place in relation to all NDPBs.

In the final quarter of 2007, the NICTS and the Commission jointly sponsored a review of the Commission's financial requirements for 2007/08 and the ensuing three years

covered by the 2007 Comprehensive Spending Review. These reviews raised significant issues about the way in which the Commission operates and, building on them, the Board made important decisions to be carried through in future years. While the exercises have proved to be of considerable value to the Commission, together with uncertainties over funding, they have contributed to a planning environment in a constant state of flux. The Commission received the Landscape Review report in the final quarter of the financial year and prepared a detailed action plan to address the recommendations in the review. The Review and Action Plan are available for review on the Commission's website.

### **Year End Position**

The Commission was funded by grants provided by the NICTs. For the financial year to 31 March 2008 the Commission received Grant funding of £73,735k and Grant in Aid funding of £6,126k. Grant expenditure for the year totalled £75,623k and Grant in Aid expenditure for the year totalled £7,025k. At 31 March 2008, the Commission had outstanding Provisions for Liabilities and Charges of £109,540k (previously stated 31 March 2007 at £183,314k and restated in these accounts at £103,000k, note 1 Change in Accounting Policy and Estimation Technique on pages 37 - 38 refers) in respect of grant. This is the Commission's estimate of the cost of the work completed at the year end but not yet billed.

### **Training**

In 2007/08, 135 training events (590 training days) were attended by staff. The Commission not only focuses on "on-the-job" training specific to a job role, but also on the broader

skills required to work in and manage a modern, challenging environment. Training opportunities have been taken up by all grades and across all directorates.

### **Main Trends and Influencing Factors in Future Years**

The devolution of justice powers to the NIA, in April 2010, will have implications for the work of the Commission in future years, bringing changes to its corporate governance and accountability processes. The Commission became an NDPB of the DoJ, reporting to the DoJ through the newly established NICTS, an agency of the DoJ.

Another key future event for the Commission will be the commencement of the remaining provisions of the AJO 2003. The Commission is taking forward its work on four broad strands:

- (a) maintaining continuity and increasing performance in the delivery of its current and unreformed services;
- (b) continuing with the preparations for the introduction of Civil Legal Services under the AJO 2003, the key strands of which are the Northern Ireland Funding Code and revised financial eligibility tests for applicants;
- (c) supporting the reform of criminal legal aid in conjunction with the NICTS; and
- (d) developing its business assurance framework to support emerging best practice in public service organisations and to achieve the highest standards of financial reporting and accountability, and risk and quality management.

The Commission anticipates that the devolution of policing and justice in Northern Ireland will fundamentally change the Commission's corporate governance and accountability processes.

### **Sustainability**

The Commission supports current and future access to justice for the people of Northern Ireland in the services it provides. The Commission recognises the continuing nature of this need and the continuing relationship with providers of publicly-funded legal services to assisted persons in its definition of value for money in legal aid expenditure.

Regarding the Commission's impact upon the resources it uses, the Commission occupies limited office space, its systems are predominately paper based and managing paper-based case files over long-periods of time as cases come to an end represents a major challenge to the Commission. The Commission has arrangements in place with suppliers to help it manage the storage, retrieval and records management issues arising from its business effectively.

## Key Performance Indicators

### (Extracted from the Commission's 2007/08 Business Plan)

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

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

The following tables illustrate the Commission's performance against the pre-defined key performance indicators for the 2007/08 financial year.

Target description	Target performance	Actual performance achieved
<b>Criminal</b>		
Make payments in respect of claims for criminal legal aid in Crown Court cases	75% within 6 weeks	61% within 6 weeks 75% in 9 weeks
Make payment in respect of claims for Magistrates Court cases	80% within 12 weeks	51% within 12 weeks 75% in 18 weeks

Target description	Target performance	Actual performance achieved
<b>Civil</b>		
Civil application received (non-emergency) to adjudication granted	75% within 20 weeks	42% within 20 weeks 75% within 37 weeks
Civil application registered (non-emergency) to adjudication granted	75% within 20 weeks	65% within 20 weeks 75% within 28 weeks
Make a decision in respect of emergency civil legal aid applications	75% within 1 day 80% within 2 days 100% within 3 days	86% within 2 days 89% within 3 days
Make payments in respect of claims for civil legal aid (excluding Direct Authority and Article 3 cases)	75% within 6 weeks	76% within 6 weeks
Make payments in respect of claims for civil legal aid (Direct Authorities)	75% within 6 weeks	90% within 6 weeks

Target description	Target performance	Actual performance achieved
<b>Assistance by Way of Representation (ABWOR)</b>		
Make decisions in respect of civil legal aid applications (ABWOR)	75% within 1 day 80% within 2 days 100% within 3 days	92% within 1 day 92% within 2 days 93% within 3 days
Make payments in respect of claims for civil legal aid application (ABWOR)	75% within 6 weeks	80% within 6 weeks

Target description	Target performance	Actual performance achieved
<b>Children Order</b>		
Make decisions in respect of Children Order applications	75% within 1 day 80% within 2 days 100% within 3 days	94% within 1 day 94% within 2 days 95% within 3 days
Make payments in respect of claims for Children Order work	75% within 6 weeks	50% within 6 weeks 75% within 15 weeks

Target description	Target performance	Actual performance achieved
<b>Legal Advice and Assistance (LAA)</b>		
Make payments in respect of claims for civil legal aid (LAA)	75% within 6 weeks	58% within 6 weeks 76% within 9 weeks

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

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

In addition to the performance indicators above, the Commission also publishes additional performance statistics on its website [www.nilsc.org.uk](http://www.nilsc.org.uk).

## Remuneration Report

### Remuneration Policy

Unless stated below, officials employed by the Commission hold appointments which are open-ended until they reach the normal retiring age. Staff members are appraised annually against a set of competencies and individually targeted objectives. Bonuses, which form only a small percentage of total salaries, are the only form of remuneration subject to performance conditions.

The Human Resources Framework 2007/08 - 2010/11 is the foundation for the Commission's strategic objectives with regard to its key resource – its staff. One of the agreed performance measurements states that the Commission “will develop and use key performance indicators to measure, monitor and review its performance in relation to reward and recognition, including salary differential by grade comparable to Northern Ireland public sector rates of pay.”

In the financial year to 31 March 2008, Board members' remuneration was determined by the Lord Chancellor.

### Committee Members

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

### Commissioners

Commissioners are remunerated for time spent on Commission duties. They receive fees and reimbursements of expenses only, with no pension contributions and no other benefits. The Commissioners operate as a non-executive board. Total remuneration for Commissioners during the year is given below.

		<b>Audited 2007-08 £'000</b>	<b>Audited 2006-07 £'000</b>
<b>Commissoners</b>			
Sir Anthony Holland	Appointed 19 April 2004-31 July 2007	15-20	40-45
Mr Jim Daniell	Appointed 12 November 2007	20-25	-
Mr Les Allamby	Appointed 28 July 2003; Reappointed 1 August 2006	15-20	15-20
Ms Fiona Donnelly	Appointed 1 September 2006	15-20	5-10
Mr Joseph Donnelly	Appointed 1 September 2006	15-20	10-15
Ms Breidge Gadd CBE	Appointed 28 July 2003; Reappointed 1 August 2006	15-20	15-20
Dr Jeremy Harbison CB	Appointed 28 July 2003; Reappointed 1 August 2006	20-25	15-20
Mr Wilson Matthews	Appointed 1 September 2006	20-25	10-15
Mrs Hilary McCartan	Appointed 1 September 2006	15-20	10-15
Mr Miceal McCoy	Appointed 28 July 2003; Reappointed 1 August 2006	25-30	15-20
Mr Ronald Spence CB	Appointed 28 July 2003; Reappointed 1 August 2006	35-40	15-20
Mr Brian Fee QC	Appointed 1 January 2005-31 December 2007	-	-
Mrs Maeve Bell OBE	Appointed 28 July 2003-31 July 2006	-	0-5
Mrs Jennifer Greenfield	Appointed 28 July 2003-31 July 2006	-	0-5
Mr Francis Hewitt	Appointed 28 July 2003-31 July 2006	-	0-5
Mr Peter Osborne	Appointed 28 July 2003-31 July 2006	-	0-5

Mr. Ronald Spence CB was Interim Chairman from 3 August 2007 to 11 November 2007.

## Chief Executive and Directors

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

<b>Name and title</b>	<b>Salary 2008 £'000</b>	<b>Salary 2007 £'000</b>	<b>Real increase in pension and related lump sum at age 65 years £'000</b>	<b>Accrued pension and related lump sum at age 65 years £'000</b>	<b>CETV at 31/03/08 £'000</b>	<b>CETV at 31/03/07 £'000</b>	<b>Real increase in CETV after adjustment £'000</b>
Mr G Crossan Chief Executive	85-90	85-90	0-2.5 plus 0-2.5 related lump sum	20-25 plus 70-75 related lump sum	344	312	22
Mr I Hearst Director of Service Delivery	25-30 (60-65 full year equivalent)	60-65	0-2.5 plus 0-2.5 related lump sum	5-10 plus 15-20 related lump sum	75	69	5
Dr T Donaldson Director of Policy & Service Development	65-70	60-65	0-2.5 plus 2.5-5.0 related lump sum	10-15 plus 30-35 related lump sum	167	141	21
Mr G Brooks Director of Corporate Services	-	55-60	-	-	-	8	-

Mr G. Crossan was appointed as Chief Executive of the Commission in October 2003 and he took up the position with the establishment of the Commission on 1 November 2003. He remained in his role until 31 July 2009.

Mr P. Andrews served as Interim Chief Executive from 24 August 2009 to 31 January 2010. On 1 February 2010 Mr P. Andrews was appointed as Chief Executive of the Commission through an external competition.

Mr I. Hearst was appointed as Director of Service Delivery on 1 March 2006. Mr Hearst resigned from the Commission on 7 September 2007.

Dr. T. Donaldson was appointed Director of Policy and Service Development on 13 September 2004. On 1 September 2007 Dr. Donaldson took up the combined role of Director of Policy and Service Delivery.

Ms L. Johnston was appointed to the temporary role of Finance Director on 7 November 2006 through secondment from the NICtS. Her salary costs are met by the NICtS and as such details are not disclosed above. A charge of £59K was incurred for 2007/08 by the Commission in respect of Ms Johnston's basic salary costs. (£22K 2006/07, full year equivalent £55K). In addition £14k was incurred for 2007/08 by the Commission in respect of Ms Johnston's accruing superannuation liability charges (pension costs) and £6k in respect of earnings related national insurance.

Mr G. Brooks was appointed Director of Corporate Services on a 1 year fixed term contract from 1 March 2006 to 20 February 2007. He remained with the Commission until 31 March 07 in the role of Chief Executive Support Officer.

## **Salary**

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

## **Benefits in Kind**

Senior management did not receive any taxable benefits in kind.

## **Pension Benefits**

The pension benefits of the senior management team and employees are provided through the Northern Ireland Local Government Officers' Superannuation Committee Scheme (the NILGOSC Scheme). This is a funded scheme which provides benefits on a 'final salary' basis at a normal retirement age of 65 years. Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years pension is payable on retirement. Commission employees contribute to the NILGOSC scheme at a rate of 1.5% of pensionable earnings. During 2007/08 employer contributions were made at a rate of 17.5% (included an additional 4.5% contributed on behalf of employees).

## **Cash Equivalent Transfer Values**

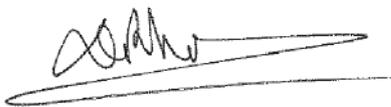
A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment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

when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme.

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

### **Real increase in CETV**

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



**Paul Andrews**  
Chief Executive  
16th July 2010

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

In the year to 31 March 2008 the NICtS was responsible to Parliament for the proper and efficient use of monies voted for the cost of the grant in aid funded operations and the Legal Aid Fund. The NICtS exercised these responsibilities through the Department's Principal Accounting Officer, who designated me, the Chief Executive of the Commission, as the Commission's Accounting Officer. From 12 April 2010, the responsibility for the NICtS and the Commission transferred to the NIA.

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

I acted in accordance with a range of certain general and specific responsibilities and with other instructions and guidance issued periodically by the NICtS, the Treasury and the Cabinet Office – in particular the Treasury's NDPB Accounting Officer

guidelines in Managing Public Money. From 12 April 2010, the Commission will be governed by guidance issued by the DoJ and the Department of Finance and Personnel in Northern Ireland.

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

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

I am also responsible for ensuring that appropriate controls are in place to protect the integrity of the Commission's Internet site. This includes ensuring that there are reasonable controls to guard the accuracy and completeness of the annual report document (incorporating the audited 2007/08 financial statements) that is available to the public on the Commission's website.

## Statement on Internal Control

### Scope of Responsibility

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

In 2007-08 the Commission was an NDPB of the NICtS. The Board of the Commission had a corporate responsibility for ensuring that the Commission fulfilled the aims and objectives set by the Lord Chancellor and for promoting the efficient and effective use of resources by the organisation. I, as Accounting Officer, in agreement with the NICtS, established the organisation's corporate and business plans in light of the Commission's wider strategic aims. I advised the Board on the Commission's operating and financial performance and ensured that its governance responsibilities could be discharged in accordance with established criteria. The relationship between the Commission and the NICtS was formalised in an agreed management statement and financial memorandum, and was informed by relevant Dear Accounting Officer letters.

### The Purpose of the System of Internal Control

The system of internal control was designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It could

therefore only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control was based on an ongoing process designed to identify and prioritise the risks to the achievement of Commission's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control in place during the year to 31 March 2008 was further developed by the Commission in the subsequent accounting periods. It remains in place up to the date of approval of the Annual Report and Accounts, and accords with Treasury risk management guidance.

### Capacity to Handle Risk

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

Since the Commission's inception on 1 November 2003, oversight of risk management has been the responsibility of the Audit and Risk Committee, which was established in November 2003. The Audit and Risk Committee comprises representatives from the Commission's Board, with senior management, internal audit consultants and the external audit representatives in attendance as required.

### The Risk and Control Framework

A risk management policy for the Commission was issued in December 2003 and has been subject to several updates. During 2007/08 the Commission employed suitably qualified external consultants to undertake the internal audit function. During this time,

the Commission's internal auditors gave the Commission reasonable assurance in relation to the Commission's risk management framework. The Commission continues to take forward the appropriate processes and policies for risk management, namely:

- A corporate risk register to identify the risks threatening to impact upon the achievement of the Commission's objectives;
- A risk control framework to support the departmental and corporate risk registers;
- Detailed statements of assurance from senior managers providing formal declarations on their respective business areas.

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

### **Review of Effectiveness**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors and the executive managers within the Commission who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditor's in their letters and other reports. I have been advised on the

implications of the result of my review of the effectiveness of the system of internal audit control by the Board of the Audit and Risk Committee, and a plan to address weaknesses and ensure continuous improvement of the systems is in place.

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

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

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

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

- An annual report from the chairman of the Audit and Risk Committee to the Board on its programme of activity for

the year;

- An annual check of internal effectiveness of the Audit and Risk Committee against the NAO Audit Committee Self Assessment Checklist (first undertaken in March 2005);
- Regular reviews by the internal auditors, to standards defined in the Government Internal Audit Manual, including an Annual Assurance Statement that contains independent opinion on the adequacy of effectiveness of the Commission's systems together with recommendations for improvement;
- Reports at each meeting of the Board from the Audit and Risk Committee Chairman concerning internal control issues;
- Periodic stewardship statements to the Audit and Risk Committee relating to the Risk Control Framework;
- Development of Quality Management Systems with a view to seeking ISO 9001 accreditation.

### **Significant Internal Control and Related Issues**

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

#### **1 Provisions**

The lack of adequate legal aid expenditure forecasting information has presented the Commission with various control and financial reporting issues. This has continued to cause concern during the year. To address

this concern the Commission has prioritised provisions and forecasting as key areas to action and has put significant resource into developing processes and systems.

Significant advances have been made in capturing information for provisions and forecasting purposes. A new database model has been developed during 2009/10 with the aid of external consultants and is currently in the process of being tested to ensure it can meet the needs of the Commission and the validation requirements of audit. It is planned to utilise the output of this new model as the primary source of provision figures in the 2008-09 accounts. The initial test results are very promising and the new database model is able to provide information on a timely basis. Key stakeholders have been kept informed as the database has been developed. Internal Audit has also been asked to carry out a review and any recommendations arising from this review will be addressed.

The other significant point to note is that the new database has also allowed the Commission to start re-examining the lifecycle of specific case categories. This work will continue during 2010/11 and the results will again be subject to rigorous testing and validation.

In the Financial Statements the opening provisions balance has been restated. This is due to the fact that firstly from 1 April 2007 the technique used to estimate the provisions balance for civil legal services recognised that not all certificates issued would result in a claim on the legal aid fund, and for criminal defence recognised that individual certificates may result in more than one claim on the legal aid fund.

Secondly, from 1 April 2007 the Commission recognised the liability to pay for work completed at the year end but not yet billed. The provision is based on an estimation of the value of work completed on outstanding legal aid certificates. This is a change in accounting policy from earlier periods when the provision reflected the full estimated cost attached to a legal aid certificate. The change in policy acknowledges that the obligation arises from the work being undertaken rather than from the certificate being issued.

These adjustments represent prior year adjustments and the corresponding figures for 2006-07 have been restated. Refer to notes 1 and 11 to the Grant accounts for details.

During the implementation of the new provisions model and the review of the lifecycles it has been identified that the provisions figure in the financial statements will require adjustment. Further work continues on the validation and verification of the provision balance which will see adjustments, which in some instances will counterbalance each other. Consideration has been given whether to put any adjustments in the 07/08 accounts but it is considered prudent to wait until the verification and validation process has been completed.

## **2 Counter Fraud**

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

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

area of work.

The Fraud Prevention and Investigation Unit has been working to improve and document processes and procedures with increased focus on proactive investigations to support those already resulting from specific suspicions raised either inside or outside the Commission.

Running in parallel with ongoing investigations, the unit has also focused on developing the Commission's counter fraud policy which is constantly under review, including major updates in 2006 and again in March 2009. The strategy document developed from the 2009 review was approved by the Commission and is in the process of further refinement during 2010. Throughout these reviews, lessons learnt are applied to countering fraud both before and after it is detected.

Workshops were held with all staff to address issues arising from fraud and the impact of fraud on their areas of work. This training is afforded to all new staff employed by the Commission as part of their induction training.

During 2010/11 a strategic review of Counter Fraud operations has been identified in the Business Plan. This review will include an examination of relationships with other relevant government bodies and agencies to communicate and share information to counter fraud.

## **3 Timeliness of Annual Reports and Accounts**

Delays encountered with addressing areas of weakness in internal control and related issues have contributed to the delay in publication of the annual report

and financial statements. In addition, the proposed treatment of provisions within the accounts has been of significant concern to the Commission and has caused major delays. The Commission is putting into place measures to address the provisions issue. In particular, the number of appropriately qualified finance staff in the Commission has subsequently been increased substantially.

#### **4 Statutory Charge and Exemptions**

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

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

#### **5 Policies and Procedures**

A number of policies and procedures,

including supervisory checks, require formal documentation and / or review and update. Much has been done to address this in the intervening period, however, this remains under continuing review as several of these continue to be a cause for concern and are being actively prioritised and addressed by management.

Identified areas of weakness, their associated action plans and processes to review the effectiveness of the Commission, are being addressed under the Commission's Business Assurance Framework. The key components of this framework are as follows:

- **Quality**

The development of a complete management system compliant with the ISO9001-2000 quality standard;

- **Risk management**

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

- **Resource management**

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

- **Communication**

- Improving and more structured engagement with external stakeholders
- Consultation on policy changes

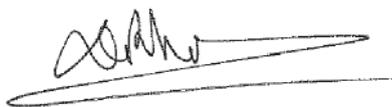
- Development of intranet facilities for staff
- Production of an organisational change management bulletin.

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

- Progressive implementation of a risk management and business assurance framework;
- Clarification and regularisation of inherited policies and staff terms and conditions;
- Increased emphasis on fraud awareness through appointment of dedicated counter fraud staff;
- Inclusion of wider operational processes under the debt recovery strand of the Fundamental Review of Legal Aid.

## **6 Landscape Review**

The Commission received the Landscape Review report in the final quarter of the financial year 2007/08 and prepared a detailed action plan to address the recommendations in the review. The Action Plan has been kept under review and reported on a regular basis to the Board.



**Paul Andrews**  
Chief Executive  
16th July 2010

## Legal Aid Grant

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

I certify that I have audited the financial statements of the Northern Ireland Legal Services Commission Legal Aid Funds for the year ended 31 March 2008 under the Access to Justice (Northern Ireland) Order 2003. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

The Northern Ireland Legal Services Commission and Chief Executive, as Accounting Officer, are responsible for preparing the financial statements in accordance with the Access to Justice (Northern Ireland) Order 2003 and directions made thereunder by the Lord Chancellor, with the approval of HM Treasury, and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Northern Ireland Legal Services Commission and Chief Executive's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Access to Justice (Northern Ireland) Order 2003 and directions made thereunder by the Lord Chancellor, with the approval of HM Treasury. I report to you whether,

in my opinion, the information which comprises the Chief Executive's Report and the Management Commentary, included in the Annual Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Northern Ireland Legal Services Commission has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury is not disclosed.

I review whether the Statement on Internal Control reflects the Northern Ireland Legal Services Commission's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Northern Ireland Legal Services Commission's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## **Basis of audit opinions**

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Northern Ireland Legal Services Commission and Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Northern Ireland Legal Services Commission's circumstances, consistently applied and adequately disclosed.

I planned my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

The evidence available to me was limited because the Commission were unable to provide sufficient evidence to enable me to conclude that Legal Aid expenditure was not fraudulently claimed. There were no additional audit procedures I could undertake to provide me with assurance as to the level of regularity of this expenditure. The scope of my audit was therefore limited in this

respect and I am not able to form an opinion on whether the expenditure on Legal Aid was in accordance with the purposes intended by Parliament and that these financial transactions conformed to the authorities which governed them.

## **Opinions**

### **Adverse opinion arising from a disagreement with the application of accounting policy**

Provisions have been made in the financial statements for the costs of Legal Aid cases incurred up to the end of the financial year. However in applying the accounting policy for Legal Aid provisions, weaknesses in the model used to calculate provisions have resulted in an overstatement of approximately £21 million in provisions at 31 March 2008 (recorded at £110 million within the financial statements).

In view of the effect of the errors arising from the application of the accounting policy on legal aid provisions referred to above, in my opinion the financial statements do not give a true and fair view of the state of affairs of the Northern Ireland Legal Services Commission Legal Aid Grant at 31 March 2008 and of the deficit and cash flows for the year then ended.

In all other respects, in my opinion, the financial statements have been properly prepared in accordance with the Access to Justice (Northern Ireland) Order 2003 and directions made thereunder by the Lord Chancellor, with the approval of HM Treasury; and

Notwithstanding my adverse opinion on the financial statements, in my opinion the information which comprises the Chief

Executive's Report and the Management Commentary, included within the Annual Report is consistent with the financial statements.

**Qualified opinion on Regularity due to a limitation of scope**

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

In respect alone of the limitations of my work relating to provisions and evidence to support the regular nature of Legal Aid claims and Legal Aid costs, I have not obtained all the information and explanations that I considered necessary for the purpose of my audit and I am therefore unable to determine whether proper records have been maintained for those items.

**Report**

Details of these qualifications are included in my Report on pages 79 to 82.

**Amyas C E Morse**

Comptroller and Auditor General  
National Audit Office  
157 - 197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

23 July 2010

## Income and Expenditure Account for Grant for the Year Ended 31 March 2008

		2007/08	Restated 2006-07
	Note	£'000	£'000
<b>Income</b>			
Other operating income	2	999	1,213
		<u>999</u>	<u>1,213</u>
<b>Expenditure</b>			
Operating expenditure	3	75,311	79,564
Other expenditure	4	312	420
		<u>75,623</u>	<u>79,984</u>
<b>Deficit before interest</b>		<u>(74,624)</u>	<u>(78,771)</u>
Interest receivable and similar income	5	13	4
Notional cost of capital	6	3,729	3,535
<b>Deficit for the year</b>		<u>(70,882)</u>	<u>(75,232)</u>
Reversal of notional cost of capital		<u>(3,729)</u>	<u>(3,535)</u>
<b>Deficit for the year excluding notional cost of capital</b>		<u>(74,611)</u>	<u>(78,767)</u>

All income and expenditure is derived from continuing operations.

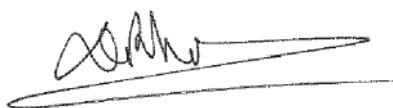
There are no gains and losses other than those recognised in the income and expenditure account.

The notes on pages 37 to 52 form part of these accounts.

## Balance Sheet for Grant as at 31 March 2008

		<b>31 March 2008</b>	<b>Restated 31 March 2007</b>
	<b>Note</b>	<b>£'000</b>	<b>£'000</b>
<b>Current assets</b>			
Debtors	7	951	913
Cash at bank and in hand	9	<u>2,226</u>	<u>37</u>
		<u>3,177</u>	<u>950</u>
<b>Creditors:</b> amounts falling due within one year	10	<u>(629)</u>	<u>(4,066)</u>
<b>Net current assets/(liabilities)</b>		2,548	(3,116)
Provisions for liabilities and charges	11	(109,540)	(103,000)
<b>Total assets less total liabilities</b>		<u>(106,992)</u>	<u>(106,116)</u>
<b>Financed by:</b>			
<b>Capital and reserves</b>			
General fund	13	<u>(106,992)</u>	<u>(106,116)</u>

The notes on page 37 to 52 form part of these accounts.



**Paul Andrews**  
Chief Executive  
16th July 2010

## Cash Flow Statement for Grant for Year Ended 31 March 2008

		<b>2007/08</b>	<b>2006-07</b>
	<b>Note</b>	<b>£'000</b>	<b>£'000</b>
<b>Operating activities</b>			
Net cash outflow from continuing operating activities	14	<u>(71,546)</u>	<u>(68,549)</u>
<b>Net cash outflow before financing</b>		<b>(71,546)</b>	<b>(68,549)</b>
<b>Financing</b>			
Transfer of Grant	13	<u>73,735</u>	<u>68,522</u>
<b>Increase/(decrease) in cash during the year</b>		<b><u>2,189</u></b>	<b><u>(27)</u></b>

The notes on pages 37 to 52 form part of these accounts.

## Notes to the Grant for the Year Ended 31 March 2008

### 1. Statement of Accounting Policies

#### Basis of preparation

The financial statements have been prepared in accordance with the 2007-08 Financial Reporting Manual (FRoM) issued by HM Treasury. The accounting policies contained in FRoM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where FRoM guidance permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Commission for the purpose of giving a true and fair view has been selected. The Commission's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

#### Change in estimation technique

A prior year adjustment has been made in respect of the estimation technique applied in the calculation of provisions. From 1 April 2007 the technique used to estimate the provisions balance for civil legal services recognises that not all certificates issued will result in a claim on the legal aid fund (no bills), and for criminal defence recognises

that individual certificates may result in more than one claim on the legal aid fund (Certificate to report). The adjustment represents a correction of a fundamental error in prior years and in line with FRS18 Accounting Policies is accounted for as a prior year adjustment. The corresponding figures for 2006-07 have been restated. The schedule under "Change in accounting policy" below, shows the impact of adopting this new technique on both the Income & Expenditure and Balance Sheet statements.

#### Change in accounting policy

From 1 April 2007 the Commission recognised the liability to pay for work completed at the year end but not yet billed. The provision is based on an estimation of the value of work completed on outstanding legal aid certificates. This is a change in accounting policy from earlier periods when the provision reflected the full estimated cost attached to a legal aid certificate. The change in policy acknowledges that the obligation arises from the work being undertaken rather than from the certificate being issued. This change results in a prior year adjustment and the corresponding figures for 2006-07 have been restated. The effect of these prior year adjustments are shown below.

Impact on 2006-07	31 March 2007 (as previously stated)	Impact of change in estimation technique		Impact of adopting new policy	At 31 March 2007 (restated)
		No bills adjustment	Certificate report ratio adjustment		
	£'000	£'000	£'000	£'000	£'000
<b>Income &amp; expenditure</b>					
Net expenditure 2006-07	73,195	(8,991)	11,206	3,357	78,767
<b>Balance Sheet</b>					
Provisions	(183,314)	56,670	(51,497)	75,141	(103,000)
Opening reserves	(181,757)	47,679	(40,291)	78,498	(95,871)

#### a) Accounting conventions

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

#### b) Grant Income recognition

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

Grant income comprises of grants drawn from the NICtS.

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

#### c) Other Income

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

**d) Expenditure**

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

**e) Notional Charge**

As required by HM Treasury, a charge is made to the 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% of average net assets employed during the year. In accordance with HM Treasury guidance, the notional charge is reversed out of the income and expenditure account before determining the retained surplus or deficit for the year.

**f) Accounting for Value Added Tax**

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

**g) Provisions**

The Commission recognises provisions for obligations to settle the costs incurred by the legal profession in providing legal advice and assistance to assisted persons that arise from the issue of certificates granting legal aid for specific cases. The provision is calculated at the best estimate of the expenditure required to settle the obligation on a case by case basis. Expenditure relating to the creation of provisions is charged to the income and

expenditure account in the year in which the obligation arises.

From 1 April 2007 the Commission recognised the liability to pay for work completed at the year end but not yet billed. This is a change in estimation technique from earlier periods when the provision reflected the full estimated cost attached to a legal aid certificate. This change results in a prior year adjustment and the corresponding figures for 2006-07 have been restated.

**h) Commitments**

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

**i) Provision of Doubtful Debts**

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

**j) Going concern**

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

**k) Third Party Funds**

Awards for damages to funded clients may be required by the Legal Services Commission to offset any liability to the grant. The Commission places these funds on deposit until the liability, if any, is determined and any excess of damages is paid to the funded client. These funds are accounted for as funds held on behalf of third parties and therefore only appear in the notes of these accounts (See Grant Note 15).

**2. Other operating income**

	<b>2007-2008</b> <b>£'000</b>	<b>2006-2007</b> <b>£'000</b>
Contributions from assisted persons	469	617
Costs Recovered	471	511
Damages retained	59	85
	<u><b>999</b></u>	<u><b>1,213</b></u>

**3. Operating expenditure**

	<b>2007-2008</b> <b>£'000</b>	<b>Restated</b> <b>2006-2007</b> <b>£'000</b>
Solicitors's charges, counsel fees and disbursements	75,131	79,384
Immigration and asylum grant funding	180	180
	<u><b>75,311</b></u>	<u><b>79,564</b></u>

**4. Other expenditure**

	<b>Note</b>	<b>2007-2008 £'000</b>	<b>2006-2007 £'000</b>
Debt written off and movement in doubtful debt provision	8	312	420
		<u><b>312</b></u>	<u><b>420</b></u>

**5. Interest receivable**

		<b>2007-2008 £'000</b>	<b>2006-2007 £'000</b>
Bank interest receivable		13	4
		<u><b>13</b></u>	<u><b>4</b></u>

**6. Notional cost of capital**

The income and expenditure account bears a non-cash charge for interest relating to the use of capital by the Commission. The basis of the charge is 3.5% pa of the average capital employed by the Commission during the year, defined as total assets less all liabilities. The notional charge is reversed out of the income and expenditure account before determining the retained surplus or deficit for the year. As the Legal Aid Fund has net liabilities a credit applies.

**7. Debtors:** amounts falling due within one year**7(a) Analysis by type**

	<b>Note</b>	<b>31 March 2008 £'000</b>	<b>31 March 2007 £'000</b>
Debtors			
- costs		1,352	1,120
- contributions		996	956
- other		<u>40</u>	<u>62</u>
		2,388	2,138
Doubtful debt provision	8	(1,482)	(1,225)
Prepayments		45	-
		<u><b>951</b></u>	<u><b>913</b></u>

**7(b) Intra-Government balances**

Balances with bodies external to government		951	913
		<u><b>951</b></u>	<u><b>913</b></u>

**8. Doubtful debt provision**

	<b>31 March 2008</b> <b>£'000</b>	<b>31 March 2007</b> <b>£'000</b>
As at 1 April 2007	(1,225)	(1,009)
Doubtful debts written off	63	217
Doubtful debts written off subsequently recovered	(8)	(13)
Charge to the income and expenditure account	(312)	(420)
As at 31 March 2008	<u>(1,482)</u>	<u>(1,225)</u>

**9. Cash at bank in hand**

	<b>31 March 2008</b> <b>£'000</b>	<b>31 March 2007</b> <b>£'000</b>
Cash at bank	2,226	37
	<u>2,226</u>	<u>37</u>

**10. Creditors:** Amount falling due within one year

**10(a) Analysis by type**

	<b>31 March 2008</b> <b>£'000</b>	<b>31 March 2007</b> <b>£'000</b>
Amounts due to solicitors, counsel and advice agencies	(629)	(4,066)
	<u>(629)</u>	<u>(4,066)</u>

**10(b) Intra-Government balances**

Balances with bodies external to government	(629)	(4,066)
	<u>(629)</u>	<u>(4,066)</u>

**11. Provision for liabilities and charges**

	<b>Civil legal services £'000</b>	<b>Criminal defence £'000</b>	<b>Total £'000</b>
As at 1 April 2007 (Restated)	(24,850)	(78,150)	(103,000)
Additions and increases to provision	(36,323)	(89,020)	(125,343)
Amounts used in the year	25,139	43,452	68,591
Unused amounts reversed in year	10,819	39,393	50,212
As at 31 March 2008	<u>(25,215)</u>	<u>(84,325)</u>	<u>(109,540)</u>

**12. Commitments**

The Commission recognises that there is a continuing obligation to fund cases past balance sheet date. It is estimated that these commitments are in the order of £57m (£75m at 31 March 2007).

### 13. Movement on general fund

	Note	31 March 2008 £'000	Restated 31 March 2007 £'000
Opening balance		(106,116)	(181,757)
Prior year adjustment	1	-	85,886
Net expenditure for year		(74,611)	(78,767)
Grant income		73,735	68,522
Closing balance		<u>(106,992)</u>	<u>(106,116)</u>

### 14. Notes to cash flow statement

#### (i) Reconciliation of net cost of operations to net cash flow from continuing operating activities

	31 March 2008 £'000	Restated 31 March 2007 £'000
Result for period	(70,882)	(75,232)
Credit in respect of notional costs	(3,729)	(3,535)
(Increase)/decrease in debtors	(38)	430
(Decrease)/increase in creditors	(3,437)	2,667
Increase/(decrease) in provisions	6,540	(78,765)
Prior year adjustment	-	85,886
Net cash outflow from continuing operating activities	<u>(71,546)</u>	<u>(68,549)</u>

**(ii) Reconciliation of net cash flow to movement in net funds**

Cash at bank and in hand 1 April 2007	37	64
Cash at bank and in hand 31 March 2008	2,226	37
<b>Net movement in funds</b>	<b><u>2,189</u></b>	<b><u>(27)</u></b>

**15. Third party funds**

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

The movement on these third party funds for the 12 months ended 31 March 2008 was as follows:

	<b>31 March 2008</b>	<b>31 March 2007</b>
	<b>£'000</b>	<b>£'000</b>
Balance at 1 April 2007	206	375
Received for the year	669	629
	<u>875</u>	<u>1,004</u>
Less:		
Sums repaid to assisted persons	(665)	(713)
Damages retained	(77)	(85)
Balance at 31 March 2008	<b><u>133</u></b>	<b><u>206</u></b>

## 16. Summary of losses and special payments

There were 115 cases written off during the year totalling £63K and 19 recoveries totalling £8k in respect of amounts previously written off.

### Statutory Charge Losses

A statutory charge system exists whereby if someone gains or keeps money or property with the help of legal aid in a civil case, they may have to repay all or some of their legal costs out of that money or property – if their costs are not recovered from their opponent. Historically, the Commission has treated transfers of both money and property in these cases as being exempt from the statutory charge. However it has recently received legal opinion which questions this interpretation of the Regulations. In view of the legal opinions received, the Commission has considered how to address this issue for past, current and future cases. Various options have been considered but the preferred option is to implement the necessary changes from a fixed date for all new cases going forward and not to back date the charge for either past or current cases. Steps are currently being taken to set the implementation date following consultation with stakeholders on the matter.

### Other payments

An exceptional payment on account of £20,000 was made to a barrister in respect of hardship. This amount was recovered against future claims made.

## 17. Events after the balance sheet date

On 12 April 2010, justice functions in Northern Ireland were devolved to the DoJ and NIA. From this date, the lead policy

responsibility for the Commission transferred from the NICtS to the DoJ.

There were no events after the balance sheet date requiring an adjustment to the financial statements.

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

## 18. Related party transactions

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

Commission members are required to declare any personal, financial and business interests which may conflict with their duties to the Commission. Members may not participate in Commission discussions or decisions on policy or financial matters where a conflict of interest arises.

During the year ended 31 March 2008 the Commission entered into a number of material transactions with some Commission members, other related parties or their close family members. These transactions are detailed below. External members of the Commission were required to declare any personal, financial and business interests which constituted material transactions with the Commission. Any immediate connections with the Legal Aid Fund and these members, or the organisations with which the members are associated, have been declared below.

The figures below relate to the transactions in respect of funded work and include payments

on account, disbursements which may be payable to third parties, and fees payable to counsel. The amounts are stated inclusive of VAT, as this is a cost to the Commission. All transactions are for the period 1 April 2007 to 31 March 2008 unless otherwise stated. The transactions do not reflect annual earnings as they might include fees for work carried out in previous years but not billed until this financial year; they may also exclude fees for work carried out in 2007/08 but not yet billed.

**Mr Les Allamby** is a Commissioner and is also director of the Law Centre (NI). His nephew, Mr Ian Tannahill is a barrister who receives payments in respect of legal aid casework.

The Law Centre (NI) provides specialist immigration and asylum advice and operates under grant funding. Funding originally obtained from the Home Office has been administered by the Commission since 1 April 2005. The total amount of payments made to the Law Centre during 2007/08 in respect of funding was £225,000

Legal aid payments are also made to the Law Centre for work carried out on behalf of individuals qualifying for legal aid. The total amount of these payments during 2007/08 was £23,821.

No payments were made to Mr Tannahill during 2007/08.

**Mr Brian Fee** is a Commissioner and a practising barrister. He is not remunerated for his work as a Commissioner. He served as a Commissioner to December 2007. His brother is a partner in the solicitor practice of Murnaghan and Fee. No payments were made to Mr. Fee during 2007/08.

Murnaghan and Fee solicitors received payments of £121,216 during 2007/08 in respect of legal aid casework.

**Mr Miceal McCoy** is a Commissioner. His brother-in-law, Mr Gerry Grainger is a barrister who undertakes legal aid casework.

Mr Grainger received legal aid payments during 2007/08 of £1,444.

**Ms Fiona Donnelly** is a commissioner and solicitor with Fiona Donnelly Solicitors. No payments were made to Fiona Donnelly Solicitors during 2007/08.

**Mr Joseph Donnelly** is a Commissioner and solicitor with Anderson Agnew and Company solicitors.

His cousins, Mr Damien Agnew and Mr Brendan Agnew, are partners in Anderson, Agnew & Co solicitors. Anderson Agnew and Co received legal aid payments during 2007/08 of £17,148.

His cousin Mr Seamus Agnew is a partner in Agnew Andress solicitors. Agnew Andress solicitors received legal aid payments during 2007/08 of £6,545.

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

External committees which deal with refusal of legal aid and assessment of bills in civil proceedings, and legal aid bills in criminal proceedings, are comprised of external members of the legal profession. As committee members they are paid a standard attendance fee and as members of the legal profession they may receive payments in respect of legal aid casework.

## **19. Financial instruments**

FRS 13 Derivatives and other financial instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of the Commission's activities and the way in which the Commission is financed, the Commission is not exposed to the degree of financial risk faced by business entities. As permitted by FRS 13, the Commission has elected to exclude from disclosure all debtors and creditors which mature or become payable within 12 months from the balance sheet date.

### **Liquidity risk**

During the reporting period the Commission was financed by a grant received from the NICtS. As such, it was not exposed to significant liquidity risks.

### **Interest rate risk**

The Commission is not exposed to significant interest rate risks.

### **Interest rate profile**

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

	<b>Total</b>	<b>Floating- Rate Financial Assets</b>	<b>Fixed- Rate Financial Assets</b>	<b>Non- Interest Bearing Financial Assets</b>	<b>Weighted- Average Interest rate</b>	<b>Weighted- Average Period for which Rate is Fixed</b>	<b>Weighted- Average Period until Maturity</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>%</b>	<b>Years</b>	<b>Years</b>
<b>Gross Financial Assets</b>							
Currency							
Sterling							
<b>At 31 March 2008</b>	<b>2,226</b>	<b>-</b>	<b>2,213</b>	<b>13</b>	<b>-</b>	<b>-</b>	<b>Note a</b>
<b>At 31 March 2007</b>	<b>37</b>	<b>-</b>	<b>17</b>	<b>20</b>	<b>-</b>	<b>-</b>	<b>Note a</b>

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

### Foreign currency risk

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

### Fair values

Set out below is a comparison by category of book values and fair values of the Commission's financial assets at 31 March 2008

	<b>Book value £'000</b>	<b>Fair value £'000</b>
<b>Primary financial instruments</b>		
<b>Financial assets:</b>		
Cash at bank	2,226	2,226

## Grant in Aid

# 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 Northern Ireland Legal Services Commission for the year ended 31 March 2008 under the Access to Justice (Northern Ireland) Order 2003. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Recognised Gains and Losses 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 Northern Ireland Legal Services Commission, Chief Executive and auditor**

The Northern Ireland Legal Services Commission and Chief Executive, as Accounting Officer, are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the Access to Justice (Northern Ireland) Order 2003 and directions made thereunder by the Lord Chancellor, with the approval of HM Treasury, and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Northern Ireland Legal Services Commission and Chief Executive's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Grant in Aid financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Access to Justice (Northern Ireland) Order 2003 and directions made thereunder by the Lord Chancellor, with the approval of HM Treasury. I report to you whether, in my opinion, the information, which comprises the Chief Executive's Report and the Management Commentary, included in the Annual Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Northern Ireland Legal Services Commission has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Northern Ireland Legal Services Commission's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Northern Ireland Legal Services Commission's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial

statements. This other information comprises the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### **Basis of audit opinions**

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Northern Ireland Legal Services Commission and Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Northern Ireland Legal Services Commission's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall

adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

### **Opinions**

In my opinion:

- the financial statements give a true and fair view, in accordance with the Access to Justice (Northern Ireland) Order 2003 and directions made thereunder by the Lord Chancellor, with the approval of HM Treasury, of the state of the Northern Ireland Legal Services Commission Grant in Aid as at 31 March 2008 and of its deficit and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Access to Justice (Northern Ireland) Order 2003 and directions made thereunder by the Lord Chancellor, with the approval of HM Treasury; and
- information, which comprises the Chief Executive's Report and the Management Commentary, included within the Annual Report, is consistent with the financial statements.

### **Opinion on Regularity**

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

## **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

23 July 2010

## Income and Expenditure Account for Grant in Aid for the Year Ended 31 March 2008

	Note	2007-08 £'000	2006-07 £'000
<b>Operating expenditure</b>			
Staff costs	2	4,285	3,611
Other operating costs	4	1,918	1,980
Depreciation & amortisation	8(a), 8(b)	322	399
Notional charges	7	500	558
<b>Total operating expenditure</b>		<b><u>7,025</u></b>	<b><u>6,548</u></b>
Interest receivable (pension costs)	3	38	58
Notional cost of capital	7	24	17
Interest receivable	6	<u>3</u>	<u>1</u>
<b>Deficit for the year</b>		<b>(6,960)</b>	<b>(6,472)</b>
Reversal of notional charges		476	541
<b>Deficit for the year excluding notional charges</b>		<b><u>(6,484)</u></b>	<b><u>(5,931)</u></b>

All income and expenditure is derived from continuing operations

The notes on pages 60 to 78 form part of these accounts.

## Statement of Recognised Gains and Losses for the Grant in Aid for the Year Ended 31 March 2008

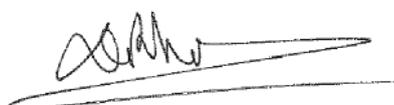
	Note	2007-08 £'000	2006-07 £'000
Unrealised surplus on revaluation of fixed assets	12	20	12
Actuarial gain/(loss) on pension scheme	3	2,150	(1,836)
<b>Recognised gains/(losses) for the year</b>		<b><u>2,170</u></b>	<b><u>(1,824)</u></b>

The notes on pages 60 to 78 form part of these accounts

## Balance Sheet for Grant in Aid as at 31 March 2008

	Note	31 March 2008 £'000	31 March 2007 £'000
<b>Fixed assets</b>			
Tangible assets	8(b)	755	933
Intangible assets	8(a)	76	133
		<b>831</b>	<b>1,066</b>
<b>Current assets</b>			
Debtors	9	152	88
Cash at bank and in hand	10	146	91
		298	179
<b>Creditors:</b> amounts falling due within one year	11	(1,049)	(891)
		<b>(751)</b>	<b>(712)</b>
<b>Net current liabilities</b>			
<b>Pension asset</b>	3	143	1
		<b>223</b>	<b>355</b>
<b>Total assets less current liabilities</b>			
<b>Provisions for liabilities and charges</b>			
Pension provision	3	-	(1,944)
		<b>223</b>	<b>(1,589)</b>
<b>Total assets less total liabilities</b>			
<b>Capital and reserves</b>			
Revaluation reserve	12	59	45
General fund	13	164	(1,634)
		<b>223</b>	<b>(1,589)</b>
<b>Total capital and reserves</b>			

The notes on pages 60 to 78 form part of these accounts.



**Paul Andrews**  
Chief Executive  
16th July 2010

## Cash Flow Statement for Grant in Aid for the Year Ended 31 March 2008

	Note	2007-08 £'000	2006-07 £'000
<b>Operating activities</b>			
Net cash outflow from continuing operating activities	14 (i)	(5,993)	(5,301)
<b>Capital expenditure:</b>			
Payments to acquire fixed assets	14(iii)	(78)	(178)
		<u>(6,071)</u>	<u>(5,479)</u>
<b>Financing</b>			
Transfer of Grant in Aid	13	6,126	5,560
<b>Increase in cash for the year</b>	14(ii)	<u>55</u>	<u>81</u>

The notes on pages 60 to 78 form part of these accounts.

## Notes to the Grant in Aid Accounts for the Year Ended 31 March 2008

### 1. Statement of Accounting Policies

The financial statements have been prepared in accordance with the 2007-08 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where FReM guidance permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Commission for the purpose of giving a true and fair view has been selected. The Commission's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

#### a) Accounting Conventions

The financial statements of the Commission have been prepared under the historical cost convention modified to account for the revaluation of fixed assets, where material, at the value to the Commission by reference to their current costs.

#### b) Tangible and Intangible Fixed Assets

Assets costing less than £1,000 per individual item are written off to the income and expenditure account in the period of acquisition. Computer systems (bespoke software), developed internally, have been capitalised at the full cost incurred. Where material, assets have been pooled so as to reflect more accurately asset holdings.

Assets are revalued at depreciated replacement cost using appropriate indices compiled by the Office for National Statistics. Surpluses and deficits arising on revaluation are taken to the revaluation reserve. Permanent reductions in the value of fixed assets are charged to income and expenditure account.

#### c) Depreciation

Tangible and intangible assets are depreciated at rates calculated to write them down to estimated residual value on a straight line basis over their estimated useful lives. A further adjustment is made for any backlog depreciation arising from the requirement to value fixed assets by reference to current costs. Estimated useful lives are normally in the following ranges;

Furniture and Fittings	5-10 Years
Computer Equipment	5 Years
Computer Software (Intangible)	3 Years

Additions to fixed assets will be depreciated from the month of acquisition. Disposals from fixed assets will not be depreciated in the month of disposal.

#### d) Stocks

Stocks of consumables held by the Commission are not considered material and are written off in the income and expenditure account as they are purchased.

**e) Income**

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

**f) Recognition of Grant in Aid**

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

**g) Notional Charge**

As required by 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% of average net assets employed during the year.

Other notional charges included in operating expenditure reflect the cost of services provided by the Taxing Master and the Social Security Agency. In accordance with Treasury guidance, the notional charge is reversed out of the income and expenditure account before determining the retained surplus or deficit for the year.

**h) Pensions**

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

The scheme is a defined benefit scheme and the underlying assets and liabilities are disclosed in the balance sheet. The difference between the market value of the scheme's assets and the actuarially assessed present value of the scheme's liabilities, calculated using the projected unit credit method, are disclosed as an asset or liability on the balance sheet.

The amount charged to the Income and Expenditure account is the actuarially determined cost of pension benefits promised to employees earned during the year plus any benefit improvements granted to members during the year and consists of the current service cost (included within staff costs) and net return on pension assets (shown on the income and expenditure account).

Additional contributions are made by the Commission on behalf of employees which effectively increases the employer's contributions from 13% to 17.5%.

Any difference between the expected return on assets and that actually achieved and any changes in the liabilities due to changes in assumptions or because actual experience during the year was different to that assumed, are recognised as actuarial gains and losses in the statement of recognised gains and losses.

The Commission also sponsored the Law Society of Northern Ireland Retirement Benefits Scheme administered by NPI, (NPI Scheme), a defined benefit arrangement and privately funded scheme. The assets and liabilities of this scheme are held separately from those of the Commission. The scheme closed to new entrants in 1988 and the majority of active members transferred to NILGOSC. The remaining active members transferred to NILGOSC with effect from 1 May 2004.

Actuarial pension costs associated with the NPI Scheme are also recognised in the accounts in accordance with the provisions of FRS 17. The charge to the income and expenditure account consists of the current service cost (included within staff costs) and net return on pension assets (shown on the income and expenditure account). Actuarial gains and losses have been taken to reserves and shown in the statement of recognised gains and losses.

Both schemes provide benefits based on pensionable salary.

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

The Commission is not registered for VAT. Irrecoverable VAT is charged to the relevant expenditure category or, if appropriate, capitalised with additions to fixed assets.

#### **j) Operating Leases**

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

#### **k) Going Concern**

The Commission is a statutory body established under the AJO 2003. The Commission takes the view that the going concern concept applies to those accounts which present the operations of the grant and the grant in aid as long as the provisions of the AJO 2003 remain extant. At 31 March 2008, the Grant-in-Aid balance sheet showed a net positive worth.

The future financing of the Commission's liabilities will be met by grants from the DoJ as voted on by the NIA.

## 2. Staff costs

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

	2007/08			2006/07
	Total	Permanently employed staff	Seconded-in staff	Total
No. of employees	131	124	7	120
Commissioners	10	10	-	10
Committee Members	56	56	-	59
<b>Total Staff Numbers</b>	<b>197</b>	<b>190</b>	<b>7</b>	<b>189</b>

The costs incurred in respect of these employees were:

	2007/08			2006/07
	Total £'000	Permanently employed staff £'000	Seconded-in staff £'000	Total £'000
Wages and salaries	3,448	3,145	303	3,017
Social Security costs	227	214	13	190
Other pension costs				
Current service costs	426	426	-	297
Pension contributions	184	137	47	107
<b>Total staff costs</b>	<b>4,285</b>	<b>3,922</b>	<b>363</b>	<b>3,611</b>

### 3. Pension costs

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

#### a) Northern Ireland Local Government Officers' Superannuation Committee Scheme

The pension benefits of the senior management team and employees are provided through the Northern Ireland Local Government Officers' Superannuation Committee Scheme (the NILGOSC Scheme).

Membership of the scheme is optional for employees, but in practice most staff participate in this pension provision arrangement.

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

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

Staff participating in the scheme contribute 1.5% of pensionable earnings and the Commission's contribution during the year was 17.5%. The employer rate set by NILGOSC was 13% (additional 4.5% paid on behalf of employees).

The Commission's contributions are affected by a surplus or deficit in the scheme. The employer's rate for the year commencing 1 April 2008 increased to 15% (effectively 19.5% for the Commission). Further contribution rises are expected, taking contributions up to around the level of the 'Common Contribution Rate' of 17.3% of pay by 2010/11.

During the year employer contributions of £427K were paid to the NILGOSC Scheme.

The latest formal actuarial valuation of the scheme was carried out at 31 March 2007 with the next formal valuation due as at 31 March 2010. The liability and cost calculations are as follows:

**The major assumptions used by the actuary were:**

	<b>31 March 2008</b>	<b>31 March 2007</b>
Inflation rate	3.6%	3.2%
Rate of increase in pensionable salaries	5.1%	4.7%
Rate of pension increase	3.6%	3.2%
Discount rate	6.9%	5.4%

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

	<b>Expected return at 31 March 2008 % pa</b>	<b>Assets at 31 March 2008 £'000</b>	<b>Expected Return at 31 March 2007 % pa</b>	<b>Assets at 31 March 2007 £'000</b>
Equities	7.7%	7,815	7.8%	6,081
Bonds	5.7%	1,149	4.9%	1,138
Property	5.7%	805	5.8%	830
Cash	4.8%	153	4.9%	92
<b>Total</b>	<b><u>7.3%</u></b>	<b><u>9,922</u></b>	<b><u>7.2%</u></b>	<b><u>8,141</u></b>

<b>Net pension asset / (liability) as at</b>	<b>31 March 2008</b>	<b>31 March 2007</b>
	<b>£'000</b>	<b>£'000</b>
Estimated employer assets	9,922	8,142
Present value of scheme liabilities	(9,780)	(10,086)
<b>Net pension asset / (liability)</b>	<b>142</b>	<b>(1,944)</b>

In addition there is residual balance in the NPI scheme of £1k.

**Analysis of amount charged to Income and Expenditure Account:**

	<b>2007-2008</b>	<b>2006-2007</b>
	<b>£'000</b>	<b>£'000</b>
Current service cost	426	297
Past service cost	-	-
Curtailments and Settlements	-	-
<b>Total operating charge</b>	<b>426</b>	<b>297</b>

**Analysis of net return on pension scheme:**

	<b>2007-2008</b>	<b>2006-2007</b>
	<b>£'000</b>	<b>£'000</b>
Expected return on employer assets	594	521
Interest on pension scheme liabilities	(556)	(463)
<b>Net return</b>	<b>38</b>	<b>58</b>

**Analysis of amount recognised in Statement of Recognised Gains and Losses (SRGL):**

	<b>2007-2008</b> <b>£'000</b>	<b>2006-2007</b> <b>£'000</b>
Actual return less expected return on pension scheme assets	(895)	(90)
Experience gains/(losses) arising on the scheme liabilities	391	(10)
Changes in financial assumptions underlying the present value of the scheme assets/(liabilities)	2,654	(1,736)
<b>Actuarial gain/(loss) recognised in SRGL</b>	<b>2,150</b>	<b>(1,836)</b>

**Movement in surplus/(deficit) during the year**

	<b>2007-2008</b> <b>£'000</b>	<b>2006-2007</b> <b>£'000</b>
Deficit at beginning of the year	(1,944)	(120)
Current service cost	(426)	(297)
Employer contributions	324	251
Net return on assets	38	58
Actuarial gain/(loss)	2,150	(1,836)
<b>Surplus/(deficit) at end of year</b>	<b>142</b>	<b>(1,944)</b>

**History of experience gains and losses**

	<b>31 March 2008</b> <b>£'000</b>	<b>31 March 2007</b> <b>£'000</b>
Difference between the expected and actual return on assets	(895)	(90)
Value of assets	9,922	8,142
<b>Percentage of assets</b>	<b>(9.0%)</b>	<b>(1.1%)</b>
Experience gains/(losses) on liabilities	391	(10)
Total present value of liabilities	9,780	10,086
<b>Percentage of the total present value of liabilities</b>	<b>(4.0%)</b>	<b>(0.1%)</b>
Actuarial gains/(losses) recognised in SRGL	2,150	(1,836)
Total present value of liabilities	9,780	10,086
<b>Percentage of the total present value of liabilities</b>	<b>22.0%</b>	<b>(18.2%)</b>

## Pension Costs - Continued

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

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

A full actuarial valuation was carried out at 1 August 2002 and updated to 31 March 2007 on a projected unit method by a qualified independent actuary. The scheme is closed to new entrants and there are no active members. There was a Net Pension Asset of £1k at 31 March 2008.

## 4. Other operating costs

	<b>2007-08</b>	<b>2006-07</b>
	<b>£'000</b>	<b>£'000</b>
Accommodation	559	541
Other employee expenses	118	209
IT expenditure	334	450
Legal expenses	139	151
Consultancy expenses	261	170
Committee expenses	24	28
Auditors' remuneration and expenses	130	35
Loss on transfer of asset	1	-
Permanent diminution	9	25
General	343	371
	<b><u>1,918</u></b>	<b><u>1,980</u></b>

The audit fee in 2007-08 of £130k includes a £65k charge in respect of prior years. This total does not include any internal audit fees.

## 5. Commitments under leases

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

	<b>1 Year £'000</b>	<b>2-5 Years £'000</b>	<b>5+ Years £'000</b>
Land and buildings	-	-	281
Other - Equipment	7	9	-
	<u>7</u>	<u>9</u>	<u>281</u>

## 6. Interest receivable

	<b>2007-08 £'000</b>	<b>2006-07 £'000</b>
Bank interest receivable	3	1
	<u>3</u>	<u>1</u>

## 7. Notional and other non-cash costs

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

	<b>2007-08 £'000</b>	<b>2006-07 £'000</b>
Cost of capital	(24)	(17)
Social Security Agency	443	505
Taxing Master Office	57	53
	<u>476</u>	<u>541</u>

## 8. Fixed assets

### 8 (a) Intangible fixed assets

	<b>Computer Software</b>
<b>Cost</b>	<b>£'000</b>
01 April 2007	576
additions	27
disposals	-
revaluation	(26)
<b>31 March 2008</b>	<b>577</b>
<b>Amortisation</b>	
01 April 2007	(443)
charge in year	(81)
disposals	-
backlog amortisation	23
<b>31 March 2008</b>	<b>(501)</b>
<b>Net book value 31 March 2008</b>	<b>76</b>
<b>Net book value 31 March 2007</b>	<b>133</b>

**8. Fixed assets****8 (b) Tangible fixed assets**

	<b>Fixtures and Fittings</b>	<b>Computer Hardware</b>	<b>Total</b>
<b>Cost</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
01 April 2007	1,076	622	1,698
additions	10	40	50
disposals	(5)	-	(5)
revaluation	39	(29)	10
<b>31 March 2008</b>	<b>1,120</b>	<b>633</b>	<b>1,753</b>
<b>Depreciation</b>			
01 April 2007	(376)	(389)	(765)
depreciation charge in year	(112)	(129)	(241)
depreciation on disposals	4	-	4
backlog depreciation	(19)	23	4
<b>31 March 2008</b>	<b>(503)</b>	<b>(495)</b>	<b>(998)</b>
<b>Net book value 31 March 2008</b>	<b>617</b>	<b>138</b>	<b>755</b>
<b>Net book value 31 March 2007</b>	<b>700</b>	<b>233</b>	<b>933</b>

## 9. Debtors: amounts falling due within one year

### 9 (a) Analysis by type

	<b>31 March 2008</b> <b>£'000</b>	<b>31 March 2007</b> <b>£'000</b>
Other debtors	-	7
Prepayments	152	81
	<u><b>152</b></u>	<u><b>88</b></u>

### 9 (b) Intra-Government balances

	<b>31 March 2008</b> <b>£'000</b>	<b>31 March 2007</b> <b>£'000</b>
Balances with other central government bodies	-	5
Balances with bodies external to government	152	83
	<u><b>152</b></u>	<u><b>88</b></u>

## 10 Cash at bank and in hand

	<b>31 March 2008</b> <b>£'000</b>	<b>31 March 2007</b> <b>£'000</b>
Cash at bank	146	91
	<u><b>146</b></u>	<u><b>91</b></u>

**11 Creditors: amounts falling due within one year****11 (a) Analysis by type**

	<b>31 March 2008</b> <b>£'000</b>	<b>31 March 2007</b> <b>£'000</b>
Creditors	(15)	(54)
Accruals	(1,034)	(837)
	<u><b>(1,049)</b></u>	<u><b>(891)</b></u>

**11 (b) Intra-Government balances**

	<b>31 March 2008</b> <b>£'000</b>	<b>31 March 2007</b> <b>£'000</b>
Balances with other central government bodies	-	(2)
Balances with public corporations and trading funds	-	-
Balances with bodies external to government	(1,049)	(889)
	<u><b>(1,049)</b></u>	<u><b>(891)</b></u>

**12 Movement on revaluation reserve**

	<b>Note</b>	<b>31 March 2008</b> <b>£'000</b>	<b>31 March 2007</b> <b>£'000</b>
As at 1 April 2007		45	38
Unrealised surplus on revaluation of fixed assets	8(b)	20	12
Transfer of realised element of depreciation		(6)	(5)
<b>As at 31 March 2008</b>		<u><b>59</b></u>	<u><b>45</b></u>

### 13 Movement on general fund

	<b>31 March 2008</b>	<b>31 March 2007</b>
	<b>£'000</b>	<b>£'000</b>
As at 1 April 2007	(1,634)	568
Transfer of Grant-in-Aid from NICtS	6,126	5,560
Net expenditure for the year	(6,484)	(5,931)
Actuarial gain/(loss) on pension scheme	2,150	(1,836)
Transfer of realised element of depreciation	6	5
<b>As at 31 March 2008</b>	<b><u>164</u></b>	<b><u>(1,634)</u></b>

### 14 Notes to the cashflow statement

#### (i) Reconciliation of the net cost of operations to the net cash flow from continuing operating activities

	<b>31 March 2008</b>	<b>31 March 2007</b>
	<b>£'000</b>	<b>£'000</b>
Result for period	(6,960)	(6,472)
Credit in respect of notional costs	476	541
Loss on transfer of fixed asset	1	-
Depreciation and amortisation	322	399
Permanent diminution in value of fixed assets	9	25
(Increase)/decrease in debtors	(64)	95
Increase in creditors	159	123
Increase/(decrease) in provision - excluding actuarial gain/loss	64	(12)
<b>Net cash outflow from continuing operating activities</b>	<b><u>(5,993)</u></b>	<b><u>(5,301)</u></b>

#### (ii) Reconciliation of net cash flow to movement in net funds

Cash at bank and in hand 1 April 2007	91	10
Cash at bank and in hand 31 March 2008	146	91
<b>Net movement in funds</b>	<b><u>55</u></b>	<b><u>81</u></b>

**(iii) Reconciliation of capital grant to purchase of fixed assets**

Purchase of Fixed Assets	77	178
Opening capital creditors	2	2
Closing capital creditors	(1)	(2)
Opening capital debtors	-	-
Closing capital debtors	-	-
<b>Net cash outflow from investing activities</b>	<b>78</b>	<b>178</b>

**15. Contingent liabilities**

The Commission had no contingent liabilities at 31 March 2008.

**16. Capital commitments**

The Commission has no capital commitments as at 31 March 2008.

**17. Events after the balance sheet date**

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

There were no events after the balance sheet date requiring an adjustment to the financial statements.

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

**18. Summary of losses and special payments**

There were no losses and no special payments during the year.

**19. Related party transactions**

The Commission was a non-departmental public body sponsored by the NICTS. The NICTS was regarded as a related party with which the Commission has had various material transactions during the year. From 12 April 2010, the Commission became an NDPB of the DoJ.

**Ms Breidge Gadd** is a member of the Board of Commissioners. She is also a columnist with the Irish News newspaper. During the year 2007/08 the Commission placed advertisements in various newspapers including the Irish News.

**Mrs Fiona Donnelly** is a Commissioner and solicitor with Fiona Donnelly Solicitors. She is also remunerated for her work in the Institute of Professional Legal Studies at Queens University Belfast. The Commission made payments of £545 during 2007/08 to Queens University Belfast in relation to dissertation fees, subscriptions and seminars.

**Mr Les Allamby** is a Commissioner and is also director of the Law Centre (NI). The Commission made payments during 2007/08 totalling £855 in relation to subscriptions to Law Centre publications.

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

### **Liquidity risk**

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

## **20. Financial instruments**

FRS 13, Derivatives and other financial instruments, requires disclosure of the role financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of the Commission's activities and the way in which the Commission is financed, the Commission is not exposed to the degree of financial risk faced by business entities. The Commission has very limited powers to borrow or invest surplus funds and except for relatively insignificant purchases of foreign currency, financial assets and liabilities are generated by day to day operational activities and are not held to change the risks facing the Commission. As permitted by FRS 13, the Commission has elected to exclude from disclosure all debtors and creditors which mature or become payable within 12 months from the balance sheet date.

### Interest rate risk

The Commission is not exposed to significant interest rate risks.

### Interest rate profile

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

	Total	Floating-Rate Financial Assets	Fixed-Rate Financial Assets	Non- Interest Bearing Financial Assets	Weighted- Average Interest rate	Weighted- Average Period for which Rate is Fixed	Weighted- Average Period until Maturity
	£'000	£'000	£'000	£'000	%	Years	Years
<b>Gross financial assets</b>							
Currency Sterling	146		141	5	-	-	Note a
<b>At 31 March 2008</b>	<b>146</b>		<b>141</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Gross financial assets</b>							
Currency Sterling	91		-	91	-	-	Note a
<b>At 31 March 2007</b>	<b>91</b>	<b>-</b>	<b>-</b>	<b>91</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

### Foreign currency risk

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

### Fair values

Set out below is a comparison by category of book values and fair values of the Commission's financial assets at 31 March 2008.

	<b>Book value</b> £'000	<b>Fair value</b> £'000
<b>Primary financial instruments</b>		
<b>Financial assets:</b>		
Cash at bank	<u>146</u>	<u>146</u>

## Report of the Comptroller and Auditor General Year ended 31 March 2008

### Introduction

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

### Purpose of the Report

3. I was appointed as auditor of the NILSC under Schedule 1 paragraph 17 of the Access to Justice (Northern Ireland) Order 2003. I am required to examine, certify and report upon each statement of accounts prepared by the NILSC.
4. The purpose of this report is to explain the background to my qualification of the Legal Aid Grant Account for the year ended 31 March 2008 and to comment on the delay in producing the Annual Report and Accounts.

### Qualification of my audit opinions on the Legal Aid Grant Account

5. I have qualified my opinion on the Grant Account in the 2007-08 financial statements because of the following issues:

- disagreement with the NILSC's application of its accounting policy for provisions the impact of which is so material and pervasive to the financial statements that I have concluded that they do not give a true and fair view; and
- limitation in scope arising from a lack of sufficient evidence to support the regular nature of legal aid grant expenditure.

### Adverse opinion on prior year financial statements arising from a disagreement with the NILSC's accounting policy for provisions

6. In 2003-04, 2004-05, 2005-06 and 2006-07 I qualified my audit opinion on a disagreement with the NILSC's accounting policy for provisions. The accounting policy adopted by the NILSC of making provisions for the full cost of existing legal aid cases did not comply with Financial Reporting Standard 12: 'Provisions, Contingent Liabilities and Contingent Assets (FRS 12)'. FRS 12 does not permit the recognition of services not yet delivered; the liabilities recognised in an entity's balance sheet should be those that exist at the balance sheet date. I considered the impact of the disagreement to be so material and pervasive that the financial statements for those years did not give a true and fair view.

**Adverse opinion on the current year financial statements arising from a disagreement with the NILSC’s application of its revised accounting policy for provisions**

7. For 2007-08, NILSC has changed its accounting policy for provisions and the revised policy is set out in Note 1 to the financial statements. From 1 April 2007, NILSC accounting policy was to recognise only the liability to pay for work completed at the year end but not yet billed. This revised policy is in accordance with FRS 12 and if applied appropriately would allow me to provide an unqualified true and fair opinion on the financial statements. The effect of this change in accounting treatment on the 2006-07 year was a decrease of £75 million in the amount provided for under the previous accounting policy.

8. NILSC use a variety of estimation techniques to calculate its provision for existing legal aid cases. My audit has identified several material misstatements arising from NILSC’s application of its accounting policy in the following areas:

- the Commission makes an adjustment to reflect the number of legal aid certificates issued to reports, or claims, subsequently received against each certificate. The adjustment made to reflect the ratio of claims received when determining work in progress for cases was incorrect and the NILSC has estimated that the impact of these errors is an approximate £35 million understatement of provisions at 31 March 2008;

- the provisions model used by NILSC utilised out of date information on the number of active cases and had not been cleansed for closed, withdrawn and rejected cases. NILSC has estimated that these errors have resulted in an approximate £27 million overstatement of provisions at 31 March 2008;
- in determining the average case duration, NILSC based its estimation model on worst-case scenarios which were not reflective of the normal trend of case life cycles. NILSC has subsequently evaluated the impact of this from its existing provisions model, reduced the aged element of the provision, and calculated that this issue has resulted in an approximate £15 million overstatement of provisions at 31 March 2008;
- very high cost criminal claims for payment from the legal profession are subject to assessment by the Taxing Master. In determining the provision for these very high cost criminal cases, NILSC has not considered the likely adjustment to the claim by the Taxing Master. Subsequent post period-end work undertaken by NILSC indicates that the Taxing Master assessments are between 59 and 87 per cent of the original claim. NILSC estimates that this has resulted in an approximate £11 million overstatement of provisions at 31 March 2008; and
- in addition to correctly excluding cases where there had been a final payment made, the provisions model had excluded certain cases where only interim payments had been made

and therefore further costs would have accrued to 31 March 2008. NILSC has estimated that this has resulted in an approximate £9 million understatement of provisions at 31 March 2008.

9. In addition to these misstatements my audit also revealed other material issues in the provisions model used by NILSC for 2007-08. It has estimated, without a complete rework of the provision calculation but based on a review of the figures, that this has resulted in a further £12 million overstatement of provisions.
10. I have, therefore, concluded that the misstatement arising from NILSC's application of its accounting policy result in an estimated £21 million overstatement of the provision at 31 March 2008. I consider that the impact of the potential misstatement is so material and pervasive that the financial statements do not give a true and fair view.

**Limitation in scope arising from a lack of evidence to support the regular nature of legal aid grant expenditure**

11. The nature of the Legal Aid scheme, in making payments to legal advisors for services which are directly provided to Legal Aid claimants, creates difficulties for the NILSC in determining whether the services were appropriately provided. In addition, means tested legal aid carries a risk that income details may be misstated on initial application, or that changes in financial circumstances during the case are not reported by the claimant.

12. Payments which may have been made by the NILSC as a result of fraudulent legal aid applications or inappropriate legal bills would not have been applied for the purposes intended by Parliament, and would therefore be irregular. The NILSC do not have an estimate of the likely scale of fraud. As part of my examination of fraud controls I noted Internal Audit reports on Fraud Prevention and Detection in October 2005 and October 2007 which found material weaknesses due to the absence of key controls.

13. A small Counter Fraud Unit, which was first established by the Legal Aid Department in Northern Ireland, has continued in operation at the NILSC. The unit has had to prioritise its work carefully and has therefore been more reactive than proactive and is not able to provide the same level of assurance as a fully fledged inspection regime. In the absence of this key control or compensating controls in the NILSC I cannot obtain sufficient audit evidence to gain assurance that material fraud does not exist.

14. The NILSC has not introduced an inspection regime because it does not have a statutory basis to do so under the Access to Justice (Northern Ireland) Order 2003 or the Legal Aid, Advice and Assistance (Northern Ireland) Order 1981. There are examples of other public bodies who have introduced inspection regimes without a specific statutory basis, as a matter of good practice, and the NILSC should consider doing so.

15. I have therefore limited the scope of my audit opinion on regularity because I have been unable to obtain sufficient audit evidence to enable me to conclude that payments to legal professionals are free from material fraud or other irregularities.

### **Delay in producing Annual Report and Accounts**

16. My reports on the 2003-04, 2004-05, 2005-06 and 2006-07 financial statements noted that the NILSC lacks essential controls to protect public money, such as having systems in place to measure the amounts due for legal services at the balance sheet date and to detect or prevent inaccurate or illegitimate claims, and this makes it difficult for the NILSC to produce timely and robust accounts.

17. No statutory time limit applies to the preparation of an Annual Report and Accounts for the NILSC; however it is essential that public bodies have a robust system to produce timely and accurate accounting information and sufficient controls to protect the public money that they administer. The NILSC must continue to work towards establishing such a system as a matter of urgency.

18. The NILSC senior management team continue working to improve the systems that are in place and bring matters up to date as quickly as possible including developing a new information management system for provisions. This should provide more reliable information on a timely basis. I will report further on this in my report on the 2008-09 financial statements.

**Amyas C E Morse**  
**Comptroller and Auditor General**

**23 July 2010**

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