



NORTHERN IRELAND
Legal Services
Commission

Annual Report and Financial Statements
For the year ended 31 March 2007



NORTHERN IRELAND
Legal Services
Commission

Presented to Parliament pursuant to the Access to Justice (Northern Ireland)
Order 2003, Schedule I para 15(3)

NORTHERN IRELAND LEGAL SERVICES COMMISSION

Annual Report and Financial Statements
for the year ended 31 March 2007

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NORTHERN IRELAND
**Legal Services
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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 Directors' 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).

Statement of Accounts

The accounts of the Commission for the financial year ended 31 March 2007 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 created on 1 November 2003 through the commencement of certain articles in the AJO 2003 when it assumed responsibility for the provision of Legal Aid in Northern Ireland from the Legal Aid Department of the Law Society of Northern Ireland. The current relevant statutes are the AJO 2003 and the Legal Aid Advice and Assistance (Northern Ireland) Order 1981.

Legal aid aims to provide legal services for those of limited 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 includes a system of legal advice and assistance which enables people of limited or moderate means to obtain legal advice from a solicitor without payment or upon payment of a contribution.

The Northern Ireland Legal Services Commission

The Commission is a non-departmental public body sponsored by the Northern Ireland Court Service (NICtS), a department of the Lord Chancellor. The Northern Ireland Court Service funds the running costs of the Commission through a Grant-in-Aid allocation and the expenditure of the Commission on criminal and civil legal aid through a Grant.

The relationship between the Northern Ireland Legal Services Commission and the Northern Ireland Court Service is governed by a management statement and a financial memorandum. The Board agreed the Management Statement and Financial Memorandum on 4 June 2004 and these were updated on 29 March 2007.

The AJO 2003 provides the Commission with statutory authority for administering civil legal aid and advice. Appeals against decisions made by the Commission with regard to the granting of Legal Aid, and some other financial matters, are handled by an independent panel of external legal practitioners. A further committee was established under the Legal Aid for Criminal Proceedings (Costs) Rules (Northern Ireland) 1992. This is known as the Appropriate Authority, and is drawn from a panel appointed by the Lord Chancellor, and

deals with legal aid bills in criminal proceedings. The Commission processes all casework and administratively supports these committees.

Going Concern

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

Commissioners

In accordance with the provisions of Article 4 of the Access to Justice (Northern Ireland) Order 2003, the Commission's membership, appointed by the Lord Chancellor, comprise of a Chair and no fewer than 6 but no more than 10 members. Commissioners are appointed for a three year term.

The following members served on the Board during the year to 31 March 2007.

Sir Anthony Holland, Chairman

Mr Les Allamby

Mrs Maeve Bell OBE
(to 31 July 2006)

Mr Joseph Donnelly
(appointed 1 September 2006)

Mrs Fiona Donnelly
(appointed 1 September 2006)

Mr Brian Fee QC

Ms Breidge Gadd CBE

Mrs Jennifer Greenfield
(to 31 July 2006)

Dr Jeremy Harbison CB

Mr Francis Hewitt
(to 31 July 2006)

Mr Wilson Matthews
(appointed 1 September 2006)

Mrs Hilary McCartan
(appointed 1 September 2006)

Mr Miceal McCoy

Mr Peter Osborne
(to 31 July 2006)

Mr Ronald Spence CB

The following changes to the membership of the Committee occurred from 1 April 2007 to the date of this report.

Sir Anthony Holland
(Chairman - until 31 July 2007)

Mr Jim Daniell
(Chairman - appointed 12 November 2007)

Mr Brian Fee QC
(Until 31 December 2007)

Mrs Gillian McGaughey
(Appointed 10 February 2009)

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

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 2006/07 the Commission worked through the Access to Justice Committee, the Service Delivery Committee, the Reform Committee, the Finance and General Purposes Committee and the Audit 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.

Commission Members Interest

Details of company directorships and other significant interests held by Commission members are set out within the related party disclosures note 17 on pages 43 - 45 and note 20 on pages 70 - 71. The Commission maintains a Register of Interests which is updated as required, but at least annually. Access to the register may be gained by contacting the Secretary to the Commission.

Senior Executives

Mr Paul Andrews was appointed as Interim Chief Executive of the Commission (and Commission's Accounting Officer) on 24 August 2009. He is supported by a team of executive directors who form the Top Management Team. The previous Chief Executive, Mr Gerry Crossan, who was in that position throughout the financial year ended 31 March 2007, left the Commission on 31 July 2009.

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 2006/07 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 59 - 63.

Post Balance Sheet Events

There were no post balance sheet events.

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 65 and 66. 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
- 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. These managers hold regular section and team meetings with their staff to communicate the Commission's plans, receive feedback, and give staff the opportunity to contribute to the planning process.

During 2006/07 the Commission published weekly staff bulletins, briefed staff through monthly open forum meetings with the Chief Executive and established a communications forum with a view to quality assuring the communications processes within the

Commission. The Commission held a staff conference in May 2006 which briefed staff on the preparations for the reform of legal aid under the AJO 2003.

Health and 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 75% of bills were paid within this standard, (2005/06:81%).

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 fully at point 5 on page 25.

Research & Development

During 2006/07, 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;
- c) 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;
- d) the development and negotiation of remuneration arrangements for work carried out since approximately 2003 in the family courts;
- e) the publication of an exposure document setting out the Commission's early thinking on a registration scheme for providers of publicly-funded legal services; and

- f) the publication of the Commission's policy on Delivering Value for Money in publicly-funded legal services.

During 2006/07 the Commission awarded a contract for the provision of advice and assistance services in relation to immigration and asylum issues in Northern Ireland, to The Law Centre (NI). This was an important step in giving effect to the Commission's commitment to a mixed model of service delivery for legal aid in Northern Ireland.

The Commission continued to develop its business assurance model during 2006/07, developing its corporate and business risk registers in support of improvements in service delivery and the development of the reform programme. During 2006/07, 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 Access to Justice (NI) Order 2003.

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.

The Commission hosted an international conference on Legal Need in April 2006 and

continues to participate in the international research and development which drives the development of policy on legal aid.

Future Developments

During 2006/07, the Commission made further progress in the preparations for commencement of the remaining articles in the Access to Justice (Northern Ireland) Order 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. During 2006/07, the Commission kept a watching brief on the issues leading to the devolution of policing and justice in Northern Ireland. This will see the Commission's sponsorship arrangements moving from the NICtS, a department of the Lord Chancellor, to a proposed NI Department of Justice.

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. He and his staff are wholly independent of the Commission, and he reports his findings to Parliament. The audit of the financial statements for 2006-2007 resulted in an audit fee of £35,000 (2005/06 £35,000). This fee is included in grant in aid administration costs, as disclosed in note 4 on page 63 to these accounts. The C&AG did not provide any non-audit services during the year.

Disclosure of Audit Information

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

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 merits tests. The Commission assesses claims made by legal professionals in relation to this work and pays these claims. In addition, the Commission assesses claims made for criminal legal aid work under legal aid certificates issued by the Courts and pays these claims. The Commission also carries out research which underpins the reform of civil legal aid and assists the NI Court Service (NICtS) in developing proposals for criminal legal aid reform.

Throughout 2006/07, the Commission made improvements in its core civil and criminal legal aid business processes although it continued to face significant challenges in relation to maintaining current services and introducing reform in criminal legal aid services.

The Commission continued to develop its capacity to take forward the reform of civil legal aid during 2006/07 within the resources available to it. During this period the Legal Services Commission in England and Wales provided assistance to the Commission in key aspects of the reform programme. The Commission experienced further difficulties in the implementation of resource accounting and budgeting and the preparation of accruals

accounts. During 2006/07, in the light of the impact on financial forecasting and in-year budgeting of a number of very high cost criminal cases, the NICtS intervened in the Commission and appointed a Director of Finance with a remit to address the backlog in Annual Accounts and forecasting. In late 2006, the Commission was required to find significant in-year savings in running costs in the light of pressures on the legal aid fund. This work impacted on a number of areas in the Commission's business including the work to take forward the reform of civil legal aid. The joint working between the Commission and the NICtS enabled the Commission to plan the work that has led to the finalisation of the audit and publication of the Commission's accounts for the periods 2003/04 and 2004/05 in 2008/09.

The NICtS began a Landscape Review of the Commission in March 2007. The 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.

The Commission received the Landscape Review report in the final quarter of 2007/08 and prepared a detailed action plan to address the recommendations in the review. The Review and resulting Action Plan were placed on the Commission's web site on 8 January 2009.

Key Service	Performance during 2006/07	Performance during 2005/06
Emergency Civil Legal Aid applications ⁽¹⁾	86%	85%
Assessment of claims Civil Legal Aid ⁽²⁾	80%	74%
Assessment of claims for Criminal Legal Aid - Crown Court ⁽³⁾	42%	69%
Assessment of claims for Criminal Legal Aid - Magistrates Court ⁽⁴⁾	42%	79%
Delivery Plan Objectives	Developing a Registration Scheme Developing the Northern Ireland Funding Code Legal Needs Survey Financial Arrangements for Civil Legal Aid: Review of Arrangements Draft Equality Scheme	Introduction of a quality control system for civil legal aid applications Examination of alternative funding models for money-damages cases Assisting NICTS in implementation of Fundamental Review of Legal Aid

(1) Civil Emergency application received to certificate date (within 3 days)

(2) This excludes Direct Authorities. Target is 75% within 6 weeks from report received to report authorised.

(3) This excludes exceptionality. Target is 75% within 6 weeks from report received to report authorised.

(4) Target is 75% within 12 weeks from report received to report authorised. The performance measure is based on the authorisation date within the financial year in question, i.e., only reports authorised within 2006/07 were included in the performance measure. Any reports that were received within the 2006/07 but not authorised in that year are excluded.

Risks and Uncertainties

During 2006/07, the Commission took action within its risk management framework to recognise the risk to financial management processes posed by unreformed legal aid legislation and also to develop a joint financial risk management approach between the Commission and the NICTS, in its roles as the sponsoring department for the Commission and as the body responsible for criminal legal aid policy. The Commission developed its risk management framework to recognise the risks posed to the reform 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 2006/07 and the Commission worked closely with the NICTS throughout the year to manage the Comprehensive Spending Review process. During 2006/07, the challenges in relation to the forecasting of expenditure and the funding of legal aid, the disclosure of financial information in the statutory accounts and the potential risks to the resourcing of the reform programme impacted adversely upon the business planning processes in year and within the period of the Comprehensive Spending Review.

The Commission maintained ISO 9001 registration during 2006/07 and continued

to develop the review and documentation of internal business processes under the ISO framework during this period.

The Commission has an Audit 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 Committee was the late completion of final accounts and annual reports.

The Committee has kept the position under constant review and an Action Plan has been established.

Year End Position

The Commission is funded by grants provided by the NICTS. For the financial year to 31 March 2007 the Commission received grant funding of £68,522k, and grant in aid funding of £5,560k. The expenditure for the year totalled £74,412k and £6,548k in respect of grant and grant in aid respectively and at the grant balance sheet date the Commission had made provision for legal aid expenditure of approximately £183,314k. This is the Commission's estimate of the amounts outstanding at that date in relation to criminal and civil legal aid certificates that were in force at that date.

Trends and Factors during 2006/07

The Commission continued to address the long-standing issues pertaining to remuneration for work done in family courts

during 2006/07 and the development of the law in relation to Children Order proceedings is likely to be a significant influencing factor going forward. The Commission is attaching priority to taking forward the reform agenda through a series of Projects. The key risks to the reform agenda are: the availability of funding, the capacity of NICTS and the Commission; the relationship between the Commission and providers of legal services in Northern Ireland and the devolution of policing and justice in Northern Ireland.

Trends and Factors for the Future

A key future event for the Commission will be the commencement of the remaining provisions of the AJO 2003. In the intervening period 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 Access to Justice (NI) Order 2003, the key strands of which are the NI 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, 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.

Remuneration Report

Remuneration Policy

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

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 NI public sector rates of pay."

The Commission has been working to move towards the NICS pay scales for staff remuneration which has been achieved with the introduction of pay scales in 2008 which mirror exactly those in the NICS.

Board members' remuneration is determined by the Lord Chancellor.

Committee Members

Committee members are remunerated for time spent on Legal Services 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 Legal Services 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.

Commissioners		Audited 2006-07 £'000	Audited 2005-06 £'000
Sir Anthony Holland	Appointed 19 April 2004 - 31 July 2007	40-45	40-45
Mr Les Allamby	Appointed 28 July 2003; Reappointed 1 August 2006	15-20	15-20
Mrs Maeve Bell OBE	Appointed 28 July 2003 - 31 July 2006	0-5	15-20
Ms Fiona Donnelly	Appointed 1 September 2006	5-10	-
Mr Joseph Donnelly	Appointed 1 September 2006	10-15	-
Ms Breidge Gadd CBE	Appointed 28 July 2003; Reappointed 1 August 2006	15-20	15-20
Mrs Jennifer Greenfield	Appointed 28 July 2003 - 31 July 2006	0-5	15-20
Dr Jeremy Harbison CB	Appointed 28 July 2003; Reappointed 29 August 2006	15-20	15-20
Mr Francis Hewitt	Appointed 28 July 2003 - 31 July 2006	0-5	15-20
Mr Wilson Matthews	Appointed 1 September 2006	10-15	-
Ms Hilary McCartan	Appointed 1 September 2006	10-15	-
Mr Miceal McCoy	Appointed 28 July 2003; Reappointed 1 August 2006	15-20	15-20
Mr Peter Osborne	Appointed 28 July 2003 - 31 July 2006	0-5	15-20
Mr Ronald Spence CB	Appointed 28 July 2003; Reappointed 1 August 2006	15-20	15-20
Mr Brian Fee QC	Appointed 1 January 2005 - 31 December 2007	-	-

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

Name and title	Salary 2007	Salary 2006	Real increase in pension and related lump sum at age 65 years	Accrued pension and related lump sum at age 65 years	CETV at 31/03/07	CETV at 31/03/06	Real increase in CETV after adjustment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Mr G Crossan Chief Executive	85-90	80-85	0-2.5 plus 2.5-5.0 related lump sum	20-25 plus 65-70 related lump sum	312	280	24
Mr I Hearst Director of Corporate Services	60-65	55-60	0-2.5 plus 2.5-5 related lump sum	5-10 plus 15-20 related lump sum	69	52	16
Dr T Donaldson Director of Policy and Service Development	60-65	55-60	0-2.5 plus 2.5-5.0 related lump sum	5-10 plus 25-30 related lump sum	141	116	23
Mrs A Lloyd-Humphreys Director of Service Delivery (full year equivalent)	- -	50-55 55-60	- -	- -	- -	124 -	- -
Mr G Brooks Director of Corporate Services and Chief Executive Support Officer (full year equivalent)	55-60 55-60	0-5 55-60	0-2.5 plus 0-2.5 related lump sum -	0-5 plus 0-5 related lump sum -	8 -	1 -	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 was appointed as Interim Chief Executive of the Commission (and Commission's Accounting Officer) on 24 August 2009.

Mr I. Hearst was appointed as Director of Corporate Services from 4 May 2004 to 28 February 2006. From 1 March 2006 he was appointed as Director of Service Delivery. 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.

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 remunerations do not contain 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 2006/07 employer contributions were made at a rate of 15.5% (included an additional 4.5% contributed on behalf of employees).

Cash Equivalent Transfer Values

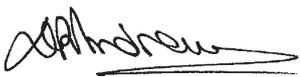
A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment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

A handwritten signature in black ink, appearing to read 'Paul Andrews', with a horizontal line underneath it.

Paul Andrews

Interim Chief Executive

Date: 3 December 2009

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

The Northern Ireland Court Service is 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. They exercise these responsibilities through the Department's Principal Accounting Officer, who has designated me - the Interim Chief Executive of the Commission - as the Commission's Accounting Officer.

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

I act in accordance with a range of general and specific responsibilities and with other instructions and guidance issued periodically by the Northern Ireland Court Service, the Treasury and the Cabinet Office - in particular the Treasury's NDPB Accounting Officer guidelines in Managing Public Money.

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

Under Paragraph 17(1) of Schedule 1 to the Access to Justice (Northern Ireland) Order 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 2006/07 accounts) that is available to the public on the Commission's website.

Statement on Internal Control

Scope of Responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the 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 Government Accounting (which was replaced from October 2007 by Managing Public Money) and in particular, the Treasury document 'The Responsibilities of an NDPB Accounting Officer'.

The Commission is an NDPB of the Northern Ireland Court Service (NICtS). The board of the Commission has a corporate responsibility for ensuring that the Commission fulfils 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 and subject to the approval of the Board, establish the organisation's corporate and business plans in light of the Commission's wider strategic aims. I advise the board on the Commission's operating and financial performance and ensure that its governance responsibilities can be discharged in accordance with established criteria. The relationship between the Commission and the NICtS has been formalised in an agreed management statement and financial memorandum, and is informed by relevant Dear Accounting Officer letters.

The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Commission 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 2007 has been 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 Committee, which was established in November 2003. The Audit Committee comprises representatives from the Commission's board, with senior management, internal audit consultants and the external auditors 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, the most recent of which has October 2009. During 2006/07 the Commission employed suitably qualified external consultants to undertake the internal audit function. During this time, the Commission's internal auditors identified systemic weaknesses relating to the adequacy and effectiveness of the Commission's financial and operational systems and highlighted the absence of a robust risk and control framework. This resulted in the Commission commencing work on the development of appropriate processes and policies for risk management, namely:

- The development of 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 main corporate risk register;
- 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 auditors in their management letter 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 and the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Commission continues to contract out its internal audit service, to a provider which operates to Government Internal Audit Standards. The provider 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 high risk were scheduled to be reviewed twice over a 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 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 Committee to the Board on its programme of activity for the year;
- An annual check of internal effectiveness of the Audit 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 Committee Chairman concerning internal control issues;
- Periodic stewardship statements to the Audit 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 presented the Commission with various control issues. This continues to cause concern. However, significant advances in capturing information for forecasting purposes have been introduced within the constraints of the relevant legislation.

The management of data for the calculation of the provisions balance within the grant financial statements presented problems. The basis and methodology of this calculation continues to be the subject of an ongoing review. System issues around this, and other data management and reporting concerns, are under continuous review and will be further considered as a formal IT strategy is developed.

2 Counter Fraud

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

Prior to the commencement of the Commission, work on this area was limited, although a Fraud Prevention Officer was appointed in June 2001. From the Commission's creation in November 2003, the counter fraud function has been gradually strengthened.

Workshops have been 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.

A counter fraud policy was implemented and has subsequently been reviewed and updated in 2006. A counter fraud strategy document was approved by the Commission in March 2009 and is due to be reviewed in November 2009.

The Fraud Prevention and Investigation Unit is working to improve and document processes and procedures to detect and prevent fraud, and to increase focus on proactive investigations to support those already resulting from specific suspicions raised either inside or outside the Commission.

The Commission has developed relationships with other relevant government bodies and agencies to communicate and share information to counter fraud.

3 Commissioners' Remuneration

The Access to Justice (Northern Ireland) Order 2003 requires that Commissioners' remuneration is determined by the Lord Chancellor. In June 2004 the structure of payments to Commissioners was changed without formal approval being obtained from the Lord Chancellor, and these arrangements continued until July 2006. The Commission sought retrospective approval for this change from the Lord Chancellor but this was denied. The Commission made some payments that could not be supported by records

kept, and therefore would not have been authorised under the arrangements in place prior to June 2004. These are being treated as overpayments in line with the requirements of 'Managing Public Money'.

During the period in question, and taking account of the flat rate method of payment that was not dependent upon time spent at meetings, Commissioners were not asked to keep records of the time they spent at meetings or on other Commission business.

The Commission took steps to ensure that proper authority was in place to support all payments made to Commissioners from July 2006.

4 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.

5 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 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.

6 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.



Paul Andrews

Interim Chief Executive

Date: 3 December 2009

Legal Aid Grant

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 Legal Aid Funds for the year ended 31 March 2007 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. 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's 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 Legal Aid Grant 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, certain information given in the annual report, which comprises the directors' report and the management commentary, 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 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 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 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 opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board except that the scope of my audit was limited as explained below. 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 Commission and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the 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 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.

The evidence available to me was limited because the Commission were unable to provide sufficient evidence that Legal Aid Grant 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 audit opinion arising from a disagreement**

Provisions have been made in the financial statements for the full cost of cases on which Legal Aid certificates have been issued before the year end. In my opinion, this is not consistent with Financial Reporting Standard 12, where provision should only be made for legal aid costs incurred up to the year end. I have been unable to quantify the effect of this treatment on the opening provisions (£181.8 million), closing provisions (£183.3 million) and associated Income and Expenditure Account charge (£74.0 million), because the Commission could not provide sufficient evidence to adequately determine Legal Aid costs due.

In view of the effect of the accounting treatment of 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 2007 and of the deficit for the year then ended.

In all other respects in my opinion:

- 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 given within the annual report, which comprises the directors' report and the management commentary, is consistent with the financial statements.

Qualified audit opinion on regularity due to a limitation in scope

In my opinion:

- except for expenditure which may have arisen from fraudulent Legal Aid claims or 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

My opinion in the prior year was also qualified on these issues. Details of these matters are set out in my Report on pages 74 to 76.

Amyas C E Morse

Comptroller and Auditor General
26 March 2010

National Audit Office

157-159 Buckingham Palace Road
Victoria
London SW1W 9SP

Income and Expenditure Account for Grant for the Year Ended 31 March 2007

		2006-2007	Restated 2005-06
	Notes	£'000	£'000
Income			
Other operating income	2	1,213	1,213
		<u>1,213</u>	<u>1,213</u>
Expenditure			
Operating expenditure	3	73,992	77,553
Other expenditure	4	420	220
		<u>74,412</u>	<u>77,773</u>
Deficit before interest		<u>(73,199)</u>	<u>(76,560)</u>
Interest receivable and similar income	5	4	20
Notional cost of capital	6	6,443	6,023
Deficit for the year		<u>(66,752)</u>	<u>(70,517)</u>
Reversal of notional cost of capital		(6,443)	(6,023)
Deficit for the year excluding notional cost of capital	12	<u>(73,195)</u>	<u>(76,540)</u>

All income and expenditure is derived from continuing operations.

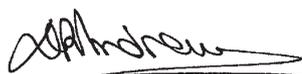
There are no gains and losses other than those recognised in the Income and Expenditure Account.

The notes on pages 33 to 47 form part of these accounts.

Balance Sheet for Grant at 31 March 2007

		31 March 2007	Restated 31 March 2006
	Notes	£'000	£'000
Current assets			
Debtors	7	913	1,343
Cash at bank and in hand	9	37	64
		<u>950</u>	<u>1,407</u>
Creditors: amounts falling due within one year	10	(4,066)	(1,399)
Net current (liabilities)/assets		<u>(3,116)</u>	<u>8</u>
Provisions for liabilities and charges	11	(183,314)	(181,765)
Total assets less total liabilities		<u>(186,430)</u>	<u>(181,757)</u>
Financed by:			
Capital and reserves			
General fund	12	<u>(186,430)</u>	<u>(181,757)</u>

The notes on pages 33 to 47 form part of these accounts.



Paul Andrews

Interim Chief Executive

Date: 3 December 2009

Cashflow Statement for Grant for the Year Ending 31 March 2007

		2006-2007	Restated 2005-2006
	Note	£'000	£'000
Operating activities			
Net cash outflow from continuing operating activities	13(i)	(68,549)	(57,121)
Net cash outflow before financing		(68,549)	(57,121)
Financing			
Grant	12	68,522	57,179
(Decrease)/Increase in cash during the year	13(ii)	(27)	58

The notes on pages 33 to 47 form part of these accounts.

Notes to the Grant Accounts for the Year Ending 31 March 2007

1 Statement of Accounting Policies

The financial statements have been prepared in accordance with the 2006-07 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.

Change of Accounting Policy

With effect from the 2006-07 reporting period the FReM requires Non-Departmental Public Bodies (NDPBs) to account for grants and grants in aid for revenue purposes as financing because they are regarded as contributions from a 'controlling party' which gives rise to a financial interest in the residual interest of NDPBs. This is a change in accounting policy from earlier periods when such items were recorded as income. The effect of this change on the 2005-06 accounts is shown below. This results in a prior year adjustment and the corresponding figures for 2005-06 have been restated. There is no impact on the net liability position of the Commission as a result of this change in policy.

	At 31 March 2006 (as previously stated) £'000	Impact of adopting new policy £'000	At 31 March 2006 (restated) £'000
Impact on 2005-06			
Net expenditure 2005-06	(19,361)	(57,179)	(76,540)

a) Accounting Convention

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 Northern Ireland Court Service.

Grant income is treated as financing as it is a contribution from a 'controlling party' used to finance its 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. Income also includes amounts receivable from funded clients and others for costs, and where appropriate, damages awarded.

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 work by legal aid 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.

h) 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.

i) Going concern

The Northern Ireland Legal Services Commission is a statutory body established under the Access to Justice (Northern Ireland) Order 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 Access to Justice (Northern Ireland) Order 2003 remain extant. The future financing of the Commission's liabilities will be met by grants from the Northern Ireland Court Service as voted on by Parliament.

j) Third Party Funds

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

2 Other operating income

	2006-2007	2005-2006
	£'000	£'000
Contributions from assisted persons	617	787
Costs recovered	511	382
Damages retained	85	44
	<u>1,213</u>	<u>1,213</u>

3 Operating expenditure

	2006-2007	2005-2006
	£'000	£'000
Solicitors' charges, counsel fees and disbursements	73,812	77,373
Immigration and asylum grant funding	180	180
	<u>73,992</u>	<u>77,553</u>

4 Other expenditure

	2006-2007	2005-2006
	£'000	£'000
Debt written off and movement in doubtful debt provision	420	220
	<u>420</u>	<u>220</u>

5 Interest receivable

	2006-2007	2005-2006
	£'000	£'000
Bank interest receivable	4	20
	<u>4</u>	<u>20</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

		31 March 2007	31 March 2006
	Note	£'000	£'000
Debtors			
-costs		1,120	974
-contributions		956	843
-other		62	490
		<hr/> 2,138	<hr/> 2,307
Doubtful debt provision	8	(1,225)	(1,009)
Prepayments		-	45
		<hr/> 913	<hr/> 1,343

7 b) Intra-Government balances

Balances with bodies external to government		913	1,343
		<hr/> 913	<hr/> 1,343

8 Doubtful debt provision

	31 March 2007	31 March 2006
	£'000	£'000
As at 1 April 2006	(1,009)	(965)
Doubtful debts written off	217	176
Doubtful debts written off subsequently recovered	(13)	-
Income and expenditure account charge	(420)	(220)
As at 31 March 2007	<u>(1,225)</u>	<u>(1,009)</u>

9 Cash at bank and in hand

	31 March 2007	31 March 2006
	£'000	£'000
Cash at Bank	37	64
	<u>37</u>	<u>64</u>

10 Creditors: amounts falling due within one year**10 a) Analysis by type**

	31 March 2007	31 March 2006
	£'000	£'000
Amounts due to solicitors, counsel and advice agencies	(4,066)	(1,399)
	<u>(4,066)</u>	<u>(1,399)</u>

10 b) Intra-Government balances

Balances with bodies external to government	(4,066)	(1,399)
	<u>(4,066)</u>	<u>(1,399)</u>

11 Provision for liabilities and charges

31 March 2007

£'000

As at 1 April 2006	(181,765)
Additions and increases to provision	(73,812)
Amounts used in the year	72,263
As at 31 March 2007	<u>(183,314)</u>

12 Movement on general fund

	31 March 2007	Restated 31 March 2006
	£'000	£'000
Balance as at 1 April 2006	(181,757)	(162,396)
Net expenditure for the year	(73,195)	(76,540)
Grant Income	68,522	57,179
Balance as at 31 March 2007	<u>(186,430)</u>	<u>(181,757)</u>

13 Notes to the cash flow statement

i) Reconciliation of operating deficit to net cash flow from continuing operating activities

	31 March 2007	Restated 31 March 2006
	£'000	£'000
Result for year	(66,752)	(70,517)
Credit in respect of notional cost of capital	(6,443)	(6,023)
Decrease/ (Increase) in debtors	430	(717)
Increase/ (Decrease) in creditors	2,667	(2,356)
Increase in provisions	1,549	22,492
Net cash (outflow) from continuing operating activities	<u>(68,549)</u>	<u>(57,121)</u>

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

Cash at bank and in hand 1 April 2006	64	6
Cash at bank and in hand 31 March 2007	37	64
Net movement in funds	<u>(27)</u>	<u>58</u>

14 Third party funds

Awards for damages to funded clients may be required by the Legal Services 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 year ended 31 March 2007 was as follows:

	31 March 2007	31 March 2006
	£'000	£'000
Balance at 1 April 2006	375	221
Received for the year	629	679
	<u>1,004</u>	<u>900</u>
Less:		
Sums repaid to assisted persons	(713)	(481)
Damages retained	(85)	(44)
Balance at 31 March 2007	<u>206</u>	<u>375</u>

15 Summary of Losses and Special Payments

There was £217K written off during the year in respect of 309 cases. An amount of £13K previously written off relating to 25 cases was recovered.

There were no special payments made during this year.

16 Post Balance Sheet Events

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 Comptroller and Auditor General.

17 Related Party Transactions

The Commission is a non-departmental public body sponsored by the Northern Ireland Court Service. The Northern Ireland Court Service is regarded as a related party. During the year the Commission has had various material transactions with the Northern Ireland Court Service.

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 2007 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 year 1 April 2006 to 31 March 2007 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 2006/07 but not yet billed.

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

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 1st April 2005. The total amount of payments made to the Law Centre during 2006/07 in respect of funding was £135,000. 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 2006/07 was £4,328.

No payments were made to Ian Tannahill during 2006/07.

Mr. Brian Fee is a Commissioner and a practising barrister. He served as a Commissioner to December 2007. He is not remunerated for his work as a Commissioner. His brother is a partner in the solicitor practice of Murnaghan and Fee.

No payments were made to Brian Fee during 2006/07.

Murnaghan and Fee solicitors received payments of £192,590 during 2006/07 in respect of legal aid casework.

Mrs. Jennifer Greenfield served as a Commissioner to July 2006. She is a consultant with Cleaver Fulton & Rankin solicitors and is also employed on a temporary basis with Johnson's solicitors. Her husband, Gordon Greenfield, is employed by McKinty & Wright Solicitors.

Cleaver Fulton & Rankin received legal aid payments during 2006/07 of £209,944.

Johnsons Solicitors received legal aid payments during 2006/07 of £988.

McKinty & Wright received legal aid payments during 2006/07 of £8,767.

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

No payments were made to Gerry Grainger during 2006/07.

Ms. Fiona Donnelly is a Commissioner and solicitor with Fiona Donnelly Solicitors.

No payments were made to Fiona Donnelly solicitors during 2006/07.

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

His cousins, Damien Agnew and Brendan Agnew, are partners in Anderson, Agnew and Co.

His cousin Seamus Agnew is a partner in Agnew Andress solicitors.

Anderson Agnew and Co received legal aid payments during 2006/07 of £25,733.

Agnew Andress solicitors received legal aid payments during 2006/07 of £48,523.

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

External committees which deal with refusal of legal aid and assessment of bills in civil proceedings, and legal aid

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

18. Financial instruments

FRS 13 Derivatives and other financial instruments, requires disclosure of the role which financial instruments have had during the year 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

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

Interest rate risk

The Commission is not exposed to significant interest rate risks.

Interest rate profile

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

	Total	Floating- Rate Financial Assets	Fixed- Rate Financial Assets	Non- Interest Bearing Financial Assets	Weighted- Average Interest Rate	Weighted- Average Period for which Rate is Fixed	Weighted- Average Period until Maturity
	£'000	£'000	£'000	£'000	%	Years	Years
Gross financial assets							
Currency							
Sterling							
As at 31 March 2007	37	-	17	20	-	-	Note a
As at 31 March 2006	64	-	43	21	-	-	Note a

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

Foreign currency risk

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

Fair values

Set out below is a comparison by category of book values and fair values of the Commission's financial assets at 31 March 2007.

	Book Value	Fair Value
	£'000	£'000
<hr/>		
Primary financial instruments		
<hr/>		
Financial assets:		
Cash at bank	37	37

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 2007 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's 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, certain information given in the Annual Report, which comprises the Directors' Report and the Management Commentary, 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 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 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 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 Opinion

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 Commission and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the 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 there under by the Lord Chancellor, with the approval of HM Treasury, of the state of affairs of the Northern Ireland Legal Services Commission Grant in Aid as at 31 March 2007 and of its deficit 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 given within the Annual Report, which comprises the Directors' Report and the Management Commentary, is consistent with the financial statements.

Audit 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
26 March 2010

National Audit Office

157-159 Buckingham Palace Road
Victoria
London SW1W 9SP

Income and Expenditure Account for Grant in Aid for Year Ended 31 March 2007

		2006-2007	Restated 2005-2006
	Notes	£'000	£'000
Operating expenditure			
Staff costs	2	3,611	3,336
Other operating costs	4	1,980	2,046
Depreciation	8(a), 8(b)	399	417
Notional charges	7	558	544
Total operating expenditure		6,548	6,343
Net return on Pension Scheme assets	3	58	8
Notional cost of capital	7	17	(34)
Interest receivable	6	1	3
Deficit for the year		(6,472)	(6,366)
Reversal of notional charges	7	541	578
Deficit for the year excluding notional charges	13	(5,931)	(5,788)

All income and expenditure is derived from continuing operations.

The notes on pages 54 to 73 form part of these accounts.

Statement of Recognised Gains and Losses for Grant in Aid for the Year Ended 31 March 2007

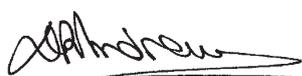
		2006-2007	2005-2006
	Notes	£'000	£'000
Unrealised surplus on revaluation of fixed assets	12	12	6
Actuarial loss on pension scheme	3	(1,836)	(59)
Recognised losses for the year		<u>(1,824)</u>	<u>(53)</u>

The notes on pages 54 to 73 form part of these accounts.

Balance Sheet for Grant in Aid as at 31 March 2007

		31 March 2007	Restated 31 March 2006
	Notes	£'000	£'000
Fixed assets			
Tangible assets	8(b)	933	1,107
Intangible assets	8(a)	133	193
		<u>1,066</u>	<u>1,300</u>
Current assets			
Debtors	9	88	183
Cash at bank and in hand	10	91	10
		<u>179</u>	<u>193</u>
Creditors: amounts falling due within one year	11	(891)	(768)
Net current liabilities		<u>(712)</u>	<u>(575)</u>
Pension asset	3(b)	1	1
Total assets less current liabilities		<u>355</u>	<u>726</u>
Provisions for liabilities and charges			
Pension provision	3(a)	(1,944)	(120)
Total assets less total liabilities		<u>(1,589)</u>	<u>606</u>
Capital and reserves			
Revaluation reserve	12	45	38
General fund	13	(1,634)	568
Total capital and reserves		<u>(1,589)</u>	<u>606</u>

The notes on pages 54 to 73 form part of these accounts.


Paul Andrews

Interim Chief Executive

Date: 3 December 2009

Cash Flow Statement for Grant in Aid for the Year Ended 31 March 2007

		2006-2007	Restated 2005-2006
	Notes	£'000	£'000
Operating activities			
Net cash outflow from continuing operating activities	14(i)	(5,301)	(4,931)
Capital expenditure:			
Payments to acquire fixed assets	14(iii)	(178)	(143)
		<u>(5,479)</u>	<u>(5,074)</u>
Financing			
Grant in Aid	13	5,560	5,081
Increase in cash for the year	14(ii)	<u>81</u>	<u>7</u>

The notes on pages 54 to 73 form part of these accounts

Notes to the Grant in Aid Accounts for the Year Ended 31 March 2007

1 Statement of Accounting Policies

The financial statements have been prepared in accordance with the 2006-07 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. Change in Accounting Policy

With effect from the 2006-07 reporting period the FReM requires Non-Departmental Public Bodies (NDPBs) to account for grants and grants in aid for revenue purposes as financing because they are regarded as contributions from a 'controlling party' which gives rise to a financial interest in the residual interest of NDPBs. This is a change in accounting policy from earlier periods when such items were recorded as income. The effect of this change on the 2005-06 accounts is shown below. This results in a prior year adjustment and the corresponding figures for 2005-06 have been restated. There is no impact on the net liability position of the Commission as a result of this change in policy.

	At 31 March 2006 (as previously stated) £'000	Impact of adopting new policy £'000	At 31 March 2006 (restated) £'000
Impact on 2005-06			
Income & Expenditure Account			
Net expenditure 2005-06	(340)	(5,448)	(5,788)
Balance Sheet			
General Fund	(694)	1,262	568
Revaluation Reserve	-	38	38
Government Grant Reserve	1,300	(1,300)	-
	606	0	606

c. 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 year 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.

d. Depreciation

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

e. 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.

f. Income

Other operating income comprises receipts authorised by the Northern Ireland Court Service to be treated as income.

g. 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 support 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.

h. 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.

i. 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, is disclosed as a 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 11% to 15.5%.

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.

j. Accounting for Value Added Tax

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

k. 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.

i. Going Concern

The Northern Ireland Legal Services Commission is a statutory body established under the Access to Justice (Northern Ireland) Order 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 Access to Justice (Northern Ireland) Order 2003 remain extent.

The future financing of the Commission's liabilities will be met by grants from the Northern Ireland Court Service as voted on by Parliament.

2 Staff costs

The number of Commissioners (including the Chairman) and committee members serving during the year was:

	2006-2007	2005-2006
Commissioners	10	11
Committee members	59	45
	<u>69</u>	<u>56</u>

The average number of employees during the year was:

Management (including the Chief Executive)	16	16
Operational	68	68
Administration and support	28	27
Inward secondments	3	-
Agency	5	8
	<u>120</u>	<u>119</u>

The costs incurred in respect of these employees were:

		2006-2007	2005-2006
	Note	£'000	£'000
Wages and salaries		2,765	2,602
Agency/seconded staff		252	199
Social security costs		190	158
Funded pension costs: NILGOSC - Current Service Costs	3(a)	297	283
- Pension Contributions		107	93
NPI - Current Service Costs	3(b)	-	1
- Pension Contributions		-	-
		3,611	3,336

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 15.5%. The employer rate set by NILGOSC was 11% (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 2007 increased to 13.0%.

During the year employer contributions of £350K 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:

	31 March 2007
Inflation rate	3.2%
Rate of increase in pensionable salaries	4.7%
Rate of pension increase	3.2%
Discount rate	5.4%

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

	Expected return at 31 March 2007	Assets at 31 March 2007	Expected return at 31 March 2006	Assets at 31 March 2006
	% p.a	£'000	% p.a	£'000
Equities	7.8%	6,081	7.4%	5,910
Bonds	4.9%	1,138	4.6%	870
Property	5.8%	830	5.5%	530
Cash	4.9%	92	4.6%	100
Total	7.2%	8,141	6.9%	7,410

Net pension asset as at:

	31 March 2007	31 March 2006
	£'000	£'000
Estimated employer assets	8,142	7,410
Present value of scheme liabilities	(10,086)	(7,530)
Net pension (liability)	(1,944)	(120)

Analysis of amount charged to Income and Expenditure Account:

	2006-2007 £'000	2005-2006 £'000
Current service cost	297	283
Past service cost	-	-
Curtailments and Settlements	-	-
Total operating charge	297	283

Analysis of net return on pension scheme:

	2006-2007 £'000	2005-2006 £'000
Expected return on employer assets	521	410
Interest on pension scheme liabilities	(463)	(402)
Net return	58	8

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

	2006-2007	2005-2006
	£'000	£'000
Actual return less expected return on pension scheme assets	(90)	1,093
Experience (losses)/gains arising on the scheme liabilities	(10)	2
Changes in financial assumptions underlying the present value of the scheme liabilities	(1,736)	(1,154)
Actuarial loss recognised in SRGL	(1,836)	(59)

Movement in surplus/ (deficit) during the year:

	2006-2007	2005-2006
	£'000	£'000
(Deficit) / Surplus at beginning of the year	(120)	30
Current service cost	(297)	(283)
Employer contributions	251	184
Net return on assets	58	8
Actuarial loss	(1,836)	(59)
Deficit at end of year	(1,944)	(120)

History of experience gains and losses:

	31 March 2007	31 March 2006
	£'000	£'000
Difference between the expected and actual return on assets	(90)	1,093
Value of assets	8,142	7,410
Percentage of assets	(1.1%)	14.8%
Experience (losses)/gains on liabilities	(10)	2
Total present value of liabilities	10,086	7,530
Percentage of the total present value of liabilities	(0.1%)	(0.0%)
Actuarial losses recognised in SRGL	(1,836)	(59)
Total present value of liabilities	10,086	7,530
Percentage of the total present value of liabilities	(18.2%)	(0.8%)

Pension costs - continued

b. Law Society of Northern Ireland Retirement Benefits 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 2007.

4. Other operating costs

	2006-2007	2005-2006
	£'000	£'000
Accommodation	541	527
Other employee expenses	209	111
IT expenditure	450	488
Legal expenses	151	225
Consultancy expenses	170	182
Committee expenses	28	29
Auditors' remuneration and expenses	35	35
Permanent diminution	25	76
General	371	373
	<u>1,980</u>	<u>2,046</u>

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.

	1 Year £'000	2-5 Years £'000	5+ Years £'000
Land and buildings	-	-	278
Other - Equipment	-	17	-
	<u>-</u>	<u>17</u>	<u>278</u>

6 Interest receivable

	2006-07 £'000	2005-06 £'000
Bank interest receivable	1	3
	<u>1</u>	<u>3</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:

	2006-2007 £'000	2005-2006 £'000
Cost of Capital	(17)	34
Social Security Agency	505	494
Taxing Master Office	53	50
	<u>541</u>	<u>578</u>

8 Fixed assets**8a Intangible Fixed Assets**

	Computer Software £'000
Cost	
1 April 2006	508
Additions	104
Disposals	-
Revaluations	(36)
31 March 2007	576
Depreciation	
1 April 2006	315
Charge In Year	156
Disposals	-
Revaluations	(28)
31 March 2007	443
Net book value 31 March 2007	133
Net book value 31 March 2006	193

8 Fixed assets

8b Tangible Fixed Assets

	Fixtures and Fittings £'000	Computer Hardware £'000	Total £'000
Cost			
1 April 2006	1,054	596	1,650
Additions	5	69	74
Disposals	-	-	-
Revaluations	17	(43)	(26)
31 March 2007	1,076	622	1,698
Depreciation			
1 April 2006	261	282	543
Charge In Year	110	133	243
Disposals	-	-	-
Revaluations	5	(26)	(21)
31 March 2007	376	389	765
Net book value 31 March 2007	700	233	933
Net book value 31 March 2006	793	314	1,107

9 Debtors: amounts falling due within one year

9a Analysis by type

	31 March 2007 £'000	31 March 2006 £'000
Other debtors	7	7
Prepayments	81	176
	88	183

9b Intra-Government balances

	31 March 2007 £'000	31 March 2006 £'000
Balances with other central government bodies	5	5
Balances with bodies external to government	83	178
	<hr/> 88 <hr/>	<hr/> 183 <hr/>

10 Cash at bank and in hand

	31 March 2007 £'000	31 March 2006 £'000
Cash at bank	91	10
	<hr/> 91 <hr/>	<hr/> 10 <hr/>

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

	31 March 2007 £'000	31 March 2006 £'000
Creditors	(54)	(40)
Accruals	(837)	(728)
	<hr/> (891) <hr/>	<hr/> (768) <hr/>

11b Intra-Government balances

	31 March 2007 £'000	31 March 2006 £'000
Balances with central government bodies	(2)	(12)
Balances with public corporations and trading funds	-	(2)
Balances with bodies external to government	(889)	(754)
	<hr/> (891) <hr/>	<hr/> (768) <hr/>

12 Movement on revaluation reserve

	31 March 2007 £'000	Restated 31 March 2006 £'000
As at 1 April 2006	38	36
Transfer of realised element of depreciation to general fund	(5)	(4)
Unrealised surplus on revaluation of fixed assets	12	6
	<hr/> 45 <hr/>	<hr/> 38 <hr/>

13 Movement on general fund

	31 March 2007 £'000	Restated 31 March 2006 £'000
As at 1 April 2006 (restated)	568	1,330
Grant-in-aid from NICTS	5,560	5,081
Net expenditure for the year	(5,931)	(5,788)
Actuarial loss on pension scheme	(1,836)	(59)
Transfer of realised element of depreciation from revaluation reserve	5	4
	<hr/> (1,634) <hr/>	<hr/> 568 <hr/>
As at 31 March 2007		

14 Notes to the cash flow statement

i) Reconciliation of the operating deficit to the net cash flow from continuing operating activities

	31 March 2007 £'000	Restated 31 March 2006 £'000
Result for year	(6,472)	(6,366)
Credit in respect of notional costs	541	578
Depreciation	399	417
Permanent diminution in value of fixed assets	25	76
Decrease in debtors	95	25
Increase in creditors	123	247
Decrease in pension asset	-	31
(Decrease) / Increase in provision - excluding actuarial gain/loss	(12)	61
Net outflow from continuing operating activities	<u>(5,301)</u>	<u>(4,931)</u>

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

	31 March 2007 £'000	31 March 2006 £'000
Cash at bank and in hand at 1 April 2006	10	3
Cash at bank and in hand at 31 March 2007	91	10
Net movement in funds	<u>81</u>	<u>7</u>

iii) Reconciliation of capital grant to purchase of fixed assets

	31 March 2007 £'000	31 March 2006 £'000
Cash purchase of Fixed Assets	178	143
Opening capital creditors	(2)	(19)
Closing capital creditors	2	2
Opening capital debtors	-	-
Closing capital debtors	-	-
Grant in aid to acquire fixed assets	178	126

15 Contingent liabilities

The Commission had no contingent liabilities at 31 March 2007.

16 Capital commitments

The Commission has no capital commitments as at 31 March 2007.

17 Other commitments

At 31 September 2006 the seven year managed service contract with Fujitsu Services Ltd in respect of software support, implementation and upgrades associated with the Phoenix software system ended. Following a tendering process under the terms of the Commission's financial memorandum British Telecom Plc was awarded a two year contract for the provision of these services effective from 1st October 2006. As at 31 March 2007 the Commission has a future expenditure commitment of £393K in respect of this contract.

18 Post Balance Sheet events

The accounts were authorised for issue by the Interim Chief Executive on the same date as they were certified by the Comptroller and Auditor General.

There were no other events after the balance sheet date.

19 Summary of Losses and Special payments

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

20 Related Party transactions

The Commission is a non-departmental public body sponsored by the Northern Ireland Court Service. The Northern Ireland Court Service is regarded as a related party with which the Commission has had various material transactions during the year.

Breidge Gadd is a member of the Board of Commissioners. She is also a columnist with the Irish News newspaper. During the year 2006/07 the Commission placed advertisements in various newspapers including the Irish News.

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

21 Financial instruments

FRS 13, Derivatives and other financial instruments, requires disclosure of the role financial instruments have had during the year 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.

Liquidity risk

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

Interest rate risk

The Commission is not exposed to significant interest rate risks.

Interest rate profile

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

	Total	Floating- Rate Financial Assets	Fixed- Rate Financial Assets	Non- Interest Bearing Financial Assets	Weighted- Average Interest Rate	Weighted- Average Period for which Rate is Fixed	Weighted- Average Period until Maturity
Gross financial assets	£'000	£'000	£'000	£'000	%	Years	Years
Currency Sterling	91	-	-	91	-	-	Note a
At 31 March 2007	91	-	-	91	-	-	-
Gross financial assets							
Currency Sterling	10	-	-	10	-	-	Note a
At 31 March 2006	10	-	-	10	-	-	-

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 2007.

	Book Value £'000	Fair Value £'000
Primary financial instruments		
Financial assets:		
Cash at bank	<u>91</u>	<u>91</u>

Northern Ireland Legal Services Commission Report of the Comptroller and Auditor General Year ended 31 March 2007

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, both are included within this report.

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 2007 and to comment on the delay in producing the Annual Report and Accounts.

Qualification of my audit opinion on the Legal Aid Grant Account

5. I have qualified my opinion on the Grant Account in the 2006-07 financial statements because of the following issues:
 - disagreement with the NILSC's accounting policy for provisions as not compliant with accounting standards; and
 - limitation in scope arising from a lack of sufficient evidence to support the regular nature of legal aid grant expenditure.
6. I qualified my audit opinion on the 2003-04, 2004-05 and 2005-06 Grant Accounts as a result of these issues. Further details are summarised below.
7. In 2003-04, 2004-05 and 2005-06 I also qualified my audit opinion on regularity in respect of payments for legal advice for a civil case relating to the Omagh bombing. No further payments have been made during 2006-07 relating to this, and I have not qualified my audit opinion for 2006-07 in respect of this matter.

Disagreement with the NILSC's accounting policy for provisions

8. The accounting policy adopted by the NILSC of making provisions for the full cost of existing legal aid cases does 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.

9. The affected opening provisions (£181.8 million), closing provisions (£183.3 million) and the associated Income and Expenditure charge (£73.8 million) in the 2006-07 financial statements would be fundamentally different if the provisions for all future costs were removed and an accrual for costs incurred to the balance sheet date included. As a result, I have concluded that the financial statements do not give a true and fair view.
12. 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.

Limitation in scope

10. 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.
11. 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. 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.
14. I have therefore limited the scope of my audit opinion on regularity because I have been unable to obtain sufficient audit evidence to enable me to conclude that payments to legal professionals are regular.

Statutory Charge and Exemptions

15. 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. The Legal Aid

(General) Regulations (Northern Ireland) 1965 contains provisions for exemptions from the statutory charge system in certain circumstances, including matrimonial cases. 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.

16. This does not affect my audit opinion, but in view of the legal opinions received, the Commission is considering how to address this issue for past and current cases and I would encourage it to bring this to an early conclusion. The Legal Aid (General) (Amendment) Regulations (Northern Ireland) 2010 which come into operation on 1 April 2010 will clarify the interpretation of the Regulations for future cases.

Delay in producing Annual Report and Accounts

17. My reports on the 2003-04, 2004-05 and 2005-06 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.

18. 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.

19. I note that the NILSC now has a new chief executive and that he and the management team are working to improve the systems that are in place and bring matters up to date as quickly as possible.

Amyas C E Morse

Comptroller and Auditor General
26 March 2010

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