



NORTHERN IRELAND  
Legal Services  
Commission

**Annual Report and Financial Statements**  
For the year ended 31 March 2006





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Legal Services  
Commission

## **NORTHERN IRELAND LEGAL SERVICES COMMISSION**

Annual Report and Financial Statements  
For the year ended 31 March 2006

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

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

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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 2006 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 all 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 NICtS funds the running costs of the Commission through a grant-in-aid allocation and the expenditure of the Commission on criminal and civil legal aid through a grant.

The relationship between the Commission and NICtS 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 mainly 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.

### **Commission Members**

In accordance with the provisions of Article 4 of the AJO 2003, the Commission's membership, appointed by the Lord Chancellor, comprises of a Chair and no fewer than 6 but no more than 10 members appointed for a three year term.

The following members served on the Committee during the year to 31 March 2006.

**Sir Anthony Holland, Chairman**

**Mr Les Allamby**

**Mrs Maeve Bell OBE**

**Ms Breidge Gadd CBE**

**Mrs Jennifer Greenfield**

**Mr Brian Fee QC**

**Dr Jeremy Harbison CB**

**Mr Francis Hewitt**

**Mr Miceal McCoy**

**Mr Peter Osborne**

**Mr Ronald Spence CB**

The following changes to the membership of the Committee occurred from 1 April 2006 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 Maeve Bell OBE**  
(Until 31 July 2006)

**Mrs Jennifer Greenfield**  
(Until 31 July 2006)

**Mr Francis Hewitt**  
(Until 31 July 2006)

**Mr Peter Osborne**  
(Until 31 July 2006)

**Mr Joseph Donnelly**  
(Appointed 1 September 2006)

**Ms Fiona Donnelly**  
(Appointed 1 September 2006)

**Mr Wilson Matthews**  
(Appointed 1 September 2006)

**Ms Hilary McCartan**  
(Appointed 1 September 2006)

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. During



the reporting period these have been the audit committee, the service delivery committee, the reform committee and the general purposes committee. These committees are charged with overseeing the operational, 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 in the related party disclosures at note 18 on pages 39-41 and note 22 on page 68. 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**

The Interim Chief Executive of the Commission is Mr Paul Andrews. 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 2006, left the Commission on 31 July 2009.

### **Pension Schemes**

The Commission contributes to the Northern Ireland Local Government Officers' Superannuation Committee Scheme (NILGOSC). Membership of the scheme is optional for employees. In line with the requirements of Financial Reporting Standard 17: Retirement Benefits, the 2005/06 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 (NPI 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 has commenced the process of winding up the fund.

Details of these pension schemes and the impact of applying FRS 17 are disclosed in note 5 on pages 55-60.

### **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 10(a) and 10(b) on pages 62 and 63. There were no significant changes during the year.

### **Equality of Opportunity**

The Commission is fully committed to ensuring that there is due regard to the need to promote 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 members from the management team and members from 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.

### **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 81% of bills were paid within this standard (2004/05 82%).

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

### **Receipts**

Applicants for 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.

### **Research and Development**

During 2005/06 the Policy and Service Development Directorate made significant progress in addressing the requirements of the AJO 2003 and there were a number of important achievements.

The Commission set out its early thinking on the development of the Funding Code in an exposure document and a range of responses were subsequently received.

The Commission developed various models that could be adopted for a registration scheme as a basis for consultation in an exposure document.

On 1 March 2006 the Commission organised and co-hosted, with a number of organisations, the "Getting it Right for Children when Parents are Separating" conference which was attended by 226 delegates. The report of the conference was published in November 2006.

## **Auditors**

The financial statements are audited by the head of the National Audit Office, the Comptroller and Auditor General (C&AG), in accordance with the AJO 2003. He and his staff are wholly independent of the Commission, and he reports his findings to Parliament. The audit of the financial statements for 2005/06 resulted in an audit fee of £35,000. This fee is included in grant in aid administration costs, as disclosed in note 6 on page 61 to these accounts. The C&AG did not provide any non-audit services during the year.

## **Disclosure of Audit Information**

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

## Management Commentary

### Development and Performance

During 2005/06 the Commission:

- issued 3,146 civil legal aid certificates in relation to family matters;
- issued 5,035 civil legal aid certificates in relation to non-family matters;
- made 12,949 payments to providers of publicly-funded legal services in respect of family matters;
- made 27,043 payments to providers of publicly-funded legal services in respect of civil, non-family matters;
- made 32,803 payments to providers of publicly-funded legal services in respect of work carried out under criminal legal aid certificates, which are issued by the courts.

Further information in relation to the volume and type of cases for which the Commission provided assistance to people in Northern Ireland can be found on the Commission's website at [www.nilsc.org.uk](http://www.nilsc.org.uk)

During 2005/06 the Commission experienced significant resourcing difficulties that impacted upon its service delivery and its capacity to develop policy and services.

Despite that, during 2005/06 the Commission's achievements included:

- all emergency applications for civil legal aid were dealt with within 3 days of receipt;
- 80% of applications for extensions to legal aid and advice were decided within 48 hours of receipt;

- 99% assessment of claims for Crown Court Criminal work under The Legal Aid for Criminal Court Proceedings (Costs) Rules (N.I.) 2005 processed and paid within 6 weeks of the claim being received;
- 100% of claims for Article 3 Children Order work, outstanding since 1999, were assessed and paid under a negotiated fixed fee process by January 2006;
- 60% of payments supporting the provision of legal advice and assistance were made within 8 weeks of receipt of claims;
- the procedures for the completion of civil legal aid forms were published and from 1 November 2005, 95% of all applications for adjudication were complete and fit for purpose.

During 2005/06, the Commission continued to experience significant difficulties in processing claims for work carried out in the Criminal Crown Court. In July 2005, the Commission issued an advancement of fees in relation to claims under old rules and worked throughout 2005/06 to clear the backlog in relation to these claims. The Commission also partnered the NICTS in the implementation of new remuneration arrangements under the Criminal Crown Court Rules 2005, which came into effect in July 2005.

The Commission identified and progressed a range of key issues that were fundamental to the progress of the reform of civil legal aid in Northern Ireland.

These included:

- the introduction of a quality control system for civil legal aid applications, which aimed to ensure that applications for civil legal aid contained all relevant information when they reached the adjudication stage;
- the negotiation and implementation of a remedial solution to the long-standing remuneration problem in relation to Family Care Centre work, that also supported the development of the Commission's position on the appropriate methodology for fee and other payment structures for the provision of publicly-funded legal services;
- the identification of the scope of the programme of research that was to introduce Civil Legal Services under the AJO 2003 and developed proposals for this research programme (see below);
- the examination of the potential alternative funding models for money-damages cases in Northern Ireland;
- assisting NICTS in the implementation of the Fundamental Review of Legal Aid in Northern Ireland in support of a similar review that was carried out in Great Britain.

The Commission continued making quality improvements through the development of risk management internal control and quality management, throughout 2005/06 and 2006/07, but could only make limited progress on these initiatives within the current statutory framework.

The Commission made significant progress during 2005/06 on the development of working relationships with the key stakeholders in the justice, voluntary and community sectors in Northern Ireland and in establishing positive relationships with other legal aid organisations in the United Kingdom and Ireland. These relationships are fundamental to the success of the reform of civil legal services in Northern Ireland for which the Commission is responsible.

Those elements of the reform programme that were progressed during 2005/06 included:

- the development of proposals on the implementation of Article 6 of the Access to Justice (Northern Ireland) Order 2003;
- the development of a Northern Ireland Funding Code for civil legal services;
- the drafting of proposals on a registration scheme for the providers of publicly-funded legal services.

These work streams represented the first steps in the work to implement the remaining Articles in the Access to Justice (Northern Ireland) Order 2003.

### **Risks and uncertainties**

The Commission delegates to staff decision-making authority under the provisions of the current civil and criminal legal aid legislation. These delegations cover the granting and refusal of civil legal aid, including appeals, and the assessment of claims for work done in relation to civil and criminal legal aid certificates. The Commission maintains desk instructions in relation to all decision-making, and provides training to staff to give effect to

the delegated authorities. The Commission continues to develop its risk management framework, to include corporate and business risk management, taking account of emerging best practice and the development of the Commission's Statement on Internal Control.

### **Year end position**

The Commission is funded by grants provided by the NICtS. For the financial year to 31 March 2006, the Commission received cash grant funding of £57,179K and cash grant-in-aid funding of £5,081K. The Commission recorded a deficit against funding of £19,361K and £340K on the grant and grant-in-aid respectively, after reversing notional charges. At the balance sheet date it had provisions of approximately £182M on the grant account, which is the Commission's estimate of the amounts outstanding in relation to criminal and civil legal aid certificates in issue at that date.

The Commission continued to strive to implement resource accounting and budgeting during 2005/06. This affected a number of key financial processes, including in-year budgeting, the identification of resource requirements within the Comprehensive Spending Review Framework and the disclosure of expenditure on legal aid in the Commission's accounts.

Coupled with this, difficulties in predicting the number and extent of very high cost cases led directly to difficulties in predicting the total amount of cash grant required by the Commission.

As a result of these uncertainties, it was not until the end of 2005/06 that the NICtS were able to secure from HM Treasury the additional funding required to meet the cash liabilities falling within the financial year.

### **Trends and Factors during 2005/06**

During 2005/06 the Commission sought to address a number of processing issues in relation to services under the Legal Aid (General) Regulations (Northern Ireland) 1965 and 1981 legislation, with mixed success. The Commission made progress, against a demanding resourcing situation, on the development of the reform programme for civil legal aid. The Commission also sought to implement a range of initiatives relating to business assurance.

The Commission was challenged by the competing demands of delivering current services, seeking to improve these services within the current legislative framework and preparing for the reform of these services through the implementation of further legislation.

These challenges also presented difficulties for the management of change within the Commission. During this period the Commission faced a number of staffing and other resource issues at all levels. These challenges also affected the relationships between the Commission and its stakeholders in government, the justice sector and in the voluntary and community sector.

### **Trends and factors for the future**

The Commission will continue to face challenges arising from:

- potential changes in the wider justice sector that may change the demand for legal aid;
- the structure of legal aid legislation;
- the competing priorities between maintaining and improving delivery of services under this legislation and the preparation for the effective implementation of the AJO 2003;
- pressures on funding for legal aid in future Comprehensive Spending Review periods;
- the business and corporate planning processes;
- financial management and reporting processes;
- driving and managing change in a complex service delivery and stakeholder environment;
- the forecasting of legal aid expenditure to support the Comprehensive Spending Review process.

A further significant challenge for the Commission is likely to be the impact of the devolution of justice in Northern Ireland.

## 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.

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.

		Audited 2005-06 £'000	Audited 2004-05 £'000
<b>Commissioners</b>			
Sir Anthony Holland	Appointed 19 April 2004	40-45	35-40
Mr Les Allamby	Appointed 28 July 2003	15-20	15-20
Mrs Maeve Bell OBE	Appointed 28 July 2003	15-20	15-20
Ms Breidge Gadd CBE	Appointed 28 July 2003	15-20	15-20
Mrs Jennifer Greenfield	Appointed 28 July 2003	15-20	15-20
Dr Jeremy Harbison CB	Appointed 28 July 2003	15-20	15-20
Mr Francis Hewitt	Appointed 28 July 2003	15-20	15-20
Mr Miceal McCoy	Appointed 28 July 2003	15-20	15-20
Mr Peter Osborne	Appointed 28 July 2003	15-20	15-20
Mr Ronald Spence CB	Appointed 28 July 2003	15-20	15-20
Mr Brian Fee QC	Appointed 1 January 2005	NIL	NIL



**Remuneration (Audited)**

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

<b>Name and title</b>	<b>Salary 2006</b>	<b>Salary 2005</b>	<b>Real increase in pension and related lump sum at age 65 years</b>	<b>Accrued pension and related lump sum at age 65 years</b>	<b>CETV at 31/03/06</b>	<b>CETV at 31/03/05</b>	<b>Real increase in CETV after adjustment</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Mr G Crossan Chief Executive	80-85	75-80	0-2.5 plus 5-7.5 related lump sum	20-25 plus 60-65 related lump sum	280	242	33
Mr I Hearst Director of Corporate Services	55-60	50-55	0-2.5 plus 2.5-5 related lump sum	0-5 plus 10-15 related lump sum	52	36	15
(full year equivalent)	-	55-60	-	-	-	-	-
Dr T Donaldson Director of Policy and Service Development	55-60	30-35	0-2.5 plus 5-7.5 related lump sum	5-10 plus 25-30 related lump sum	116	87*	27
(full year equivalent)	-	55-60	-	-	-	-	-
Mrs A Lloyd-Humphreys Director of Service Delivery	50-55	10-15	0-2.5 plus 0-2.5 related lump sum	5-10 plus 25-30 related lump sum	124	116*	5
(full year equivalent)	55-60	55-60	-	-	-	-	-
Mr G Brooks Director of Corporate Services	0-5	-	-	0-5 plus 0-5 related lump sum	1	-	-
(full year equivalent)	55-60	-	-	-	-	-	-

\* The CETVs at 31 March 2005 for Dr Donaldson and Mrs Lloyd-Humphreys are increased as they received additional transferred in service credits during the current tax year. Mrs Lloyd-Humphreys left the Commission on 31 January 2006.

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 this role to 31 July 2009. Mr Paul 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 took up the position of 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.

Mrs A. Lloyd-Humphreys was appointed as Director of Service Delivery on 10 January 2005. Mrs Lloyd-Humphreys resigned from the Commission on 31 January 2006.

Mr G. Brooks was appointed Director of Corporate Services on a 1 year fixed term contract from 1 March 2006. He remained with the Commission until 31 March 2007 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

Senior management are members of the NILGOSC pension scheme and are entitled to a lump sum of 3 times their accrued pension.

The Commission operates two pension schemes for the benefit of its 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). 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. Employer contributions are made at a rate of 13% (which includes 4.5% paid on behalf of employees). Further details of this scheme can be obtained from the NILGOSC website, [www.nilgosc.org.uk](http://www.nilgosc.org.uk).

**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. The scheme is closed to new entrants and there are no active members. The scheme is in the process of being wound up.

**Cash Equivalent Transfer Values**

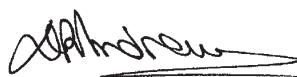
A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment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

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the NILGOSC Pension Scheme arrangements and for which a transfer payment has been received, commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to

the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

**Real increase in CETV**

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



**Paul Andrews**

Interim Chief Executive  
Date: 2 December 2009

## Statement of the Northern Ireland Legal Services Commissions' 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 2005/06 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 documents '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 2006 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's 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. During 2005/06 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 of a high risk were scheduled to be reviewed twice over the three year cycle, in accordance with the Government Internal Audit standards.

Specific action plans to address each area of weakness identified through this internal audit programme were drawn up and agreed, and progress against these was 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. Since the Commission was created in November 2003, the counter fraud function has been gradually strengthened.

Further, weaknesses still exist due to the predominantly reactive nature of investigative work, and the absence of more strategic policies. The awareness of the general staff about the implications of fraud, and of their responsibilities in relation to its detection was low, and this has since been addressed by a series of training workshops for all employees, and the inclusion of fraud awareness in staff induction.

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 is also now developing relationships with other government bodies to communicate and share more information to help counter fraud.

### 3 Omagh Payments

External Audit have observed that special payments made in connection with the civil action being taken by the families of those involved in the Omagh bombing are held to be irregular. When this award of legal aid was challenged by Judicial Review, it was determined that the Lord Chancellor was not empowered to make the direction under the Access to Justice (Northern Ireland) Order 2003 Article 12(8)(a). With regard to this issue, the Commission acted at all times on the Lord Chancellor's direction in making these payments. However, I understand that, as the payments do not have legislative cover and there is no means by which they can be authorised retrospectively, the payments must be noted as irregular. This matter is disclosed separately in the Losses and Special Payments Note to the Legal Aid Fund financial statements.

### 4 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.

### 5 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. This has been of significant concern for the Commission, and measures have been put in place to address this. In particular, the number of appropriately qualified finance staff in the Commission has subsequently been increased substantially.

### 6 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.

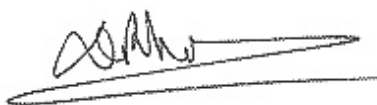
## 7 Policies and Procedures

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.

The absence of a formal Human Resource strategy and lack of application of some management controls have given cause for concern. These have gradually been addressed in the intervening period and continue to be developed. In particular, a formal HR strategy is being developed.

These and other 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.



**Paul Andrews**

Interim Chief Executive

Date: 2nd 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 2006 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.

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

The Northern Ireland Legal Services Commission and Chief Executive 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 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 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. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, 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 relevant authorities 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 on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's Statement on Internal Control 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. This other information comprises only the Directors' Report, the Management Commentary and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### **Basis of audit 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 judgements 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.

**Adverse opinion arising from a disagreement with accounting treatment and a qualified opinion on regularity due to irregular expenditure and a limitation in scope**

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 (£159.3 million), closing provisions (£181.8 million) and associated Income and Expenditure Account charge (£77.6 million), because the Commission could not provide sufficient evidence to adequately determine Legal Aid costs due.

Costs for solicitors' charges, counsel fees and disbursements in the Income and Expenditure Account include costs of £177,000 incurred in 2005-06 for legal advice for a civil case, relating to the Omagh bombing which had been made under the authority of a Direction by the Lord Chancellor. A judicial review later concluded that the legislation under which the Direction had been made was unlawful. In my opinion this expenditure has not been applied for the purposes intended by Parliament as it is not in conformity with the authorities which govern it.

The evidence available to me was also limited because the Commission were unable to provide sufficient evidence that Legal Aid Grant expenditure was not fraudulently claimed and therefore because of this limitation 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.

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 2006 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
- except for Legal Aid costs of £177,000 in respect of a case relating to the Omagh bombing which did not have an appropriate legal basis, and for expenditure which may have arisen from fraudulent Legal Aid claims or fraudulent Legal Aid costs, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

My opinion in the prior year was also qualified on these issues. Details of these matters are set out in my Report on pages 72 to 75.

**Amyas C E Morse**

Comptroller and Auditor General  
22 February 2010

**National Audit Office**

151 Buckingham Palace Road  
Victoria  
London SW1W 9SS

## Income and Expenditure Account for Grant for the Year Ended 31 March 2006

		<b>2005-2006</b>	<b>2004-2005</b>
	<b>Notes</b>	<b>£'000</b>	<b>£'000</b>
<b>Income</b>			
Government grant income	2	57,179	58,599
Other operating income	3	1,213	615
		<u>58,392</u>	<u>59,214</u>
<b>Expenditure</b>			
Operating expenditure	4	77,553	76,281
Other expenditure	5	220	384
		<u>77,773</u>	<u>76,665</u>
<b>Deficit before interest</b>		<u>(19,381)</u>	<u>(17,451)</u>
Interest receivable and similar income	6	20	18
Cost of capital credit	7	6,023	5,379
<b>Deficit for the year</b>		<u>(13,338)</u>	<u>(12,054)</u>
Reversal of cost of capital credit		(6,023)	(5,379)
<b>Deficit for the year excluding cost of capital</b>	13	<u>(19,361)</u>	<u>(17,433)</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 30 to 43 form part of these accounts.

## Balance Sheet at 31 March 2006

		31 March 2006	31 March 2005
	Notes	£'000	£'000
<b>Current assets</b>			
Debtors	8	1,343	626
Cash at bank and in hand	10	64	6
		<u>1,407</u>	<u>632</u>
<b>Creditors:</b> amounts falling due within one year	11	(1,399)	(3,755)
		<u>8</u>	<u>(3,123)</u>
<b>Net current assets/(liabilities)</b>			
Provisions for liabilities and charges	12	(181,765)	(159,273)
<b>Total assets less total liabilities</b>		<u>(181,757)</u>	<u>(162,396)</u>
<b>Financed by:</b>			
<b>Capital and reserves</b>			
General fund	13	<u>(181,757)</u>	<u>(162,396)</u>

The notes on pages 30 to 43 form part of these accounts.



**Paul Andrews**

Interim Chief Executive

Date: 2 December 2009

## Cashflow Statement for Grant for the Year Ended 31 March 2006

		<b>2005-2006</b>	<b>2004-2005</b>
	<b>Note</b>	<b>£'000</b>	<b>£'000</b>
Net cash inflow/(outflow) from continuing operating activities	14	<u>58</u>	<u>(3)</u>
Increase/(decrease) in cash during the year		<u>58</u>	<u>(3)</u>

The notes on pages 30 to 43 form part of these accounts.

## Notes to the Grant Accounts for the Year Ended 31 March 2006

### 1 Statement of Accounting Policies

These financial statements have been prepared in accordance with HM Treasury's Financial Reporting Manual, and applicable accounting standards, in so far as those requirements are appropriate. Where 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 Convention

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

#### b. Grant Income

Government grant income received for civil and criminal legal aid funding is accounted for as income in the year in which it is received. Grant income comprises of grants drawn from the Northern Ireland Court Service.

#### 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 or, if appropriate capitalised with additions to fixed assets.

### 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 statement 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 15).

**2 Government grant income**

	<b>2005-2006</b>	<b>2004-2005</b>
	<b>£'000</b>	<b>£'000</b>
NICtS Grant Income	57,179	58,599
<b>Grant credited to income and expenditure account</b>	<u><b>57,179</b></u>	<u><b>58,599</b></u>

**3 Other operating income**

	<b>2005-2006</b>	<b>2004-2005</b>
	<b>£'000</b>	<b>£'000</b>
Contributions from assisted person(s)	787	235
Costs recovered	382	308
Damages retained	44	72
	<u><b>1,213</b></u>	<u><b>615</b></u>

**4 Operating expenditure**

	<b>2005-2006</b>	<b>2004-2005</b>
	<b>£'000</b>	<b>£'000</b>
Solicitors' charges, counsel fees and disbursements	77,373	76,281
Immigration and asylum grant funding	180	-
	<u>77,553</u>	<u>76,281</u>

**5 Other expenditure**

	<b>2005-2006</b>	<b>2004-2005</b>
	<b>£'000</b>	<b>£'000</b>
Debt written off and movement in doubtful debt provision	220	384
	<u>220</u>	<u>384</u>

**6 Interest receivable**

	<b>2005-2006</b>	<b>2004-2005</b>
	<b>£'000</b>	<b>£'000</b>
Bank interest receivable	20	18
	<u>20</u>	<u>18</u>

**7 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.

**8 Debtors:** amounts falling due within one year

**8(a) Analysis by type**

		<b>31 March 2006</b>	<b>31 March 2005</b>
	<b>Note</b>	<b>£'000</b>	<b>£'000</b>
Debtors			
-costs		974	1,021
-contributions		843	570
-other		490	-
		2,307	1,591
Doubtful debt provision	9	(1,009)	(965)
Prepayments		45	-
		<b>1,343</b>	<b>626</b>

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

Balances with bodies external to government		1,343	626
		<b>1,343</b>	<b>626</b>

**9 Doubtful debt provision**

	<b>31 March 2006</b>	<b>31 March 2005</b>
	<b>£'000</b>	<b>£'000</b>
As at 1 April 2005	(965)	(1,109)
Doubtful debts written off	176	528
Charge to the income and expenditure account	(220)	(384)
<b>As at 31 March 2006</b>	<u><b>(1,009)</b></u>	<u><b>(965)</b></u>

**10 Cash at bank and in hand**

	<b>31 March 2006</b>	<b>31 March 2005</b>
	<b>£'000</b>	<b>£'000</b>
Cash at Bank	64	6
	<u><b>64</b></u>	<u><b>6</b></u>

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

	<b>31 March 2006</b>	<b>31 March 2005</b>
	<b>£'000</b>	<b>£'000</b>
Amounts due to solicitors, counsel and advice agencies	(1,399)	(3,755)
	<u><b>(1,399)</b></u>	<u><b>(3,755)</b></u>

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

Balances with bodies external to government	(1,399)	(3,755)
	<u>(1,399)</u>	<u>(3,755)</u>

**12 Provision for liabilities and charges**

**31 March 2006**

**£'000**

As at 1 April 2005	(159,273)
Additions and increases to provision	(77,751)
Amounts used in the year	54,881
Unused amounts reversed in the year	378
<b>As at 31 March 2006</b>	<u><b>(181,765)</b></u>

**13 Movement on general fund**

**31 March 2006      31 March 2005**

**£'000**

**£'000**

Balance as at 1 April 2005	(162,396)	(144,963)
Deficit for year (excluding notional cost of capital)	(19,361)	(17,433)
<b>Balance as at 31 March 2006</b>	<u><b>(181,757)</b></u>	<u><b>(162,396)</b></u>

**14 Notes to the cash flow statement****(i) Reconciliation of operating deficit to net cash flow from continuing operating activities**

	<b>31 March 2006</b>	<b>31 March 2005</b>
	<b>£'000</b>	<b>£'000</b>
Result for year	(13,338)	(12,054)
Credit in respect of notional cost of capital	(6,023)	(5,379)
(Increase)/decrease in debtors	(717)	96
(Decrease)/increase in creditors	(2,356)	299
Increase in provisions	22,492	17,035
<b>Net cash inflow/(outflow) from continuing operating activities</b>	<u><b>58</b></u>	<u><b>(3)</b></u>

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

Cash at bank and in hand 1 April 2005	6	9
Cash at bank and in hand 31 March 2006	64	6
<b>Net movement in funds</b>	<u><b>58</b></u>	<u><b>(3)</b></u>

## 15 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 third party funds for the year ended 31 March 2006 was as follows:

	<b>31 March 2006</b>	<b>31 March 2005</b>
	<b>£'000</b>	<b>£'000</b>
Balance at 1 April 2005	221	259
Received for the year	679	520
	<u>900</u>	<u>779</u>
Less:		
Sums repaid to assisted persons	(481)	(486)
Damages retained	(44)	(72)
<b>Balance at 31 March 2006</b>	<u><b>375</b></u>	<u><b>221</b></u>



**16 Summary of Losses and Special Payments****Losses**

There were 158 cases written off during the year totalling £176K.

**Omagh Payments**

Payments totalling £211K were made in connection with the Omagh Families Civil Action. £177K of these payments were made on the direction of the Lord Chancellor, dated February 2004. However, the legal power of the Lord Chancellor was subsequently challenged by Judicial Review and it was determined that he was not empowered to make the direction (under Article 12, 8a of the Access to Justice (Northern Ireland) Order 2003). The payments being extra statutory do not therefore have legislative cover. It was also determined that there was no means by which these payments could be authorised retrospectively. The payments made under this direction therefore are irregular. The balance of £34K paid in connection with this case was made under authorisation of the Lord Chancellor dated February 2006, made under Article 10A(2)(b) of the Legal Aid, Advice and Assistance (Northern Ireland) Order 1981. This authorisation was challenged by Judicial Review in March 2007, however the challenge was dismissed. An appeal to this judgment was lodged with the Court of Appeal but was unsuccessful.

**Other payments**

An exceptional payment on account of £50,000 was made to a barrister in respect of hardship. This amount was recovered against subsequent claims made.

**17 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 other no post balance sheet events.

**18 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 2006 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 2005 to 31 March 2006 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 2005/06 but not yet billed.

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

The Law Centre (NI) provides specialist immigration and asylum advice and operates under grant funding. Funding originally obtained from the Home Office has been administered by the Commission since 1 April 2005. The total amount of payments made to the Law Centre during 2005/06 in respect of funding was £225,000.

Legal aid payments are also made to the Law Centre for work carried out on behalf of individuals qualifying for legal aid. The total amount of these payments during 2005/06 was £27,834.

Mr. Tannahill received legal aid payments of £25,232 during 2005/06 in respect of legal aid casework.

**Mr. Brian Fee** is a Commissioner and a practising barrister. His brother is a partner in the solicitor practice of Murnaghan and Fee.

Mr. Fee received payments of £6,536 during 2005/06 in respect of legal aid casework.

Murnaghan and Fee solicitors received payments of £134,047 during 2005/06 in respect of legal aid casework.

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

Cleaver Fulton & Rankin received legal aid payments during 2005/06 of £97,806.

No payments in respect of legal aid casework were made to Johnson's solicitors during 2005/06.

No payments in respect of legal aid casework were made to McKinty & Wright solicitors during 2005/06.

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

Mr. Grainger received legal aid payments of £488 during 2005/06 in respect of legal aid casework.

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.

### **Interest rate profile**

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

## **19 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.

	<b>Total</b>	<b>Floating- Rate Financial Assets</b>	<b>Fixed- Rate Financial Assets</b>	<b>Non- Interest Bearing Financial Assets</b>	<b>Weighted- Average Interest Rate</b>	<b>Weighted- Average Period for which Rate is Fixed</b>	<b>Weighted- Average Period until Maturity</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>%</b>	<b>Years</b>	<b>Years</b>
<b>Gross financial assets</b>							
Currency							
Sterling	64	-	43	21	-	-	Note a
<b>As at 31 March 2006</b>	<b>64</b>	<b>-</b>	<b>43</b>	<b>21</b>	<b>-</b>	<b>-</b>	
<b>Gross financial assets</b>							
Sterling	6	-	6	-	-	-	Note a
<b>As at 31 March 2005</b>	<b>6</b>	<b>-</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>-</b>	

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

**Foreign currency risk**

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

**Fair values**

Set out below is a comparison by category of book values and fair values of the Commission's financial assets at 31 March 2006.

	<b>Book Value</b>	<b>Fair Value</b>
	<b>£'000</b>	<b>£'000</b>
<hr/>		
<b>Primary financial instruments</b>		
<hr/>		
<b>Financial assets:</b>		
Cash at bank	64	64

## 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 2006 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.

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

The Northern Ireland Legal Services Commission and Chief Executive are responsible for preparing the Annual Report, 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 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 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. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, 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 relevant authorities 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 on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's Statement on Internal Control 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. This other information comprises only the Directors' Report, the Management Commentary and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## Basis of Audit 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 judgements 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 thereunder 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 2006 and of the 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
- 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.

Please see my Report at pages 72 to 75 for my update on the issues giving rise to the qualification of my regularity opinion on the prior year accounts.

### **Amyas C E Morse**

Comptroller and Auditor General  
22 February 2010

### **National Audit Office**

151 Buckingham Palace Road  
Victoria  
London SW1W 9SS

## Income and Expenditure Account for Grant in Aid for Year Ended 31 March 2006

		<b>2005-2006</b>	<b>2004-2005</b>
	<b>Notes</b>	<b>£'000</b>	<b>£'000</b>
<b>Income</b>			
Grant in Aid	2	4,955	5,503
Other operating income	3	-	1
Release from capital grant reserve	14	493	385
<b>Total income</b>		<b>5,448</b>	<b>5,889</b>
<b>Expenditure</b>			
Staff costs	4	3,336	3,231
Other operating costs	6	2,046	2,067
Depreciation	10	417	385
Notional charges	9	544	557
<b>Total expenditure</b>		<b>6,343</b>	<b>6,240</b>
<b>Deficit of income over operating expenditure</b>		<b>(895)</b>	<b>(351)</b>
Interest receivable/(payable) on pension costs	5	8	(19)
Interest on capital (notional)	9	(34)	(48)
Interest receivable	8	3	4
<b>Deficit for the year</b>		<b>(918)</b>	<b>(414)</b>
Reversal of notional charges	9	578	605
<b>(Deficit)/Retained surplus for the year excluding notional charges</b>	15	<b>(340)</b>	<b>191</b>

All income and expenditure is derived from continuing operations.

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



## Statement of Recognised Gains and Losses for Grant in Aid for the Year Ended 31 March 2006

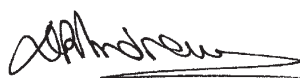
		<b>2005-2006</b>	<b>2004-2005</b>
	<b>Notes</b>	<b>£'000</b>	<b>£'000</b>
Unrealised surplus on revaluation of fixed assets	10(b)	6	43
Actuarial loss on pension scheme	5	(59)	(8)
<b>Recognised (losses)/gains for the year</b>		<u><b>(53)</b></u>	<u><b>35</b></u>

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

## Balance Sheet as at 31 March 2006

		31 March 2006	Restated 31 March 2005
	Notes	£'000	£'000
<b>Fixed assets</b>			
Tangible assets	10b	1,107	1,388
Intangible assets	10a	193	273
		<hr/> 1,300	<hr/> 1,661
<b>Current assets</b>			
Debtors	11	183	208
Cash at bank and in hand	12	10	3
		<hr/> 193	<hr/> 211
<b>Creditors:</b> amounts falling due within one year	13	(768)	(538)
<b>Net current liabilities</b>		<hr/> (575)	<hr/> (327)
<b>Pension asset</b>	5a & b	1	32
<b>Total assets less current liabilities</b>		<hr/> 726	<hr/> 1,366
<b>Provisions</b>			
Pension provision	5a	(120)	-
<b>Total assets less total liabilities</b>		<hr/> 606	<hr/> 1,366
<b>Capital and reserves</b>			
Capital grant reserve	14	1,300	1,661
General fund	15	(694)	(295)
<b>Total capital and reserves</b>		<hr/> 606	<hr/> 1,366

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



**Paul Andrews**

Interim Chief Executive

Date: 2 December 2009

## Cash Flow Statement for Grant in Aid for the Year Ended 31 March 2006

		<b>2005-2006</b>	<b>2004-2005</b>
	<b>Notes</b>	<b>£'000</b>	<b>£'000</b>
<b>Net cash inflow / (outflow) from continuing operating activities</b>	16	24	(198)
<b>Capital expenditure:</b>			
Payments to acquire fixed assets	16	(143)	(82)
		<b>(119)</b>	<b>(280)</b>
<b>Financed by government grant</b>		126	96
<b>Increase/(decrease) in cash for the year</b>		<b>7</b>	<b>(184)</b>

The notes on pages 50 and 71 form part of these accounts

## Notes to the Grant in Aid Accounts for the Year Ended 31 March 2006

### 1 Statement of Accounting Policies

These financial statements have been prepared in accordance with HM Treasury's Financial Reporting Manual, and applicable accounting standards, in so far as those requirements are appropriate. Where 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 Convention

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

The Commission participates in the Northern Ireland Local Government Officers' Superannuation Committee pension scheme (NILGOSC), a defined benefit pension scheme. Until recently NILGOSC had been unable to identify the Commission's share of the pension scheme's assets and liabilities and as a result the scheme was accounted for on a defined contribution scheme basis under the multi-employer provision within FRS 17 Retirement Benefits.

As the assets and liabilities which applied directly to the Commission are now identified, the accounts have been prepared in compliance with the full reporting requirements of FRS 17 for a defined benefit scheme.

A prior year adjustment has been made in respect of the opening surplus on the NILGOSC scheme and the 2004/05 balance sheet has been restated for comparative purposes. Information on 2004/05 income and expenditure charges under FRS 17 was not available therefore the 2004/05 income and expenditure account has not been restated.

#### 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.

Grant in aid received for capital expenditure on depreciable assets is credited to the capital grant reserve on the balance sheet. Surpluses and deficits arising on revaluation are also taken to the capital grant reserve. Permanent reductions in the value of fixed assets are charged to the 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;

---

**Computer software – (Intangible)**  
3 Years

---

**Fixtures and fittings**  
5 to 10 Years

---

**Computer hardware**  
5 Years

---

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

**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**

Grant in aid income comprises grants drawn from the Northern Ireland Court

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

**g. Recognition of Income**

Grant in aid received for revenue expenditure is accounted for as income in the year in which it is received. Grant in aid received and applied for the acquisition of fixed assets is taken to the capital grant reserve. An amount equal to the annual depreciation charge and any permanent diminution in value on these assets is transferred from the deferred capital grant to the income and expenditure account.

**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 interest costs (shown on the income and expenditure account).

Additional contributions are made by the Commission on behalf of employees which effectively increases the employers contributions from 8.5% to 13%.

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 interest costs (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.

**2 Income****Grant in Aid**

The administrative costs of the Commission are financed by grant in aid from the Northern Ireland Court Service. The grant in aid covers both revenue and capital items and has been accounted for as disclosed in the following notes.

	<b>2005-2006</b>	<b>2004-2005</b>
	<b>£'000</b>	<b>£'000</b>
NICtS Grant in aid income	5,081	5,571
Revenue incurred by NICtS	-	28
	<u>5,081</u>	<u>5,599</u>
Less transfer to capital grant reserve; Capital incurred by NILSC	(126)	(96)
Grant credited to income and expenditure account	<u>4,955</u>	<u>5,503</u>

### 3 Other operating income

	<b>2005-2006</b>	<b>2004-2005</b>
	<b>£'000</b>	<b>£'000</b>
Sundry Receipts	-	1
	<u>-</u>	<u>1</u>

### 4 Staff costs

	<b>2005-2006</b>	<b>2004-2005</b>
The number of Commissioners (including the Chairman) and committee members serving during the year was:		
Commissioners	11	12
Committee members	45	45
	<u>56</u>	<u>57</u>

The average number of employees during the year was:		
Management (including the Chief Executive)	16	6
Operational	68	68
Administration and support	27	30
Agency	8	-
	<u>119</u>	<u>104</u>



The costs incurred in respect of these employees were:

		<b>2005-2006</b>	<b>2004-2005</b>
	<b>Notes</b>	<b>£'000</b>	<b>£'000</b>
Wages and salaries		2,602	2,630
Agency/Temporary staff		199	263
Social security costs		158	184
Funded pension costs: NILGOSC		-	131
Funded pension costs: NILGOSC - Current Service Costs	5a	283	-
- Pension Contributions		93	-
Funded pension costs: NPI - Current Service Cost	5b	1	3
- Pension Contributions		-	20
		<u><b>3,336</b></u>	<u><b>3,231</b></u>

## 5 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 certain 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. Employer contributions are made at a rate of 13% (which includes 4.5% paid on behalf of employees). For the year ended 31 March 2006 employer contributions of £277K were paid to the NILGOSC Scheme.

The Scheme's actuary carries out a valuation of the Fund every three years. The last triennial actuarial valuation of the scheme

was at 31 March 2007 and showed that the funding level had increased from 85% (31 March 2004) to 89%. The employer contribution rate has been increased to 11% (effectively 15.5% for the Commission) from 1 April 2006 and following the 2007 actuarial valuation a series of stepped employer contribution increases are planned annually to 2010/11.

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.

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

	<b>31 March 2006</b>
Inflation rate	3.1%
Rate of increase in pensionable salaries	4.6%
Rate of pension increase	3.1%
Discount rate	6.0%

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

	<b>Expected return at 31 March 2006</b>	<b>Assets at 31 March 2006</b>	<b>Expected return at 31 March 2005</b>	<b>Assets at 31 March 2005</b>
	% p.a	£'000	% p.a	£'000
Equities	7.4%	5,910	7.7%	4,310
Bonds	4.6%	870	4.8%	740
Property	5.5%	530	5.7%	510
Cash	4.6%	100	4.8%	110
<b>Total</b>	<b>6.9%</b>	<b>7,410</b>	<b>7.1%</b>	<b>5,670</b>

**Net pension asset as at:**

	<b>31 March 2006</b>	<b>31 March 2005</b>
	<b>£'000</b>	<b>£'000</b>
Estimated employer assets	7,410	5,670
Present value of scheme liabilities	(7,530)	(5,640)
<b>Net pension (liability)/asset</b>	<b>(120)</b>	<b>30</b>

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

	<b>2005-2006 £'000</b>
Current service cost	283
Past service cost	-
Curtailments and Settlements	-
<b>Total operating charge</b>	<b>283</b>

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

	<b>31 March 2006 £'000</b>
Expected return on employer assets	410
Interest on pension scheme liabilities	(402)
<b>Net return</b>	<b>8</b>

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

	<b>31 March 2006</b> <b>£'000</b>
Actual return less expected return on pension scheme assets	1,093
Experience gains arising on the scheme liabilities	2
Changes in financial assumptions underlying the present value of the scheme liabilities	(1,154)
<b>Actuarial loss recognised in SRGL</b>	<b>(59)</b>

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

	<b>31 March 2006</b> <b>£'000</b>
Surplus at beginning of the year	30
Current service cost	(283)
Employer contributions	184
Net return on assets	8
Actuarial loss	(59)
<b>Deficit at end of year</b>	<b>(120)</b>

**History of experience gains and losses:**

	<b>31 March 2006</b> <b>£'000</b>
Difference between the expected and actual return on assets	1,093
Value of assets	7,410
<b>Percentage of assets</b>	<b>14.8%</b>
Experience gains on liabilities	2
Total present value of liabilities	7,530
<b>Percentage of the total present value of liabilities</b>	<b>0.0%</b>
Actuarial losses recognised in SRGL	(59)
Total present value of liabilities	7,530
<b>Percentage of the total present value of liabilities</b>	<b>(0.8%)</b>

**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 2006 on a projected unit method by a qualified independent actuary. The scheme is closed to new entrants and there are no active members.

The major assumptions used by the actuary were:

	<b>31 March 2006</b>
	<b>Value</b>
Rate of increase in salaries	N/A
Rate of increase in pensions in payment	3.25%
Rate of increase in inflation linked deferred pensions	N/A
Discount rate	5.00%
Inflation assumption	3.00%

The assets in the scheme and the expected long term rate of return were:

	<b>Long term expected rate of return</b>	<b>31 March 2006</b>
		<b>£'000</b>
Insurance policy	3.00%	1
<hr/>		
Total market value of assets		1
Present value of scheme liabilities		-
<hr/>		
Surplus in the scheme		1
<hr/>		
<b>Net pension asset</b>		<b>1</b>
<hr/>		

Pension scheme costs charged to income and expenditure account:

	<b>2005-2006</b>	<b>2004-05</b>
	<b>£'000</b>	<b>£'000</b>
<b>Pension scheme cost charged to operating costs include:</b>		
Current service cost	1	3
Past service cost	-	-
Gains and losses on settlements and curtailments	-	(28)
<b>Total operating charge</b>	<b>1</b>	<b>(25)</b>
Expected return on pension scheme assets	-	(10)
Interest on pension scheme liabilities	-	29
Net return	-	19
<b>Total operating charge</b>	<b>1</b>	<b>(6)</b>

## 6 Other operating costs

	<b>2005-2006</b> <b>£'000</b>	<b>2004-2005</b> <b>£'000</b>
Accommodation	527	518
Other employee expenses	111	212
IT expenditure	488	478
Legal expenses	225	232
Consultancy expenses	182	143
Audit fees	35	85
Committee expenses	29	30
Permanent diminution	76	-
General	373	369
	<b>2,046</b>	<b>2,067</b>

## 7 Commitments under leases

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

	<b>1 Year</b> <b>£'000</b>	<b>2-5 Years</b> <b>£'000</b>	<b>5+ Years</b> <b>£'000</b>
Land and buildings	-	-	278
Other – Equipment	-	12	-
	<b>-</b>	<b>12</b>	<b>278</b>

## 8 Interest receivable

	<b>2005-2006</b> <b>£'000</b>	<b>2004-2005</b> <b>£'000</b>
Bank interest receivable	3	4
	<b>3</b>	<b>4</b>

## 9 Notional and other non-cash costs

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

	<b>2005-2006</b> <b>£'000</b>	<b>2004-2005</b> <b>£'000</b>
Cost of Capital	34	48
Social Security Agency	494	511
Taxing Master Office	50	46
	<b>578</b>	<b>605</b>

## 10 Fixed assets

### 10a Intangible Fixed Assets

	<b>Computer Software</b> <b>£'000</b>
<b>Cost</b>	
1 April 2005	474
Additions	109
Disposals	-
Revaluation	(75)
<b>31 March 2006</b>	<b>508</b>
<b>Depreciation</b>	
1 April 2005	201
Depreciation Charge In Year	169
Depreciation on Disposals	-
Backlog Depreciation	(55)
<b>31 March 2006</b>	<b>315</b>
<b>Net book value 31 March 2006</b>	<b>193</b>
<b>Net book value 31 March 2005</b>	<b>273</b>



## 10 Fixed assets

## 10b Tangible Fixed Assets

	Fixtures and Fittings £'000	Computer Hardware £'000	Total £'000
<b>Cost</b>			
1 April 2005	1,041	692	1,733
Additions	5	12	17
Disposals	-	-	-
Revaluation	8	(108)	(100)
<b>31 March 2006</b>	<b>1,054</b>	<b>596</b>	<b>1,650</b>
<b>Depreciation</b>			
1 April 2005	151	194	345
Depreciation Charge In Year	108	140	248
Depreciation on Disposals	-	-	-
Backlog Depreciation	2	(52)	(50)
<b>31 March 2006</b>	<b>261</b>	<b>282</b>	<b>543</b>
<b>Net book value 31 March 2006</b>	<b>793</b>	<b>314</b>	<b>1,107</b>
<b>Net book value 31 March 2005</b>	<b>890</b>	<b>498</b>	<b>1,388</b>

## 11 Debtors

### 11a Analysis by Type

#### Amounts falling due within one year

	<b>31 March 2006 £'000</b>	<b>31 March 2005 £'000</b>
Other debtors	7	7
Prepayments	176	201
	<hr/> <b>183</b> <hr/>	<hr/> <b>208</b> <hr/>

### 11b Intra-Government Balances

#### Amounts falling due within one year

	<b>31 March 2006 £'000</b>	<b>31 March 2005 £'000</b>
Balances with other central government bodies	5	5
Balances with bodies external to government	178	203
	<hr/> <b>183</b> <hr/>	<hr/> <b>208</b> <hr/>

## 12 Cash at bank and in hand

	<b>31 March 2006 £'000</b>	<b>31 March 2005 £'000</b>
Cash at bank	10	3
	<hr/> <b>10</b> <hr/>	<hr/> <b>3</b> <hr/>

**13 Creditors:** Amounts falling due within one year**13a Analysis by type**

	<b>31 March 2006 £'000</b>	<b>31 March 2005 £'000</b>
Creditors	(40)	(64)
Accruals	(728)	(474)
	<u>(768)</u>	<u>(538)</u>

**13b Intra-Government balances**

	<b>31 March 2006 £'000</b>	<b>31 March 2005 £'000</b>
Balances with central government bodies	(12)	-
Balances with public corporations and trading funds	(2)	-
Balances with bodies external to government	(754)	(538)
	<u>(768)</u>	<u>(538)</u>

**14 Movement on capital grant reserve**

	<b>31 March 2006 £'000</b>	<b>31 March 2005 £'000</b>
As at 1 April 2005	1,661	1,907
Capital Expenditure during the year	126	96
	<u>1,787</u>	<u>2,003</u>
Released to income and expenditure account in respect of;		
Depreciation	(417)	(385)
Permanent diminution of fixed assets	(76)	-
	<u>(493)</u>	<u>(385)</u>
Surplus on revaluation of fixed assets during the year	6	43
<b>As at 31 March 2006</b>	<u><b>1,300</b></u>	<u><b>1,661</b></u>

**15 Movement on general fund**

		<b>Restated 31 March 2006 £'000</b>	<b>31 March 2005 £'000</b>
As at 1 April 2005		(295)	(508)
Prior year adjustment in relation to pension	1(b)	-	30
Result for year (excluding notional charges)		(340)	191
Actuarial loss - pension scheme		(59)	(8)
<b>As at 31 March 2006</b>		<u><b>(694)</b></u>	<u><b>(295)</b></u>

## 16 Notes to the cash flow statement

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

	<b>31 March 2006 £'000</b>	<b>31 March 2005 £'000</b>
Result for the year	(918)	(414)
Credit in respect of notional costs	578	605
Release from capital grant reserve	(493)	(385)
Depreciation	417	385
Permanent diminution in value of fixed assets	76	-
Decrease/(Increase) in debtors	25	(39)
Increase in creditors	247	140
Decrease in pension asset	31	-
Increase/(Decrease) in provision - excluding actuarial loss	61	(490)
<b>Net cash inflow/(outflow) from continuing operating activities</b>	<b>24</b>	<b>(198)</b>

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

	<b>31 March 2006 £'000</b>	<b>31 March 2005 £'000</b>
Cash at bank and in hand at 1 April 2005	3	187
Cash at bank and in hand at 31 March 2006	10	3
<b>Net movement in funds</b>	<b>7</b>	<b>(184)</b>

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

	<b>31 March 2006 £'000</b>	<b>31 March 2005 £'000</b>
Cash purchase of fixed assets	143	82
Opening capital creditors	(19)	(5)
Closing capital creditors	2	19
Opening capital debtors	-	-
Closing capital debtors	-	-
<b>Capital grant to acquire fixed assets</b>	<b>126</b>	<b>96</b>

**17 Contingent liabilities**

The Commission had no contingent liabilities at 31 March 2006.

**18 Capital commitments**

The Commission had no capital commitments as at 31 March 2006.

**19 Other commitments**

The Commission is committed to expenditure in respect of software support, implementation and upgrades associated with the Phoenix software system under a six month extension on a managed service contract with Fujitsu Services Ltd. As at 31 March 2006 the Commission had a future expenditure commitment under this contract of £210K.

**20 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 post balance sheet

events for the year ended 31 March 2006.

**21 Summary of Losses and Special payments**

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

**22 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 2005/06 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.

## 23 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
	£'000	£'000	£'000	£'000	%	Years	Years
<b>Gross financial assets</b>							
Currency Sterling	10	-	-	10	-	-	Note a
<b>As at 31 March 2006</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>10</b>	<b>-</b>	<b>-</b>	
<b>Gross financial assets</b>							
Currency Sterling	3	-	-	3	-	-	Note a
<b>As at 31 March 2005</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>-</b>	<b>-</b>	

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



### Foreign currency risk

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

### Fair values

Set out below is a comparison by category of book values and fair values of the Commission's financial assets at 31 March 2006.

	<b>Book Value</b> <b>£'000</b>	<b>Fair Value</b> <b>£'000</b>
Primary financial instruments		
Financial assets:		
<b>Cash at bank</b>	<u>10</u>	<u>10</u>

# Northern Ireland Legal Services Commission Report of the Comptroller and Auditor General Year Ended 31 March 2006

## 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 qualifications of the Legal Aid Grant Account for the year ended 31 March 2006, provide an update to my qualification of the grant-in-aid Account last year, 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 2005-06 financial statements because of the following issues:
  - disagreement with the NILSC's accounting policy for provisions as not compliant with accounting standards;
  - irregular payments of around £177,000 for legal advice for a civil case, relating to the Omagh bombing; and
  - limitation in scope arising from a lack of sufficient evidence to support the regular nature of legal aid grant expenditure.
6. I also qualified my audit opinion on the 2003-04 and 2004-05 Grant Accounts as a result of these three issues. Further details are summarised below.

## Disagreement with the NILSC's accounting policy for provisions

7. 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.
8. The affected opening provisions (£159.3 million), closing provisions (£181.8 million) and the associated Income and Expenditure charge (£77.4 million) in the 2005-06

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.

### **Irregular payments for legal advice for a civil case**

9. On 4 February 2004, the Lord Chancellor, under Article 12(8) of the Access to Justice (Northern Ireland) Order 2003, issued a Direction to the NILSC to support the costs of a civil action brought by a number of plaintiffs for suffering caused by the Omagh Bombing in August 1998.
10. A judicial review in August 2005 concluded that the legislation under which the Direction had been made was unlawful, and that as a result the Lord Chancellor did not have the authority to make the Direction. Therefore, the total payments of £567,000 made for the 'Omagh Case' by the NILSC between February 2004 and August 2005 are not covered by legislative authority and they are extra-statutory and irregular. I have qualified my audit opinion in respect of the £177,000 of payments made during 2005-06.

### **Limitation in scope**

11. The nature of the Legal Aid scheme, in making payments to legal advisors for services which are directly provided to Legal Aid claimants, creates difficulties for the NILSC in determining whether the services were appropriately provided. In

addition, means tested legal aid carries a risk that income details may be misstated on initial application, or that changes in financial circumstances during the case are not reported by the claimant.

12. Payments which may have been made by the NILSC as a result of fraudulent legal aid applications or inappropriate legal bills would not have been applied for the purposes intended by Parliament, and would therefore be irregular. The NILSC do not have an estimate of the likely scale of fraud. As part of my examination of fraud controls I noted Internal Audit reports on Fraud Prevention and Detection in October 2005 and October 2007 which found material weaknesses due to the absence of key controls.
13. A small Counter Fraud Unit, which was first established by the Legal Aid Department in Northern Ireland, has continued in operation at the NILSC. The unit has had to prioritise its work carefully and has therefore been more reactive than proactive and is not able to provide the same level of assurance as a fully fledged inspection regime. In the absence of this key control or compensating controls in the NILSC I cannot obtain sufficient audit evidence to gain assurance that material fraud does not exist.
14. The NILSC has not introduced an inspection regime because it does not have a statutory basis to do so under the Access to Justice (Northern Ireland) Order 2003 or the Legal Aid, Advice and Assistance (Northern Ireland) Order 1981. There are examples

of other public bodies who have introduced inspection regimes without a specific statutory basis, as a matter of good practice, and the NILSC should consider doing so.

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

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

16. 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.
17. 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, current and future cases and I would encourage it to bring this to an early conclusion.

#### **Legal Aid Grant in Aid Account**

18. I qualified my opinion on the 2004-05 Grant in Aid Account due to irregular payments of approximately £20,000 relating to Commissioners' remuneration. This arose because the arrangements had not been approved by the Lord Chancellor in accordance with legislative requirements. Commissioners' remuneration which was overpaid as a result is irregular.
19. The NILSC has calculated that, based on the evidence available, overpayments were made to five Commissioners in 2005-06 totalling approximately £18,000 as a result of this.
20. As no new overpayments have been made and I have already reported on this matter, I have not qualified my audit opinion for 2005-06 in respect of this irregularity.
21. New arrangements for the remuneration of Commissioners, approved by the Lord Chancellor, were introduced on 1 August 2006. The position moving forward from 1 August 2006 is therefore regular.

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

22. My reports on the 2003-04 and 2004-05 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, which has made it difficult for the NILSC to produce timely and robust accounts.

23. 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.
24. 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  
22 February 2010

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