



**Legal Services Agency Northern Ireland**  
Annual Report and Accounts  
for the year ended 31 March 2016

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**Annual Report and Accounts**

**For the year ended 31 March 2016**

*Laid before the Northern Ireland Assembly under  
Section 11(3)(c) of the Government Resource  
and Accounts Act (Northern Ireland) 2001  
by the Department of Justice*

*on*

*1 July 2016*



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## **PERFORMANCE REPORT**

### **OVERVIEW**

#### **FOREWORD BY CHIEF EXECUTIVE**

I am pleased to present the first Annual Report and Accounts of the Legal Services Agency Northern Ireland (LSA) for the 2015-16 financial year.

The LSA was established by the Minister of Justice and came into existence on 1 April 2015. The LSA's organisational aim is "to support the justice system by administering publicly funded legal services impartially, effectively and efficiently within the legislative and policy framework set by the Minister".

The creation of the LSA represented a significant change in the governance arrangements for the administration of publicly funded legal services in Northern Ireland. It also presented an opportunity to fundamentally transform how publicly funded legal services are delivered. From its creation, the LSA has been working with the Digital Transformation Services (DTS) of the Department of Finance (DoF) [formerly Department of Finance and Personnel (DFP)] to create a vision for the development of new digital services to modernise service delivery. The LSA is committed to transformation and modernisation of its services and is working with its partners to progress this important initiative.

The LSA continued to provide independent decisions on the granting of legal aid in respect of individual applications for civil legal services. The LSA worked closely within the Department of Justice (DOJ) and with legal service providers to manage legal aid within the resources available.

The LSA has continued to consolidate the position of the new Agency, developing an organisation which encourages and values its people and tries to harness their energies into the way the LSA works with legal service providers and the wider justice system.

The LSA focused on its four main strategic objectives during the financial year to deliver existing statutory services, enhance agency accountability, equip staff to improve delivery of existing and future statutory services, and ensure a seamless integration and introduction of all legal aid reforms brought forward by the DOJ.

The LSA has prepared these Accounts earlier than its predecessor the Northern Ireland Legal Services Commission (NILSC) in prior years, in order to facilitate consolidation into the DOJ Accounts. The LSA is committed to the effective delivery of publicly funded legal services and the stewardship of public monies. The LSA's improving performance levels, commitment to new digital working processes and better customer service are all assisting it to deliver as an organisation.

The LSA is determined to continue to strengthen its relationships with external bodies and all providers of legal services. These relationships are important for the LSA's development and the provision of publicly funded legal services. The establishment of a compliance and registration function within the LSA will be a critical development as

part of the transformation of services during a period of continuous change and the introduction of new processes.

As Chief Executive, I welcome the way the LSA has embraced the changes and opportunities that new ways of working and improved processes are bringing to the Agency. This is feeding through into a positive outlook which the LSA is taking outside the organisation. The delivery of digital transformation will be a vital enabler for continued progress.

I would like to personally thank all staff within the LSA for their very hard work. I would also wish to note the death in service during the inaugural year of the LSA of two esteemed colleagues, Mr Gary Archibald and Mr Phelim Brewster. I would also like to thank the LSA Board for its support, oversight and guidance to what is a young Executive Agency.

## STATEMENT OF PURPOSE AND ACTIVITIES

### Who We Are

The LSA was created as an Executive Agency within the DOJ on 1 April 2015 upon the dissolution of the NILSC under the Legal Aid and Coroners' Courts Act (Northern Ireland) 2014.

In accordance with IFRS 3 *Business Combinations under Common Control*, this has been accounted for as a 'transfer by absorption' in the LSA's Accounts for 2015-16 and comparative figures for 2014-15 have not been disclosed. Further details are contained in Note 3 to the Accounts.

### What We Do

The LSA's aim is to administer impartially the provision of publicly funded legal services for the benefit of citizens of Northern Ireland in keeping with the statutory legal aid schemes.

The LSA is responsible for applying statutory tests to determine whether an individual should receive civil legal services; it also pays for the legal services provided. While the judiciary is responsible for granting individuals criminal legal aid, the LSA pays for the legal services provided. In addition, the LSA authorises the engagement of experts in civil and criminal cases as well as collecting contributions and other sums payable by individuals who receive civil legal services.

The work of the LSA is essential to the impartial, effective and efficient operation of the civil justice systems. It is also critical in helping to provide access to legal advice and representation for some of the most vulnerable members of society.

### Our Vision

To be innovative, responsive and impartial in delivering quality, publicly funded legal services for all of our stakeholders.

### Our Aim

To support the justice system by administering publicly funded legal services impartially, effectively and efficiently within the legislative and policy framework set by the Minister of Justice.

### Our Strategic Objectives

Our corporate aim is supported by four main strategic objectives, which are to:

- deliver existing statutory services - granting and administering civil legal services and administering criminal legal aid, within the resources that are made available by the DOJ;
- enhance the LSA's accountability and governance arrangements;



- equip our staff to refine and improve delivery of existing and future statutory services by consolidating and modernising existing processes to enhance performance and deliver improved value for money; and
- ensure seamless integration and introduction of all legal aid reforms brought forward by the DOJ during the business year.

### **The LSA's organisation**

The LSA administers publicly funded legal services in Northern Ireland. The core of the LSA's work is to:

- process applications for civil legal services and authorise independent legal representation for litigants; and
- assess and pay bills for the provision of civil legal services and criminal legal aid.

These activities are supported by:

- Service Delivery function - adjudicates on applications for civil legal services and assesses and pays bills following the delivery of civil legal services and on foot of criminal legal aid certificates;
- Finance function - prepares forecasts of anticipated demand for services and oversees the collection of monies due to the LSA and the payments which are made by the LSA, and enables the Agency to meet its statutory requirements for financial management;
- IT and Business Transformation functions - support delivery of key change programmes and the LSA's move to digital services; and
- Chief Executive's Office - promotes effective communications and enables the LSA to meet its statutory requirements under the Freedom of Information (FOI) and Data Protection Acts (DPA), and deal with legal challenges.

The work of the LSA is taken forward in the following areas:

### **Civil Legal Services**

Civil legal services provides advice and representation across a wide range of issues and court proceedings. The greatest volume of business is in respect of family matters, including child welfare; personal injury claims, bail applications and advice at police stations in criminal matters. Advice and representation is provided where the applicant can demonstrate that they can meet financial means and legal merits tests. The assessment of an applicant's means can also result in the applicant being advised that civil legal services can be provided, subject to acceptance by the applicant of the payment of a contribution towards their legal costs. The assessment of an applicant's means is determined by the Legal Aid Assessment Office (LAAO), an office of the Department for Communities (DfC) [formerly Social Services Agency (SSA)]. The assessment process can also result in the applicant being judged as being outside the financial scope of civil legal services and therefore determined as having sufficient funds or surplus assets to fund their own case, without public assistance.

### **Criminal Legal Aid**

Criminal legal aid is granted by the judiciary if applicants before the magistrates' courts, County Court on appeal and Crown Court have insufficient means to pay for their own defence and it is in the interests of justice that applicants should be represented. Similar provisions apply to cases before the Criminal Court of Appeal.

### **Shared Services**

As part of the wider DOJ grouping, the LSA makes use of a number of departmental and Northern Ireland Civil Service (NICS) centralised functions including:

- Human Resources - HR Connect and DOJ Human Resources (DHR);
- Procurement - Central Procurement Directorate (CPD);
- IT services - IT Assist (for PCs and Network Services) and NI Direct (for call handling and citizen facing services);
- Finance functions - Account NI and DOJ Financial Services Division (FSD);
- Management information - DOJ Financial Services Division (FSD); and
- Legal services - Departmental Solicitor's Office and Crown Solicitor's Office.

## LSA's People

The LSA's people are at the heart of delivering publicly funded legal services efficiently and effectively. The LSA aims to make the Agency a better place to work by:

- investing in the capability and skills of the LSA's people;
- greater promotion of collaborative working;
- improving the working environment;
- improving communication; and
- working to digitalise the application and payment processes.

## Working with Providers

As a key element of the justice system in Northern Ireland, the LSA works with a wide range of providers of legal services and other justice system stakeholders. These include the judiciary, the Law Society of Northern Ireland, the Bar of Northern Ireland, the Guardian Ad Litem Agency, the Northern Ireland Courts and Tribunals Service, the Public Prosecution Service and voluntary sector organisations.

The LSA's relationships with these stakeholders and providers are central to the work of the Agency.

Participation also involves the following:

- Magistrates' and Family Courts working groups to ensure that the LSA supports the work of the courts;
- Care Proceedings Pilot Project to ensure that the LSA plays a full role in supporting the work of the pilot for public law children cases;
- periodic engagement with the Law Society and Bar to manage relationships with legal service providers and ensure key information is provided to providers on a timely basis;
- ad-hoc meetings with other stakeholders to enhance interaction; and
- Lord Justice Gillen's review of Family and Civil Justice; and DOJ reform projects which impact on civil legal services or criminal legal aid.

The LSA ensures it has regular engagement with the organisations above on key operational issues and with the main representative bodies. Staff within the LSA maintain open contact with all of its provider base to ensure the smooth running of the Agency.

## Key risks and issues

The LSA relies on a well-embedded risk management process designed to identify and prioritise the risks to the achievement of the Agency's objectives, to evaluate the likelihood of those risks being realised and to limit any impacts should they materialise. In reviewing its risk profile throughout 2015-16, the LSA has ensured that key and emerging risks have been clearly identified and actions taken to develop mitigations to address those risks. The LSA's top five key risk areas and the corresponding actions being taken are as follows.

***i - Any inadequacy in operational controls in the administration of legal aid may lead to adverse scrutiny or qualification of the Agency / Departmental Accounts***

Supplementary to the range of controls already in place, the LSA is working with DOJ colleagues to introduce standard fees for civil legal services, to improve earlier identification of potential high cost cases, to develop an improved methodology for forecasting and calculating provisions, and to ensure alignment of counter-fraud activities with the planned Registration Scheme for practitioners and the future digitised legal aid system. Alongside this, we are developing methodologies to provide an estimate of potential fraud within the legal aid system and introducing audit based systems of fraud detection and prevention.

***ii - Should the current withdrawal of services by the legal profession continue, there is a risk that the Agency will not fully utilise the funding provided by the Department***

While the withdrawal of services concluded before the end of the financial year the new remuneration rules were not effective until April 2016. As such the LSA was not able to pay cases under the new rules in 2015-16. However, the LSA deployed forms to enable representatives to submit bills as soon as cases conclude. In addition the LSA redeployed its resources to maximise the expenditure on all areas of business unaffected by the withdrawal of services.

***iii - Any failure to secure Business Case approval for Alpha phase may delay the Digitisation Project and ultimately delay business transformation***

An Outline Business Case has been developed and refinements are being made to address queries, together with a response to the Internal Peer Review. Consideration of further revisions to the Outline Business Case has been given priority within DOJ and DoF, and a programme of work continues to support reform and future operational needs. The Gateway process forms part of the ongoing governance arrangements.

***iv - The Agency's forecasting methodology may not provide reliable projection of resource requirements at an appropriate level of granularity, while minimising human intervention***

There is a continuous programme of refinement of forecasting assumptions and further to an Internal Audit review of forecasting methodology, an Action Plan has been developed to address the issues raised. This Action Plan incorporates a key interface with the legal aid Digitisation Project.

***v - With restructuring of the Agency, shrinkage of the NICS and potential increased career opportunities, the Agency may lose experienced staff and potentially compromise its ability to meet business objectives***

The LSA is refining detailed desk instructions for all key posts and processes, and ensuring there is a corresponding succession plan for these posts. Alongside this is a process of engagement with Trade Union Side (TUS) on the recommendations of a Staffing Review of the LSA. Further to this process, the LSA will develop an implementation plan to give effect to the agreed recommendations from the Staffing Review recognising the interface with the proposed transformation and digitalisation of its services.

### **Going Concern**

In accordance with the Government Financial Reporting Manual, the financial statements for the LSA in respect of the financial year to 31 March 2016 are prepared on a going concern basis. The going concern basis is set out in Note 1.2 to the Accounts.

The Statement of Financial Position at 31 March 2016 shows net liabilities of £128 million.

Provision for Resource and Capital Expenditure, and Annually Managed Expenditure for the functions performed by the LSA will continue to be included in the Estimates of the Department of Justice. These Estimates are voted annually by the Assembly, and there is no reason to indicate that future Assembly approval will not be forthcoming.

## PERFORMANCE SUMMARY AND FORWARD LOOK

### Performance summary

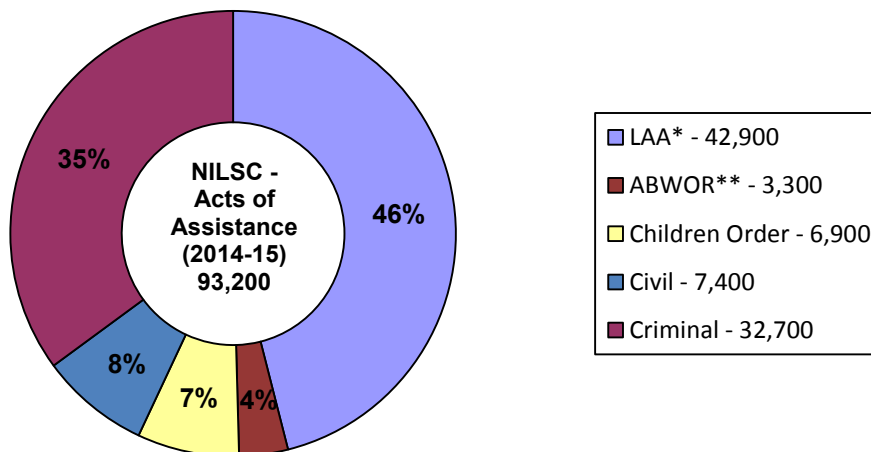
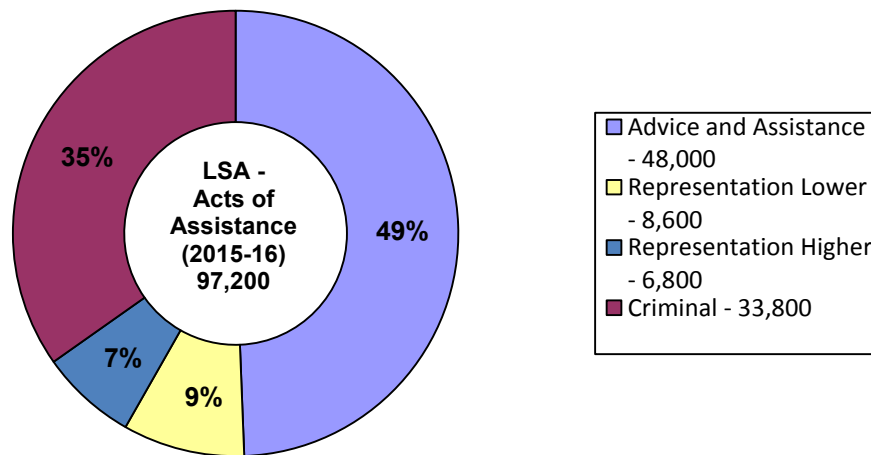
As this report covers the inaugural year of the LSA, in addition to delivering its core statutory functions there was considerable focus on delivering and embedding the new organisation. The key performance issues can be summarised as follows:

1. The establishment of the Agency was implemented seamlessly. Building upon the good preparatory work, the former employees of the Legal Services Commission became Northern Ireland Civil Servants and the LSA implemented the full suite of NICS policies and procedures. This included the LSA adopting the HR Connect shared service provision. In addition the LSA entered into a range of other shared services including shared financial services.
2. A suite of new legislation in respect of civil legal services accompanied the establishment of the LSA. This was a welcome development as the primary source of procedural regulations for civil legal aid dated back to 1965. However, the new regulations required a complete overhaul of forms and certificates together with new procedures. The LSA managed this process well, with minimal disruption to services and effective solutions being deployed when technical issues with the new Rules emerged.
3. The most significant change in the new rules was the establishment of a new appeals panel to consider refusals of applications for civil legal services. In addition to establishing the new panel, the LSA had to continue to support the work of the former appeals panel in respect of applications for civil legal aid received prior to 1 April 2015. This was a particular challenge, both in terms of the volume of business and dealing with a number of judicial reviews arising out of the change in the legislative basis upon which the two panels operated. This dual running of different appeals panels ran throughout the reporting period.
4. The LSA faced considerable challenges during the year in managing its payment processes against the funding available. For the greater part of the year the LSA received a significantly reduced number of bills for Crown Court cases. This was the result of the withdrawal of services by barristers and some solicitors in Crown Court cases which would be remunerated under new Rules, introduced in 2016. Crown Court expenditure is traditionally one of the largest areas of legal aid expenditure. To counter the significant reduction in the volume of Crown Court bills, the LSA redirected its resources to maximise the funds which it could expend. As a result the LSA was able to bring down the processing times in many areas to making payments within a number of days of the bills being submitted.
5. In addition the LSA focused on the processing of new applications for civil legal services and the decision rates in this area have progressed well. As part of this process there continues to be a focus on processing the new appeals under the new rules.
6. During the year the LSA also sought to progress the preparatory work for its strategic digitalisation project which will include the development of a new case management system.

7. The LSA supported the Department in the development of various reforms and the implementation of reform initiatives. The LSA also was actively engaged in supporting the work of Lord Justice Gillen's review of Civil and Family Justice.

**Acts of Assistance**

The LSA had a total of 97,200 acts of assistance in 2015-16. This represents an increase of 4.3% compared to the 93,200 acts of assistance recorded by NILSC in 2014-15.



\*LAA - Legal Advice and Assistance

\*\*ABWOR - Assistance By Way Of Representation

## Forward look

The LSA will continue to take forward the work undertaken to date with the project to digitally transform the delivery of publicly funded legal services. The project will reform, streamline and automate the backend systems and processes used to manage publicly funded legal services, as well as making it easier for the practitioner to communicate with the LSA by providing an online portal for submission of applications and claims for payment. Through workshops and meetings the project team engaged with both internal and external stakeholders to develop the high-level requirements for the project. Once the project business case is approved the LSA project team will move into the development phases. The LSA's plan is to complete the project in 2017-18.

The LSA will continue to work with the various DOJ reform initiatives to inform and implement changes to civil legal services and criminal legal aid, including the recommendations arising from the Access to Justice Review II. Central to this will be work to establish a Compliance and Registration Scheme which will have a statutory basis in 2017-18. In addition, the LSA will support the work of the Civil and Family Justice Review led by Lord Justice Gillen.



## **PERFORMANCE ANALYSIS**

This is the LSA's first year as an Executive Agency. During the year there have been a number of improvements which have had a significant positive impact on the way the LSA works as an organisation and the resulting interaction with providers. This was achieved while continuing to work through a period of significant systems changes in all aspects of the Agency's work.

### **The LSA's achievements in 2015-16**

The LSA has continued to strive to deliver the commitments included in its 2015-16 Business Plan, and the four Strategic Objectives (SO) established to drive the Agency forward.

### **Performance Targets and Objectives**

#### ***Priority Area 1 - Delivery of Existing Services***

**Strategic Objectives: To deliver existing statutory services - granting and administering civil legal services and administering criminal legal aid within the resources that are made available by the Department**

#### **Determination of Civil Legal Services**

##### **Emergency Applications**

<b>Definition of Target</b>	<b>% Target</b>	<b>% Achieved</b>
Emergency applications and non means or merits Children Order proceedings to be determined within 3 days from date of receipt.	90%	98%
Emergency applications and non means or merits Children Order proceedings to be determined within 8 days from date of receipt (Note 1).	98%	98%

##### **Non - Emergency Applications**

<b>Definition of Target</b>	<b>% Target</b>	<b>% Achieved</b>
Applications for civil legal aid and civil legal services will be determined within 6 weeks of being registered (Note 2).	70%	67%
Applications for civil legal aid and civil legal services will be determined within 10 weeks of being registered.	85%	80%

**Appeals**

<b>Definition of Target</b>	<b>% Target</b>	<b>% Achieved</b>
Appeals against the refusal of civil legal aid and civil legal services will be listed within 20 weeks from date of receipt (Note 3).	80%	Legal Aid Appeals 55%  Civil Legal Services Appeals 40%
Appeals against the refusal of civil legal aid and civil legal services will be listed within 30 weeks from date of receipt (Note 4).	95%	Legal Aid Appeals 93%  Civil Legal Services Appeals 43%

**Notes:**

1 - Applications which are not complete and therefore cannot be determined within 5 days will be deemed not to be an emergency.

2 - Registered means that the application has been properly completed and the applicant has been assessed by an office of the Department for Communities (DfC) [formerly Social Services Agency (SSA)] as meeting the financial eligibility criteria.

3 - Listed means that the appeal is tabled for consideration by an appeals panel, but does not mean that the appeal has been determined as adjournments can be sought by the applicant or by the panel pending the provision of further information.

4 - Not all appeals will be listed in this timescale as some will be adjourned or unable to be relisted as required information is not available.

## Processing of Legal Aid Claims for Payment

The LSA commenced the year with an anticipated funding deficit and as a result, pending further funding being made available, the Agency set a payment threshold of £1.45m per week. Early in the financial year, barristers and some firms of solicitors withdrew their services from Crown Court cases. During the financial year this began to have a significant impact on the LSA's payment profile. As a result of the withdrawal of services continuing for almost the entire financial year and to utilise the additional funding made available, the LSA reallocated its payment capacity and increased the weekly payment profile to £1.5m. Eventually, the LSA set its weekly payment target to £2.1m.

As a result of these changes, and notwithstanding the significant reduction in Crown Court cases disposed in the period, the LSA maximised the expenditure on other processing lines. At the end of the financial year the dispute about remuneration for Crown Court cases was resolved. While Rules which gave effect to the resolution of the Crown Court dispute did not come into operation until April 2016, the LSA was able to assess all the Crown Court bills which were received by the year end.

As at the year end, the LSA was processing claims in the following timelines:

<b>Fees type</b>	<b>Processing Times (as at end of Quarter 4, 2015-16)</b>
Authorisation of taxed cases for payment from date of receipt	<ul style="list-style-type: none"> <li>• <b>5 days</b></li> </ul>
Authorisation of standard fees for payment from date of receipt	<ul style="list-style-type: none"> <li>• Crown Court - <b>2 days</b></li> <li>• Magistrates' Court - <b>3 days</b></li> <li>• Article 3 - <b>2 days</b></li> <li>• Civil non family - <b>7 weeks</b></li> <li>• Civil interim - <b>7 weeks</b></li> <li>• ABWOR - <b>2 weeks</b></li> </ul>
Authorisation of non-standard fees for payment from date of receipt (non-Children Order claims)	<ul style="list-style-type: none"> <li>• VHCC (Magistrates) - <b>upon receipt</b></li> <li>• Extraditions - <b>12 weeks</b></li> <li>• Green Form - <b>4 days</b></li> </ul>
Authorisation of non-standard fees for payment from date of receipt (Children Order claims)	<ul style="list-style-type: none"> <li>• <b>12 weeks</b></li> </ul>

**Priority Area 2: Accountability and Governance****Strategic Objective: To enhance Agency accountability and governance arrangements**

Objective	Progress at 31 March 2016
Introduce effective Agency Board and Audit and Risk Committee arrangements.	As part of their aim for continuous improvement, the Board members completed an evaluation questionnaire to assess the performance of the Board and to highlight areas for further improvement in 2016-17.
Implement appropriate and effective interventions to Agency systems and processes to resolve outstanding NIAO and Internal Audit recommendations, including the delivery of a number of counter fraud measures as outlined within a revised Counter Fraud and Error Strategy.	<p>The revised Counter Fraud Strategy and Counter Fraud Response Plan have been approved by the Board and are now operational.</p> <p>Work is in hand on a new provisions model which will be implemented in 2016-17.</p> <p>Internal audit recommendations are addressed as they arise.</p> <p>A number of long-standing Internal Audit recommendations continue to be addressed as expeditiously as possible. The Audit and Risk Committee is placing particular emphasis on ensuring these outstanding recommendations are addressed, along with the remaining Public Accounts Committee (PAC) and Northern Ireland Audit Office (NIAO) recommendations.</p>
Improve applicant and practitioner awareness of, and compliance with the Agency's processing requirements.	<p>A review of the quality of the civil claims being submitted was carried out during 2015-16. The Agency also used Law Society seminars to deliver key messages to the profession.</p> <p>Guidance will issue during 2016-17 as a strand of the communication plan developed to support the implementation of the new civil fees structure.</p>
Maintain expenditure within approved budget limits.	Expenditure was managed within the funding provided; as at 31 March 2016 claims across the main lines of expenditure were processed within one week of receipt.
Delivering for audit and laying before the NI Assembly, the Annual Report and Accounts for 2015-16 in keeping with the DOJ timetable.	The LSA is on target to lay the 2015-16 Annual Report and Accounts in the NI Assembly before Summer Recess.
Publish the payment details of those solicitor firms and barristers receiving the highest level of remuneration from the Agency.	Publication of payment details for the Top 100 solicitor firms and barristers took place on 21 March 2016 in respect of the 2014-15 payments made by NILSC.

**Priority Area 3: Agency Modernisation**

**Strategic Objective: To equip the Agency's staff to refine and improve delivery of existing and future statutory services by consolidating and modernising existing processes to enhance performance and deliver improved value for money**

Objective	Progress at 31 March 2016
Integrate Agency staff fully into the DOJ and NICS.	LSA staff are fully integrated into the DOJ and NICS and are actively engaged with all aspects of Departmental activity, including transfers to other business areas within the Department.
Successfully complete within budget the Discovery and Alpha phases of the Agency Digital Transformation (ADT) project to modernise the delivery of existing and future statutory services.	Following completion of an Outline Business Case (OBC), an Internal Peer Review of the project was undertaken to review the health of the project. An action plan to address the recommendations and ensure the project can move forward into the development stages will be prepared in early 2016-17.
Introduce agreed Shared Services arrangements in line with the DOJ's agreed strategy.	Shared Services for IT, Finance, Management Information and HR have been implemented across the LSA. The LSA will continue to identify opportunities for other Shared Services and implement where appropriate.
Introduce recommendations from the agreed Staffing Review.	Following consideration of the Staff Review Report by the Board, formal engagement commenced with NIPSA in February 2016. Due to the number of interlinked projects already underway in LSA, it is anticipated that a number of recommendations will be implemented by June 2016 with the remainder completed by 31 March 2017.
Design, consult and introduce a Corporate Staff Development Plan.	Corporate Staff Training Plan developed and rolled out to staff. Staff and managers received regular reminders regarding training courses, however a number of key elements in the Training Plan were not completed during 2015-16. This was primarily due to the embargo on discretionary spend (whereby expenditure on training was suspended for several months) and the delay in the implementation of the Information Management Project.
Improve the quality of information for both the public and legal practitioners.	<p>The LSA uses a number of methods to improve the quality of information issued. In 2015-16 LSA issued circulars in respect of:</p> <ul style="list-style-type: none"> <li>• Children Order Claims - reinstatement of the 5% uplift for members of the Law Society Children Order Panel;</li> <li>• Crown Court Amendment Rules 2016;</li> <li>• Crown Court Amendment Rules No. 2 2016; and</li> <li>• LSA Guidance to Practitioners on the application for exceptional preparation time.</li> </ul> <p>The LSA also engaged with the Law Society on the content for Law Society seminars planned for 2016-17.</p>

**Priority Area 4: Introduction of Reforms**

**Strategic Objective: To ensure seamless introduction and integration of all legal aid reforms brought forward by the DOJ during the business year**

Objective	Progress at 31 March 2016
Implement revised legislation introduced to support the commencement of the Access to Justice (Northern Ireland) Order 2003.	New legislation in place.
Make preparations for the introduction of a Practitioner Registration Scheme (PRS) in line with the timescales agreed within the DOJ.	Preparations were completed during 2015-16; staff to resource the PRS will be appointed during 2016-17.
Introduce Civil Legal Aid Fees reform phases one and two, in line with timescales agreed within the DOJ.	The LSA continues to work in support of the Department for the implementation of the new civil fees structure during 2016-17.
Implement Criminal Legal Aid Fees reform in line with the timescale agreed within the DOJ.	The LSA prepared for the introduction of Crown Court Rules amendments which are effective from April 2016. This includes the introduction of exceptionality provisions.
Effectively implement further new legislative reforms and guidance that are brought forward by the Minister of Justice within 2015-16.	During 2015-16 the LSA continued to liaise with DOJ on new legislative reforms and guidance.
Contribute fully to the Access to Justice Review 2 and introduce agreed changes to publicly funded legal services that arise from the Review.	The Access to Justice Review 2 report was published in November 2015 and listed a number of recommendations. The LSA Chief Executive is a member of the Working Group established to address the recommendations.

**Management Information**

The Agency plans to publish Management Information in 2016-17 and to undertake user consultation to gain an understanding of stakeholders' requirements. This engagement will inform what Management Information should be published on an annual basis thereafter.

## Financial Review

The LSA financial statements for 2015-16 are compared to the previous two financial years of the former Northern Ireland Legal Services Commission (NILSC) in the tables below:

### Statement of Comprehensive Net Expenditure

	LSA 2015-16 £000	NILSC* 2014-15 £000	NILSC* 2013-14 £000
<b>Total operating income</b>	<b>(2,915)</b>	<b>(1,999)</b>	<b>(1,855)</b>
Staff costs	4,237	4,083	6,531
Purchase of goods and services	4,658	4,651	3,242
Depreciation and impairment charges	241	582	662
Provision expense	98,304	101,979	100,871
Grants	66	232	231
<b>Total operating expenditure</b>	<b>107,506</b>	<b>111,527</b>	<b>111,537</b>
<b>Net operating expenditure</b>	<b>104,591</b>	<b>109,528</b>	<b>109,682</b>
Finance expense	4	4	5
<b>Net expenditure for the year</b>	<b>104,595</b>	<b>109,532</b>	<b>109,687</b>

### Statement of Financial Position

	LSA 2015-16 £000	NILSC* 2014-15 £000	NILSC* 2013-14 £000
<b>Non-current assets</b>			
Property, plant and equipment	14	153	477
Intangible assets	136	249	313
Trade and other receivables	2	-	-
<b>Current assets</b>			
Trade and other receivables	1,899	1,463	2,532
Cash and cash equivalents	43	37	33
<b>Current liabilities</b>			
Trade and other payables	(2,577)	(2,270)	(5,083)
Provisions	(49,101)	(57,137)	(58,642)
<b>Non-current liabilities</b>			
Provisions	(78,348)	(63,990)	(65,149)
<b>Total assets less total liabilities</b>	<b>(127,932)</b>	<b>(121,495)</b>	<b>(125,519)</b>
<b>Taxpayers' equity and other reserves</b>			
General Fund	(127,933)	(121,498)	(125,528)
Revaluation Reserve	1	3	9
<b>Total equity</b>	<b>(127,932)</b>	<b>(121,495)</b>	<b>(125,519)</b>

\* In accordance with IFRS 3 *Business Combinations under Common Control*, the machinery of government transfer from NILSC to LSA has been accounted for as a 'transfer by absorption' in the Agency's Accounts for 2015-16 and comparative figures for 2014-15 have therefore not been disclosed. Further details are contained in Note 3 to the Accounts. The NILSC Annual Report and Accounts for 2014-15 is available to download at [www.lsani.gov.uk](http://www.lsani.gov.uk).

### ***Expenditure on publicly funded legal services***

The total amount of cash paid during 2015-16 for publicly funded legal services was £91.2 million (as per Note 13 to the Accounts - Provisions for Liabilities: Provisions utilised in the year). This compares to £105.5 million paid by NILSC in 2014-15, with the main reason for the decrease in the level of payments being the withdrawal of legal services by the legal profession during the 2015-16 financial year.

The figures referred to above relate to cash payments - these will be different to the amounts calculated on an accruals basis and included as a Provision expense in the Statement of Comprehensive Net Expenditure and Notes 5 and 13 to the Accounts.

### ***Financial position***

The total net liabilities of the LSA at 31 March 2016 were £127.9m.

### ***Cash flow***

As detailed in the notes to the Accounts, the Agency's Net Assembly draw down in 2015-16 was £97.805m and the net increase in cash and cash equivalents in the year was £0.043m.

### ***Financial risk***

For 2015-16, the Agency relied primarily on the Department of Justice for funding and the risk to this funding is low.

The Agency accounts for all transactions in sterling and has no borrowings. As such, the Agency is not exposed to any exchange rate or liquidity risk.



## **Auditors**

The financial statements are audited by the Comptroller and Auditor General for Northern Ireland (“C&AG”), who heads the Northern Ireland Audit Office (NIAO) and is appointed by statute and reports to the Assembly. The C&AG and his staff are wholly independent of the Agency.

The estimated fee for the audit of the 2015-16 financial statements is £60,000.

The C&AG may also undertake other statutory activities that are not related to the audit of the body’s financial statements, such as Value for Money (VFM) reports. The C&AG issued his VFM report on Managing Legal Aid on 21 June 2016 and the Public Accounts Committee (PAC) held an evidence session on 29 June 2016. LSA and DOJ will work to address the PAC recommendations once these are agreed.

## **Payment to suppliers**

The Agency’s policy is to pay bills from all suppliers within 10 working days following receipt of a properly rendered invoice or in accordance with contractual conditions, whichever is the earlier. Payments of programme costs for publicly funded legal services are exempt from the Better Payment Practice Code and not included in the statistics noted below.

During the financial year, the Agency achieved an average of 82.8% of invoices paid to suppliers within 10 working days following receipt of a properly rendered invoice. The Agency achieved an average of 90.8% of invoices paid to suppliers within 30 calendar days following receipt of a properly rendered invoice.

## **Environmental and Sustainability Initiatives**

The LSA remains committed to securing products and services that are environmentally friendly and to the procurement of goods or services which comply with Article 6 of the Energy Efficiency Directive and can be recycled where possible. The LSA has increased the amount of daily correspondence issued electronically only and with the planned digitisation of legal aid services will reduce the need for postal correspondence still further.

All staff are connected to multi-function devices (MFDs) which permit both electronic scanning of documents and double-sided printing for any physical copies that are required. The Board and Audit and Risk Committee use electronic papers only for all meetings, removing the requirement for printing of considerable volumes of paper documents for posting to attendees. The recycling of MFD toner cartridges provides an example of our ongoing commitment to sustainability initiatives, as does the fact that all redundant IT equipment is returned via IT Assist arrangements for appropriate decommissioning and recycling.

The LSA uses the NICS recycled waste contractor for collection of all recyclable office waste including glass, paper, cardboard, plastics and metals. Posters throughout our premises encourage staff to switch off lights and equipment when not required and the LSA continues to provide appropriate data in support of the Carbon Reduction Commitment (CRC) initiative led by the DOJ.

## Social and Community Issues

The LSA developed and implemented a communications strategy in support of the reform programme, which focussed on the needs of the public, suppliers of legal services and other key stakeholders.

Under this programme the LSA worked on the following areas:

- simplified and transparent financial eligibility framework;
- a registration scheme for providers of legal services; and
- arrangements for managing money damages cases.

In addition, the LSA supported a range of projects which were being taken forward by the DOJ.

## Health and Safety

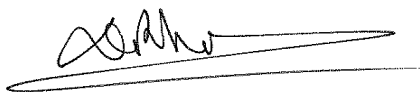
The LSA is committed to providing staff with an environment that is, as far as possible, safe and free from risk to health. In line with this commitment, the LSA complied with the relevant legislation.

The LSA's health and safety function is managed by the Office Services Branch. During 2015-16 a comprehensive review of Health and Safety policies and procedures was completed. The LSA Health and Safety arrangements enable the Agency to comply with its legal duties and responsibilities under the Health and Safety at Work Act 1974.

A Health and Safety Committee, comprising staff from all business areas within the LSA and Trade Union representatives, meet on a regular basis and report to the Director of Corporate Services.

There were no notifiable accidents during 2015-16.

## PERFORMANCE REPORT



**Paul Andrews**  
**Chief Executive and Accounting Officer**  
**24 June 2016**

## **ACCOUNTABILITY REPORT**

### **CORPORATE GOVERNANCE REPORT**

#### **DIRECTORS' REPORT**

##### **The Board**

The LSA Board (the Board) was formally constituted on 1 April 2015 and oversees the work of the Agency. Its role is to lead the LSA's strategic planning and assist the Chief Executive, who is also the Accounting Officer, in meeting corporate governance responsibilities for the Agency. The Board follows Corporate Governance best practice.

The Board consists of:

<b>Position</b>	<b>Member</b>
Chief Executive	Paul Andrews
Director, Civil Legal Services	Sheila McPhillips
Director, Payment Services	Jill Herron
Director, Corporate Services	Gary Archibald (until 2 October 2015)
Independent Board Member	Allen McCartney
Independent Board Member	Professor John Morison
Independent Board Member	Stephen Wooler CB

In addition a Deputy Director from the DOJ, Mark McGuckin, attends Board meetings.

Glynis Brown was appointed Director, Corporate Services as from 31 May 2016.

The Board operates as a collegiate forum, under the leadership of the Chief Executive, to manage the running of the LSA. Policy on civil legal services and criminal legal aid is determined by the Minister. However, the Board may discuss policy in the context of analysing options for operational management and delivery. In the policy area, the Board operates in an advisory and consultative capacity, offering guidance when required.

The Chief Executive of LSA is responsible for the day-to-day operation of the Agency and the leadership and management of its staff. The Chief Executive is also currently the holder of the statutory office of Director of Legal Aid Casework (Director). The Director operates under legislation and Ministerial guidance and directions when determining whether applications for civil legal services should be funded. The Director is independent from any Ministerial or Departmental interference in relation to individual applications for civil legal services. The Director specifically comments on the conduct of this independent decision-making function in the Director of Legal Aid Casework Annual Report.

The role of Independent Board Members (IBMs) includes:

- providing strategic advice to the Board, contributing to decision-making and supporting the good corporate governance of LSA;
- using their experience to challenge and support the Board, acting corporately;
- ensuring that the Board obtains and considers all appropriate information; and
- notifying the Board of any matters that threaten the regularity, propriety or value-for-money with which LSA carries out its business.

All Board members are required to adhere to the Seven Principles of Public Life.

The Board is supported in its role by the Audit and Risk Committee, which is a committee of the Board with no executive powers. The role of this Committee is to support the Board in its responsibilities for issues of risk control and governance by reviewing the comprehensiveness of assurances in meeting the Board and Accounting Officer's assurance needs, and reviewing the reliability and integrity of these assurances.

As an Agency of the DOJ, the LSA operates under a Framework Document. The Framework Document sets out the arrangements for the effective governance, financing and operation of LSA. A copy of the LSA Framework Document can be found on our website ([www.lsani.gov.uk](http://www.lsani.gov.uk)).

### **Board Members' Interests**

Details of company directorships and other significant interests held by LSA members are set out within the related party disclosures at Note 16 in the Accounts. The LSA maintains a Register of Interests for senior management which is updated on a quarterly basis. In addition, any conflicts of interest are declared by the Board members at each meeting. Access to the Register of Interests may be gained by contacting [enquiries@lsani.gov.uk](mailto:enquiries@lsani.gov.uk).

### **Information Assurance**

There were no incidences of loss of information assets or personal data during 2015-16 which required to be reported to the Information Commissioner's Office.

## Complaints

The Complaints Policy and Procedures regarding the administration of civil legal services and criminal legal aid are designed to address complaints regarding the quality of service provided by its officials. Its aim is to enhance and improve the level of service provided to customers.

There were 21 complaints recorded for the LSA during 2015-16 and these were mainly concerned with process or delay. Of these, 17 were closed in 2015-16; 4 complaints carried over into 2016-17.

Complaints can be made to:

Legal Services Agency Northern Ireland  
2nd Floor Waterfront Plaza  
8 Laganbank Road  
Mays Meadow  
Belfast  
BT1 3BN

Telephone: 028 9040 8888

Email: [enquiries@lsani.gov.uk](mailto:enquiries@lsani.gov.uk)

The LSA investigates thoroughly every complaint it receives, using a three tier complaints procedure. The initial complaint gives the LSA the chance to review the way the matter was handled at a local level and put the situation right if possible. If an individual or provider is not content with the initial response, they can escalate their complaint to the Chief Executive's Office and a Director will investigate the complaint. If the complainant is still dissatisfied, they can request that the Chief Executive investigates the complaint and how it was handled. The final stage of the complaints process is for the complainant, once the three stages of the LSA's complaints procedure have been exhausted, to refer the matter to the Office of the Northern Ireland Public Services Ombudsman under the Ombudsman (NI) Act 2016. The complainant will have to be sponsored by a Member of the Legislative Assembly.

The LSA cannot investigate complaints about the representation received by recipients of civil legal services or criminal legal aid. Complaints about solicitors and barristers are referred to the appropriate professional body for investigation.

## STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under section 11(2) of the Government Resources and Accounts Act (Northern Ireland) 2001, the Department of Finance (DoF) [formerly Department of Finance and Personnel (DFP)] has directed the LSA to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The Accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the LSA and of its income and expenditure, changes in taxpayer's equity and cash flows for the financial year.

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

- observe the Accounts Direction issued by DoF, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on a going concern basis.

The Accounting Officer for the DOJ has designated the Chief Executive of the LSA as Accounting Officer for the year of account.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the LSA's assets, are set out in the Accounting Officer's Memorandum, issued by DoF and published in Managing Public Money Northern Ireland.

The Accounting Officer is required to confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and that he takes personal responsibility for the Annual Report and Accounts and the judgments required for determining that it is fair, balanced and understandable.

As far as the Accounting Officer is aware, there is no relevant audit information of which the entity's auditors are unaware and 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 entity's auditors are aware of that information.

## **GOVERNANCE STATEMENT**

### **1. Scope of Responsibility**

The LSA operates under the auspices of the DOJ. The relationship between the LSA and the DOJ is governed by a Framework Document.

The LSA is responsible for applying statutory tests to determine whether an individual should receive civil legal services and then the payment for the relevant legal services provided. While the judiciary is responsible for the grant of criminal legal aid, the LSA pays for the legal services provided. In addition to administering publicly funded legal services, the LSA supports the DOJ in its work to reform civil legal services and criminal legal aid. The scope of the work undertaken by the LSA and the objectives set for each business area are contained in the annual Business Plan for LSA which was approved by the DOJ.

The LSA is also involved in a number of reform projects within the Access to Justice Reform Programme.

The Board of the LSA has a corporate responsibility for ensuring that the Agency fulfils the aims and objectives set by the Assembly and for ensuring the efficient and effective use of resources by the organisation.

### **2. Purpose of the Governance Framework**

The LSA relies on its governance framework to enable it to exercise operational and strategic control over the organisation and ensure that resources were effectively directed to delivering its business objectives. It also provided a range of assurances that appropriate internal controls are in place and working effectively.

The Board, recognising the LSA's new status, considered if it complied with all the key principles of the Corporate Governance Code in terms of its composition, leadership, remit, accountability and risk management. The Board operates a Risk Management Policy and ensures that risks are clearly identified and managed in line with the DOJ's agreed risk appetite. A register of interests is maintained for Board members and the agenda for each Board and committee meeting commences with a formal declaration (and record) that attendees have no conflicts of interest. Good practice is complied with as representatives from the sponsor Department are invited as observers to attend all Board and Audit and Risk Committee meetings. This arrangement ensures that discussions with the DOJ continued to be well informed.

### 3. Governance Framework

The key organisational structures which support the delivery of effective corporate governance in the Agency are the:

- LSA Board; and
- LSA Audit and Risk Committee.

#### The Board

The Board is responsible for ensuring that the LSA fulfils the aims and objectives set by DOJ, and for promoting the efficient, economic and effective use of staff and other resources.

The emphasis for the Board in its first year has been:

- establishing the overall strategic direction of the LSA within the policy and resources framework determined by DOJ and the Minister of Justice;
- constructively challenging the LSA's Executive Team in their business planning, target setting and delivery of performance against agreed targets;
- identifying the corporate risks that may impact on the delivery of the LSA's objectives;
- ensuring that the statutory requirements for the use of public funds are complied with; and
- ensuring that the Board received and reviewed regular financial and performance information concerning the management of the LSA.

Attendance by members is shown below for the 11 meetings of the Agency Board during 2015-16:

Position	Member	Attendance
Chief Executive	Paul Andrews	11/11
Director, Civil Legal Services	Sheila McPhillips	11/11
Director, Payment Services	Jill Herron	10/11
Director, Corporate Services	Gary Archibald (until 2 October 2015)	4/5
Independent Board Member	Allen McCartney	11/11
Independent Board Member	Professor John Morison	11/11
Independent Board Member	Stephen Wooler CB	11/11



## The Audit and Risk Committee

The Audit and Risk Committee is responsible for supporting the Board and Accounting Officer by reviewing the comprehensiveness of assurances and assessing the reliability and integrity of these assurances.

It fulfils this responsibility by ensuring that appropriate arrangements are in place to provide the necessary assurances in terms of financial management, risk management, counter-fraud, and the work of the internal and external auditors.

Key work of the Audit and Risk Committee included:

- review of the annual financial statements and the Governance Statement, including the work and reporting of the external auditors;
- counter-fraud strategy and reporting;
- corporate risk management;
- internal audit planning and strategy, including review of audit reports and the annual assurance report;
- oversight of actions to address identified weaknesses and key risks; and
- review of public sector guidance issued by DoF, Public Accounts Committee reports and any relevant good practice initiatives.

Attendance by members is shown below for the 5 meetings of the Audit and Risk Committee during 2015-16:

<b>Position</b>	<b>Member</b>	<b>Attendance</b>
Independent Board Member (Chair)	Allen McCartney	5/5
Independent Board Member	Professor John Morison	5/5
Independent Board Member	Stephen Wooler CB	5/5
Independent Member	Peter Toogood (appointed 13 October 2015)	2/2

The following were generally in attendance at all Audit and Risk Committee meetings: Chief Executive, Director of Corporate Services, Business Assurance Manager, PA to Chief Executive, Head of Internal Audit, Deputy Director DOJ and a representative from NIAO and FSD.

#### 4. Risk Management and Internal Control

The LSA has a well embedded and robust risk management framework in place, with direct involvement of senior managers and staff. Oversight of this is the responsibility of the Audit and Risk Committee. The LSA's arrangements for effective risk management include:

- a risk management framework consisting of project, Departmental and Corporate Risk Registers, supported by a Risk Management Policy which is directly aligned with Departmental policy;
- an agreed risk appetite in line with the DOJ's policy. The risk appetite is as follows: Policy and Guidance (High), Reputation (Medium), External factors (Medium), Human Resources (Low) and Legislation, Regularity, Propriety and Accountability (Low);
- a Corporate Risk Register to identify the risks threatening to impact upon the achievement of the LSA's objectives;
- Board review of corporate risks as a standing agenda item;
- Audit and Risk Committee meetings focusing specifically on risk management;
- structures in place to assess and report on information risk; and
- quarterly Stewardship Statements from managers, providing formal assurance on their management of risk for their respective business areas.

The LSA's system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the LSA's policies, aims and objectives, to evaluate the likelihood of those risks being realised and to limit any impacts should they materialise. It is designed to manage risk within the parameters of the LSA's risk appetite, rather than attempting to eliminate all risk of failure to achieve policies, aims and objectives. The system of internal control includes:

- the establishment and operation of an effective management structure;
- the establishment and operation of a Board and committee structure including an Audit and Risk Committee;
- a system of risk assessment and risk management;
- key management controls, including monitoring, supervision and segregation of duties;
- a scheme of delegation which delegates decision-making within set parameters;
- adherence to external legislation, government policies, directions or guidance;

- adherence to accountability reporting to the DOJ, including Stewardship reporting and information security returns;
- adherence to internal policies, standing orders, documented business procedures and processes;
- an IT system to support business processes and provide relevant management information;
- the provision of an internal audit service to support management and provide independent assurance.
- a dedicated counter-fraud team; and
- comprehensive and accessible whistleblowing arrangements.

## **5. Review of Effectiveness of the Governance Framework**

Prior to the end of the first year of the LSA Board, the Board carried out an evaluation of its performance using the National Audit Office (NAO) Board Evaluation Questionnaire. Each member of the Board evaluated the Board performance and discussed the findings at the March 2016 Board.

To enhance the effectiveness of the Board, Board members attended a training course in March 2016 which covered topics such as roles and responsibilities of Board members, governance and accountability, propriety and the role of the Audit and Risk Committee. On reviewing the membership of the Board, Board members considered that the membership displayed a broad range of skills and expertise and had a sound understanding of their role and remit as an Executive Agency Board. The members confirmed that they had a clear understanding of their role in setting objectives and overseeing the financial management of the organisation.

Overall, the Board was satisfied with its effectiveness against the criteria in the NAO Questionnaire but identified a number of areas where information provided to the Board could be further enhanced during 2016-17.

The LSA was not subject to any Ministerial directions during the reporting period.

## 6. Significant Internal Control Issues

### External Audit - Account Qualifications

The C&AG qualified the 2015-16 financial statements of LSANI on the basis of a limitation of scope in respect of:

- regularity of transactions in the period - insufficient evidence to provide assurance that a material amount of legal aid expenditure had not been fraudulently claimed;
- true and fair view of the provisions for legal aid liabilities - insufficient evidence to support the calculation of the provisions estimate; and
- true and fair view of the completeness of income - insufficient evidence to provide assurance that a material amount of income had not been excluded in respect of the recovery of defence costs.

LSANI will develop further an on-going programme of work to address these qualifications and will take this forward in conjunction with the Department.

#### **Regularity of expenditure**

The LSA remains committed to a range of initiatives to address this qualification. It will continue with a 1% sample check of case files covering civil legal services and criminal legal aid, and will analyse ways in which this can be more effectively targeted at high risk areas. Work is ongoing to develop an effective methodology for calculating the potential for fraud associated with publicly funded legal services. The revised financial form CL4A has improved financial eligibility information being received and addresses a number of weaknesses identified by the NIAO.

A financial eligibility pilot process has been completed which reviewed a sample of current legal aid certificates to see if applicants remained eligible for legal aid or if their financial circumstances and eligibility had changed. This initiative addressed a weakness noted by the NIAO and analysis of the pilot has resulted in the LSA introducing a new Financial Eligibility Team to systematically review and assess whether applicants remain eligible for civil legal services taking into account their current financial circumstances. These measures will be further strengthened with the introduction of a statutory compliance regime in 2017-18.

#### **Provisions**

The LSA is seeking to improve the technique it uses when estimating outstanding liabilities for publicly funded legal services provided by legal practitioners. Significant work is being undertaken looking at the payment profiles and the life cycle of claims to provide an enhanced suite of analysis to inform the estimates. This work will be assisted by the proposed introduction of standard fees across civil legal services.

Given the complex nature of provisions for publicly funded legal services and the range of issues which remain outside the LSA's control, providing the necessary levels of assurance to the NIAO to have these qualifications removed remains a significant challenge. The LSA will continue to take forward the work necessary to enhance

controls in this area with the aim of removing these qualifications in future years. This work will also take into account the recommendations made by Internal Audit in respect of its report on Forecasting and Provisions which provided a Limited assurance rating.

### **Income**

The Department has undertaken to review of the existing arrangements governing Recovery of Defence Costs Orders in 2016 and to bring forward proposals to enhance their effectiveness in the course of the 2016-17 financial year.

### **Financial Forecasting and Funding Deficit**

The LSA commenced the financial year with a projected financial forecast which exceeded the DEL budget allocation. As a result of this deficit, a further bid for funding was submitted to address the differential in the original forecast for the year. The DOJ provided significant additional funding to allow the LSA to continue to make payments up to the end of the financial year. The LSA worked closely with the DOJ to develop and improve the accuracy of the financial forecasting process and respond to external factors impacting on legal aid forecasting, in particular the withdrawal of services in the Crown Court for the greater part of the financial year. The financial forecast process has adopted a comprehensive four stage methodology. This methodology has introduced a formalised end-to-end system of quality assurance, review and external scrutiny with designated roles and responsibilities. The methodology has been designed to evolve to incorporate lessons learnt and new factors that may arise.

### **Reports by the Northern Ireland Audit Office and Public Accounts Committee**

The C&AG issued his Value for Money (VFM) report on Managing Legal Aid on 21 June 2016 and the Public Accounts Committee (PAC) held an evidence session on 29 June 2016. LSA and DOJ will work to address the PAC recommendations once these are agreed.

## **7. Accounting Officer Statement on Assurance**

In providing my statement on assurance I am informed by a range of sources, including the Legal Aid Assessment Office, the Northern Ireland Courts and Tribunals Service, the risk management framework, internal stewardship arrangements and reports from the internal and external auditors. Assurance is given by DOJ and DoF internal auditors in terms the corporate shared services provided by each respective department to LSA. Assurances include the Annual Internal Audit Assurance Report which provides a satisfactory assurance in relation to internal control, risk management and corporate governance for the period.

I acknowledge improvements across the LSA are needed to address the weaknesses identified through the various areas of assurance in particular improving financial forecasting and addressing the audit qualifications and recommendations. I consider that the overall system of internal control, governance and risk management that are within the parameters of my control, are such as provide satisfactory assurance to me in relation to the ability of the LSA to effectively discharge its governance responsibilities going forward.

## **REMUNERATION AND STAFF REPORT**

### **REMUNERATION REPORT**

#### **Remuneration Policy**

The Minister of Finance approves the pay remit for Senior Civil Service (SCS) staff. The SCS remuneration arrangements are based on a system of pay scales for each SCS grade containing a number of pay points from minima to maxima, allowing progression towards the maxima based on performance. In 2012, upon creation, there were 11 points on each scale. This was subsequently reduced to 10 points in 2014 and 9 points in 2015 to allow progression through the pay scales within a reasonable period of time.

The Chief Executive is the only member of staff within the LSA who is member of the SCS. Staff at Grade 6 and below fall within the pay settlement provided by the NICS Comprehensive Pay and Grading Review.

#### **Service Contracts**

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commissioners can be found at [www.nicscommissioners.org](http://www.nicscommissioners.org).

Following an open competition the following IBMs were appointed by the Department of Justice on 19 June 2014 for a fixed period of three years with the possibility of one extension:

- Allen McCartney;
- Professor John Morison; and
- Stephen Wooler CB.

After fulfilling a shadow role during 2014-15 within the NILSC, the IBMs formally took up their positions with the establishment of the Agency on 1 April 2015.

## Salary and pension entitlement

The following section provides details of the remuneration and pension interests of the most senior management of the Agency.

[Audited information]

Officials and IBMs	Salary	Bonus payments	Benefits in kind	*Pension Benefits	2015-16
	£000	£000	(to nearest £100)	(to nearest £1000)	Total £000
<b>Paul Andrews</b> Chief Executive	80-85	-	-	31	110-115
<b>Sheila McPhillips</b> Director, Civil Legal Services	60-65	-	-	24	85-90
<b>Jill Herron</b> Director, Payment Services	60-65	-	-	9	70-75
<b>Gary Archibald</b> Director, Corporate Services (until 2 October 2015)	25-30 (60-65 full year equivalent )	-	-	5	30-35
<b>Allen McCartney</b> Independent Board Member	10-15	-	200	-	10-15
<b>Professor John Morison</b> Independent Board Member	5-10	-	-	-	5-10
<b>Stephen Wooler CB</b> Independent Board Member	5-10	-	4,600	-	10-15

*\*The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation and any increase or decrease due to a transfer of pension rights.*

Mr Archibald died on 2 October 2015. Glynis Brown was appointed Director, Corporate Services as from 31 May 2016.

**Salary**

'Salary' includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation and any gratia payments.

**Benefits in kind**

The monetary value of benefits in kind covers any benefits provided by the LSA and treated by HM Revenue and Customs as a taxable emolument. The benefits in kind shown above are in respect of expenses incurred on LSA business including approved mileage claims, parking, taxis, flights, trains and accommodation. The related tax liability is met by the LSA.

**Bonuses**

There were no bonuses paid or payable during 2015-16.

**Fair pay disclosure**

	<b>2015-16</b>
<b>Band of highest paid Director's Total Remuneration*</b>	£80-85,000
<b>Median Total Remuneration*</b>	£24,728
<b>Ratio</b>	3.3

*\*Total remuneration includes salary, non-consolidated performance-related pay and benefits in kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.*

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid director in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest paid director in LSA in the financial year 2015-16 was £80-85,000. This was 3.3 times the median remuneration of the workforce, which was £24,728. In 2015-16 no employees received remuneration in excess of the highest paid director. Remuneration in 2015-16 ranged from £18,000 to £80-85,000.



**Pension entitlements***[Audited information]*

<b>Officials</b>	<b>Accrued pension at age as at 31/3/16 and related lump sum</b>	<b>Real increase in pension and related lump sum at pension age</b>	<b>CETV at 31/3/16 or as noted</b>	<b>CETV at 31/3/15</b>	<b>Real increase in CETV</b>	<b>Employer contribution to partnership pension account</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>(Nearest £100)</b>
<b>Paul Andrews</b> Chief Executive	30-35 plus 70-75 related lump sum	0-2.5	516	494	16	-
<b>Sheila McPhillips</b> Director, Civil Legal Services	30-35 plus 75-80 related lump sum	0-2.5	748	726	18	-
<b>Jill Herron</b> Director, Payment Services	30-35 plus 90-95 related lump sum	0-2.5 plus 0-2.5 related lump sum	618	575	8	-
<b>Gary Archibald</b> Director, Corporate Services (until 2 October 2015)	0-5 plus 0-5 related lump sum	0-2.5 plus 0-2.5 related lump sum	14	7	5	-

No pension benefits are provided to the Independent Board Members.

***Northern Ireland Civil Service (NICS) Pension arrangements***

Pension benefits are provided through the Northern Ireland Civil Service pension arrangements which are administered by Civil Service Pensions (CSP). On establishment of the LSA, those staff who were formerly in the Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC) pension scheme transferred to the NICS pension arrangements. A bulk transfer process is underway to transfer membership from NILGOSC to NICS pension arrangements.

Prior to the formation of the LSA, some staff were seconded to NILSC from DOJ and were members of the NICS pension arrangements. These seconded staff became LSA permanently employed staff on 1 April 2015. Of these staff, staff in post in NICS prior to 30 July 2007 may be in one of three statutory based 'final salary' defined benefit arrangements (classic, premium and classic plus). These arrangements are unfunded with the cost of benefits met by monies voted by the Assembly each year. From April 2011 pensions payable under classic, premium and classic plus are increased annually in line with changes in the Consumer Prices Index (CPI). Prior to 2011, pensions were increased in line with changes in the Retail Prices Index (RPI). New entrants joining on or after 1 October 2002 and before 30 July 2007 could choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account). New entrants joining on or after 30

July 2007 were eligible for membership of the nuvos arrangement or they could have opted for a partnership pension account. Nuvos is a 'Career Average Revalued Earnings' (CARE) arrangement in which members accrue pension benefits at a percentage rate of annual pensionable earnings throughout the period of scheme membership. The current rate is 2.3%. CARE pension benefits are increased annually in line with increases in the CPI.

A new pension scheme, alpha, was introduced for new entrants to the Civil Service Pension Scheme as from 1 April 2015. The majority of LSA staff joined alpha from that date. Members who on 1 April 2012 were within 10 years of their normal pension age did not move to alpha and those who were within 13.5 years and 10 years of their normal pension age were given a choice between moving to alpha on 1 April 2015 or at a later date determined by their age. Alpha is also a 'Career Average Revalued Earnings' (CARE) arrangement in which members accrue pension benefits at a percentage rate of annual pensionable earnings throughout the period of scheme membership. The rate will be 2.32%. CARE pension benefits are increased annually in line with increases in the CPI.

Increases to public service pensions are the responsibility of HM Treasury. Pensions are reviewed each year in line with the cost of living. Increases are applied from April and are determined by the CPI figure for the preceding September. The CPI in September 2015 was negative (-0.1%) and HM Treasury has announced that there will be no increase to public service pensions from April 2016. Therefore public service pensions will remain at their current level.

Employee contribution rates for all members for the period covering 1 April 2016 to 31 March 2017 are as follows:

#### **Scheme Year 1 April 2016 to 31 March 2017**

<b>Annualised Rate of Pensionable Earnings</b>		<b>Contribution rates - Classic members or classic members who have moved to alpha</b>	<b>Contribution rates - All other members</b>
<b>(Salary Bands)</b>			
<b>From</b>	<b>To</b>	<b>From 1 April 2016 to 31 March 2017</b>	<b>From 01 April 2016 to 31 March 2017</b>
£0	£15,000.99	3.80%	4.60%
£15,001.00	£21,210.99	4.60%	4.60%
£21,211.00	£48,471.99	5.45%	5.45%
£48,472.00	£150,000.99	7.35%	7.35%
£150,001.00 and above		8.05%	8.05%

Benefits in classic 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. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 14.7% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee

does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are at or over pension age. Pension age is 60 for members of classic, premium, and classic plus and 65 for members of nuvos. The normal pension age in alpha is linked to the member's State Pension Age but cannot be before age 65. Further details about the NICS pension arrangements can be found at the website <https://www.finance-ni.gov.uk/topics/working-northern-ireland-civil-service/civil-service-pensions-ni>.

### ***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 from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the NICS pension arrangements. 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 in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

### ***Real increase in CETV***

This reflects the increase in CETV effectively funded by the employer. It does not include 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. The actuarial factors used to calculate CETVs changed during the 2015-16 year and, consequently, CETV figures increased even without any further pension accrual. However, the real increase calculation uses common actuarial factors at the start and end of the period so that it disregards the effect of any change in factors and focuses only on the increase that is funded by the employer.

**Northern Ireland Local Government Officers' Superannuation Committee Scheme (NILGOSC)**

This Scheme is a funded multi-employer defined benefits type scheme which provides members from participating employers with benefits related to pay and service at rates which are defined under statutory regulations. To finance these benefits, funds are invested in suitable investments, and assets are accumulated in the Scheme which are held separately from the assets of employers.

The LSA came into existence on 1 April 2015 upon the dissolution of the NILSC and staff transferred to the NICS pension arrangements from this date. The NILGOSC Scheme closed on 31 March 2015 and former NILSC staff will be given the option to retain their accrued pension benefits up to 31 March 2015 in NILGOSC or transfer to NICS pension arrangements by way of a bulk transfer.

Further details regarding the closure of the NILGOSC Scheme and bulk transfer to NICS pension arrangements are contained in Notes 1.16 and 13 to the Accounts.

**Compensation on early retirement or for loss of office**

There were no compensation benefits paid by LSA to any senior staff members during the financial year.

**STAFF REPORT****Staff costs**

Staff costs comprise:

*[Audited information]*

	Note	Permanently Employed Staff*	Others	2015-16 £000 Total
Wages and salaries		3,267	-	3,267
Social security costs		259	-	259
Other pension costs		711	-	711
<b>Total Gross Costs</b>		<b>4,237</b>	<b>-</b>	<b>4,237</b>
Less recoveries in respect of outward secondments		-	-	-
<b>Total Net Costs</b>		<b>4,237</b>	<b>-</b>	<b>4,237</b>

The Northern Ireland Civil Service pension arrangements are unfunded multi-employer defined benefit schemes but the Agency is unable to identify its share of the underlying assets and liabilities. The most up to date actuarial valuation was carried out as at 31 March 2012. This valuation is then reviewed by the Scheme Actuary and updated to reflect current conditions and rolled forward to the reporting date of the DFP Superannuation and Other Allowances Annual Report and Accounts as at 31 March 2016.

For 2015-16, employers' contributions of £710,335 were payable to the NICS pension arrangements at one of four rates in the range 20.8% to 26.3% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. A new scheme funding valuation based on data as at 31 March 2012 was completed by the Actuary during 2014-15. This valuation was used to determine employer contribution rates for the introduction of alpha from April 2015. For 2016-17, the rates will range from 20.8% to 26.3%. The contribution rates are set to meet the cost of the benefits accruing during 2015-16 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £nil were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 14.7% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £nil, 0.5% of pensionable pay, were payable to the NICS pension arrangements to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the reporting period date were £nil. Contributions prepaid at that date were £nil.

Two persons retired early on ill-health grounds.

### Average number of persons employed

The average number of whole-time equivalent persons employed was as follows:

*[Audited information]*

	<b>2015-16</b>
Operational staff - permanent	112
<b>Total</b>	<b>112</b>

### Staff composition

The number of persons employed at 31 March 2016 was as follows:

	<b>Female staff</b>	<b>Male staff</b>	<b>Total staff</b>
LSA Board	2	4	<b>6</b>
Senior Civil Service	-	1	<b>1</b>
LSA Employees	82	41	<b>123</b>

### Managing attendance

Provisional outturn statistics published at the end of April 2016 indicate that the average number of working days lost in 2015-16 due to sickness absence amounted to 11.7 days per employee against the target of 9.2 days. This is an absence rate of 5.4%. Validation of the 2015-16 outturn is still required and it may be the autumn before the official Northern Ireland Statistical and Research Agency (NISRA) figure is available.

Reducing sickness absence is a high priority for the LSA. The LSA continues to proactively manage sickness absence in all instances through early intervention with absentees, regular contact with line management and engagement with Occupational Health Services (OHS) and Staff Welfare Services.

This year a Wellbeing Programme was launched by DOJ which promotes and supports health and wellbeing of staff while in work. This programme is designed to support staff to stay well in work and assist those who are off work sick to return to work as soon as possible.

## **Staff Policies**

### **Equal opportunities and diversity**

The LSA complies with NICS and DOJ policy to ensure that all eligible persons will have equal opportunity for employment and advancement on the basis of their ability, qualifications and aptitude for work. Under the policy, everyone has a right to equality of opportunity and to a good and harmonious working environment and atmosphere where they are treated with dignity and respect. The Agency aims to provide opportunities for all sections of the community and continue to strive to create an inclusive working environment in which difference is recognised and valued.

The Agency is an Equal Opportunity employer and is fully committed to the elimination of all forms of harassment, bullying, discrimination and victimisation. The Agency recognises the legal obligations under which it operates and ensures working relationships are based on mutual trust, respect and understanding. This allows the maximum potential to be made of the wide variety of skills, abilities and attributes available within the Agency.

During 2015-16 the LSA took steps to improve the knowledge and awareness of staff about equality and diversity issues. All LSA staff completed an e-learning training programme on equality and diversity. In addition, staff were encouraged to attend lunch time seminars arranged by the DOJ on equality and diversity related matters. The Agency also encourages those who are responsible for reviewing decisions to play an active role in reviewing whether decisions are compliant with the Public Sector Equality Duty (PSED) as well as being mindful of the need to have regard to equality in their own decisions.

### **Employment of disabled persons**

The LSA has adopted DOJ and NICS policies in respect of the employment, training, career development and promotion of people with a disability. As part of its welfare and support programme, LSA staff have access to a wide variety of areas of support including Carecall, DOJ Wellbeing, NI Civil Service Charity, as well as career development programmes targeted to support people with a disability.

The LSA aims to ensure that people with a disability suffer no detriment in recruitment and advancement, and that its policies and practices comply with the requirements of the Disability Discrimination Act 1995 and amendments made under the Act. The consideration and implementation of reasonable adjustments help to ensure that staff with disabilities can fully utilise their skills and abilities.

### **Learning and development**

The LSA is committed to increasing the core skills of staff in line with NICS and DOJ Corporate Training Priorities. The Agency was required to develop costed training plans for all its learning and development activities. These plans ensured accurate reporting and monitoring of learning and development activities and costs to the Board throughout the year.

All staff completed a Personal Development Plan which identified training needs for 2015-16. The LSA Divisional Training Co-Ordinator monitored progress against the Plan and issued reminders to encourage participation at the training courses identified. The LSA has focused on investing in the skills of its staff through programmes and promotion of the use of the Centre for Applied Learning (CAL). CAL provides courses and resources for developing common skills which are applicable to all areas of the NICS.

A number of initiatives and programmes were launched to assist staff, offering a variety of learning and development opportunities including:

- Autism Awareness - 15 staff attended training in Autism Awareness;
- working in conjunction with British Deaf Association, the LSA facilitated a one-day workshop for staff and members of the legal profession; these workshops will continue throughout 2016-17;
- shadowing opportunities are available to all staff who would like to experience working in other teams. They can also spend time in other government departments;
- diverse methods of training - in addition to the standard off-site training courses, training was also delivered via e-learning packages and lunch time seminars by Department experts;
- a number of staff registered for the DOJ Mentoring Programme; and
- managers within the LSA are encouraged to advise their staff to avail of the minimum of five days learning available to them each year that can be utilised in work shadowing, CAL courses, workshops and other external learning.

### **Employee involvement**

Senior management met regularly to address strategic and operational issues and to develop and monitor the Corporate Plan and Risk Register. Managers held monthly section and team meetings to communicate with staff, receive feedback, and give staff the opportunity to raise any issues for the attention of senior management. The Directors signed off a monthly record that team briefings have been held in their Directorate and provided an overview of the key points arising to the Board.

During 2015-16 the LSA published regular staff bulletins and messages from the Chief Executive. As part of his engagement with staff, the Chief Executive attended a Team Briefing in each business area in the LSA throughout 2015-16. These served as a communications framework to deliver information to staff on a timely basis and to provide LSA staff with a forum to raise matters direct with the Chief Executive.



**Expenditure on consultancy**

The LSA incurred no expenditure on consultancy during 2015-16.

**Off-payroll payments**

The LSA made no off-payroll payments in 2015-16.

**Reporting of Civil Service and other compensation schemes - exit packages**

The LSA incurred no expenditure on compulsory redundancies or other departures during 2015-16. NILSC staff who transferred to LSA on 1 April 2015 were not eligible to participate in the NICS Voluntary Exit Scheme (VES).

## **ASSEMBLY ACCOUNTABILITY AND AUDIT REPORT**

### **ASSEMBLY ACCOUNTABILITY DISCLOSURES**

#### **Regularity of expenditure**

#### ***Losses and special payments***

There were no losses or special payments that require disclosure in 2015-16.

#### ***Statutory Charge Losses***

A statutory charge system exists whereby if someone gains or keeps money or property with the help of legal aid in a civil case, they may have to repay all or some of their legal costs out of that money or property - if their costs are not recovered from their opponent. Historically, the transfers of both money and property in these cases are treated as being exempt from the statutory charge.

In the year to 31 March 2016, the LSA has not incurred a loss on any debt against which it holds a statutory charge.

#### **Remote Contingent Liabilities**

There were no contingent liabilities requiring disclosure under Assembly reporting requirements. The Agency had no significant remote contingent liabilities during 2015-16 that require disclosure. Note 15 provides further details regarding the contingent liabilities that are included within the financial statements.

#### **Long-term expenditure trends**

The charts below show:

- **Chart 1:** the movement in the Department of Justice unringfenced Resource DEL opening baseline over the period 2013-14 to 2016-17; and
- **Chart 2:** the 2016-17 budget split by the Core Department, Executive Agencies (including the LSA) and Non-Departmental Public Bodies. For Forensic Science NI, this shows the net income received from the Department.

Chart 1: DOJ unringfenced Resource DEL opening baseline

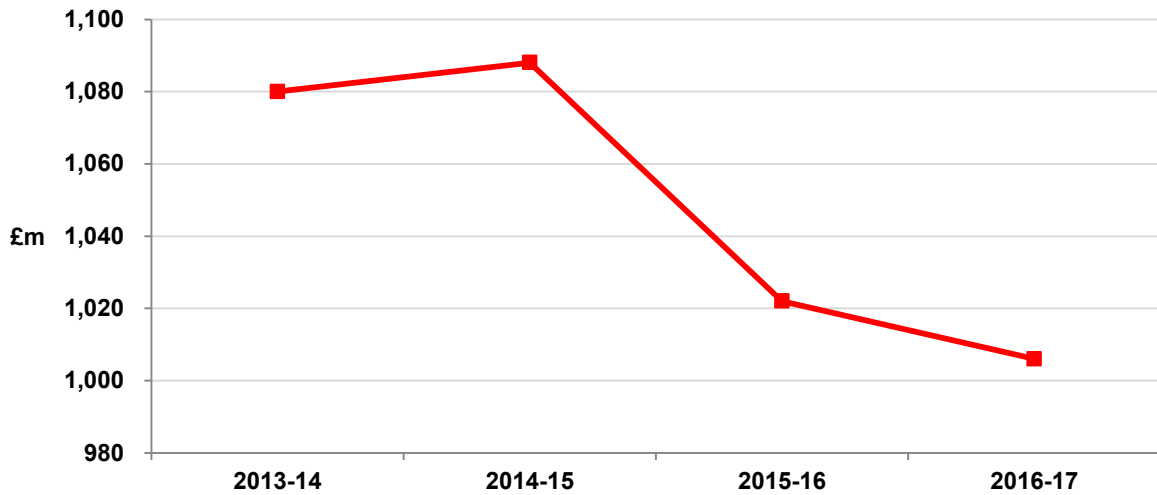
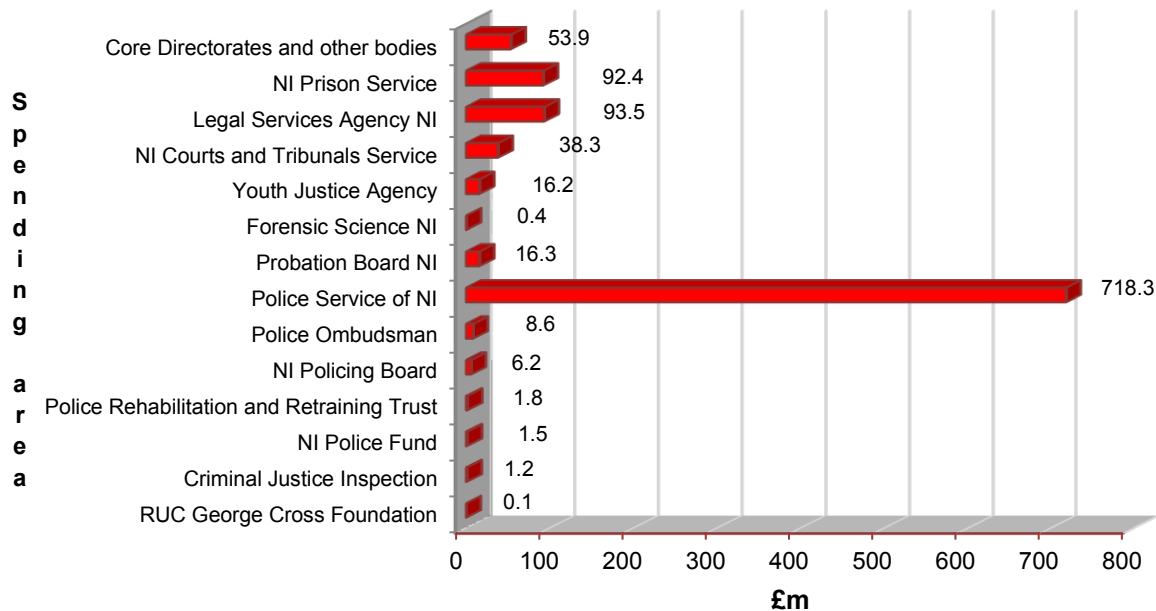


Chart 2: DOJ 2016-17 unringfenced Resource DEL budget



**2013-14 and 2014-15 financial years**

Budgets for these years were set as part of the four year Budget 2011-15 period. During this period, covering the financial years 2011-12 to 2014-15, the DOJ was ringfenced. That did not mean that the budget was protected. Instead, the Department received the direct Barnett consequential from changes in the funding levels of the Home Office and Ministry of Justice as a result of the UK spending review settlement for Whitehall departments.

The DOJ's unringfenced Resource Departmental Expenditure Limit (DEL) fell by 7.2% from 2011-12 to 2014-15. Taking into account the effect of inflation, the real terms impact was significantly greater.

During this period the budget for the Northern Ireland Legal Service Commission (now the Legal Services Agency Northern Ireland) fell by 11.0%, taking into account baseline cuts and a reduction in additional funding for legal aid pressures by £6m from 2013-14 onwards.

### **2015-16 financial year**

In 2015-16 the DOJ ringfence was removed. The starting point for the Department's budget was a 15.1% cut against the 2014-15 baseline - a cut equivalent to £165m. The Executive then provided an allocation of £90m, equivalent to 6.4%. In total, PSNI received £65m of the £90m with the balance allocated to priority areas.

In setting opening 2015-16 budgets, the Legal Service Agency's budget increased by 10.5%, taking into account baseline cuts and additional funding allocated towards legal aid pressures.

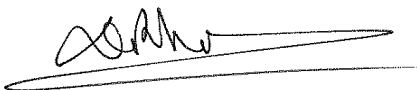
### **2016-17 financial year**

The 2016-17 Budget outcome for the Department is summarised below:

- with the exception of PSNI, the starting point for all DOJ spending areas was a reduction of 5.7% from 2015-16 opening baselines;
- the reduction to the core PSNI budget was limited to 2%;
- £32m of additional security funding for the PSNI was provided from the 'Fresh Start' Agreement;
- in recognition of the ongoing pressures facing the Department in respect of legal aid, an allocation of £15m has been provided by the Executive; and
- additional Voluntary Exit Scheme (VES) funding of £12.4m.

Taking into account the above outcome, and in line with Ministerial priorities, the Legal Service Agency's budget increased by 12.4% taking into account baseline cuts and the additional £15m funding for legal aid pressures.

## **ACCOUNTABILITY REPORT**



**Paul Andrews**  
**Chief Executive and Accounting Officer**  
**24 June 2016**

## **THE CERTIFICATE OF THE COMPTROLLER AND AUDITOR GENERAL TO THE NORTHERN IRELAND ASSEMBLY**

I certify that I have audited the financial statements of the Legal Services Agency Northern Ireland for the year ended 31 March 2016 under the Government Resources and Accounts Act (Northern Ireland) 2001. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report and the Assembly Accountability disclosures that is described in these reports as having been audited.

### **Respective responsibilities of the Accounting Officer and auditor**

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Legal Services Agency Northern Ireland's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Legal Services Agency Northern Ireland; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by the Assembly and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### **Basis for qualified opinion on regularity**

My examination found material weaknesses in controls over fraud prevention and detection at the Legal Services Agency Northern Ireland. The Legal Services Agency Northern Ireland was unable to provide sufficient evidence to enable me to conclude that a material amount of legal aid expenditure had not been fraudulently claimed. There were no additional audit procedures that I could undertake to provide me with assurance as to the regularity of this expenditure. The scope of my audit was therefore limited in

this respect and I am not able to form an opinion on whether all of the expenditure on legal aid, totalling £98.5 million, was in accordance with the purposes intended by the Assembly and that these financial transactions conformed to the authorities which governed them.

### **Qualified opinion on regularity**

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

### **Basis for qualified opinion on financial statements**

Provision for legal aid liabilities totalling £126.8 million has been made in the financial statements for the estimated costs required to settle the costs incurred on legal aid cases. However the Legal Services Agency Northern Ireland was unable to provide sufficient evidence to support management information used to determine a number of key assumptions and judgements it used to estimate these provisions. Consequently, I was unable to determine the full extent of the adjustments necessary to the provision for legal aid liabilities, although I have been able to estimate the impact of some of these issues which have led to a net understatement estimated between £9 million and £33 million.

Legislation came into effect in October 2012 which provided for orders for the recovery of defence costs to be made against legally aided defendants who have been convicted in the Crown Court. The Legal Services Agency Northern Ireland has been unable to provide me with sufficient evidence to identify criminal legal aid cases suitable for orders for the recovery of defence costs. Consequently, I was unable to determine if a material amount of recoverable income has been excluded from the accounts.

### **Qualified opinion on financial statements**

In my opinion, except for any possible effects of material misstatement in the provision for legal aid liabilities which has arisen as outlined above and any material misstatement in income that may have arisen from the Legal Services Agency Northern Ireland not fully implementing the legislation to allow for the recovery of defence costs in criminal legal aid cases, the financial statements:

- give a true and fair view of the state of the Legal Services Agency Northern Ireland's affairs as at 31 March 2016 and of the net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and Department of Finance (formerly Department of Finance and Personnel) directions issued thereunder.

## Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and the Assembly Accountability disclosures to be audited have been properly prepared in accordance with Department of Finance directions made under the Government Resources and Accounts Act (Northern Ireland) 2001; and
- the information given in the Performance Report and the Corporate Governance Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which I report by exception

I have not received all of the information and explanations that I considered necessary to confirm: the regularity of payments to legal professionals referred to above; the appropriateness of certain assumptions used in the calculation of legal aid provisions; and the completeness of income for the recovery of defence costs in criminal legal aid cases.

Adequate accounting records have not been kept in relation to the calculation of legal aid provisions; and the completeness of income for the recovery of defence costs in criminal legal aid cases.

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

- the financial statements and the parts of the Remuneration and Staff Report and Assembly Accountability disclosures to be audited are not in agreement with the accounting records; or
- the Governance Statement does not reflect compliance with Department of Finance's guidance.

## Report

My report on those matters subject to qualification is included on pages 83 to 89.



KJ Donnelly  
Comptroller and Auditor General  
Northern Ireland Audit Office  
106 University Street  
Belfast  
BT7 1EU

30 June 2016

**FINANCIAL STATEMENTS****Statement of Comprehensive Net Expenditure****For the year ended 31 March 2016**

This account summarises the expenditure and income generated and consumed on an accruals basis. It also includes other comprehensive income and expenditure, which include changes to the values of non-current assets and other financial instruments that cannot yet be recognised as income or expenditure.

	<b>Note</b>	<b>2015-16 £000</b>
Income from sale of goods and services	6	(3)
Other operating income	6	(2,912)
<b>Total operating income</b>		<b>(2,915)</b>
Staff costs	4	4,237
Purchase of goods and services	5	4,658
Depreciation and impairment charges	5	241
Provision expense	5	98,304
Grants	5	66
<b>Total operating expenditure</b>		<b>107,506</b>
<b>Net operating expenditure</b>		<b>104,591</b>
Finance expense	5	4
<b>Net expenditure for the year</b>		<b>104,595</b>
<b>Non-operating activities</b>		
Net (gain)/loss on liabilities transferred	3	122,502
<b>Other comprehensive net expenditure</b>		
Items that will not be reclassified to Net operating expenditure:		
- net (gain)/loss on revaluation of property, plant and equipment	7	-
- net (gain)/loss on revaluation of intangibles	8	-
- actuarial (gain)/loss on pension liability	13	(422)
<b>Comprehensive net expenditure for the year</b>		<b>226,675</b>

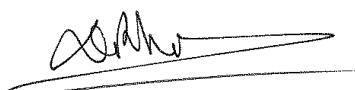
The notes on pages 55 to 82 form part of these Accounts.



**Statement of Financial Position****As at 31 March 2016**

This statement presents the financial position of the LSA. It comprises three main components: assets owned or controlled; liabilities owed to other bodies; and equity, the remaining value of the entity.

	Note	2015-16 £000
<b>Non-current assets</b>		
Property, plant and equipment	7	14
Intangible assets	8	136
Trade and other receivables	11	2
<b>Total non-current assets</b>		<b>152</b>
<b>Current assets</b>		
Trade and other receivables	11	1,899
Cash and cash equivalents	10	43
<b>Total current assets</b>		<b>1,942</b>
<b>Total assets</b>		<b>2,094</b>
<b>Current liabilities</b>		
Trade and other payables	12	(2,577)
Provisions	13	(49,101)
<b>Total current liabilities</b>		<b>(51,678)</b>
<b>Total assets less current liabilities</b>		<b>(49,584)</b>
<b>Non-current liabilities</b>		
Provisions	13	(78,348)
<b>Total non-current liabilities</b>		<b>(78,348)</b>
<b>Total assets less total liabilities</b>		<b>(127,932)</b>
<b>Taxpayers' equity and other reserves</b>		
General fund		(127,933)
Revaluation reserve		1
<b>Total equity</b>		<b>(127,932)</b>



**Paul Andrews**  
Chief Executive and Accounting Officer

**24 June 2016**

The notes on pages 55 to 82 form part of these Accounts.

## Statement of Cash Flows

### For the year ended 31 March 2016

The Statement shows the changes in cash and cash equivalents of the LSA during the reporting period. The statement shows how the LSA generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of service costs and the extent to which these operations are funded by way of income from the recipients of services provided by the LSA. Investing activities represent the extent to which cash inflows and outflows have been made for resources which are intended to contribute to the LSA's future public service delivery.

	Note	2015-16 £000
<b>Cash flows from operating activities</b>		
Net expenditure for the year		(104,595)
Adjustment for non-cash transactions	5	100,745
(Increase)/decrease in trade and other receivables	11	(1,901)
<i>Movement in receivables relating to items not passing through the SCNE</i>	11	(1,262)
Increase in trade and other payables	12	2,577
<i>Movement in payables relating to items not passing through the SCNE</i>	12	(5)
Use of provisions	13	(91,957)
Machinery of government transfer	3	(1,380)
<b><i>Net cash outflow from operating activities</i></b>		<b><u>(97,778)</u></b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment		-
Purchase of intangible assets		16
<b><i>Net cash outflow from investing activities</i></b>		<b><u>16</u></b>
<b>Cash flows from financing activities</b>		
Net Assembly Funding		97,805
<b><i>Net financing</i></b>		<b><u>97,805</u></b>
<b>Net (decrease)/increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>		<b>43</b>
Receipts due to the Consolidated Fund which are outside the scope of the Agency's activities		1
Payments of amounts due to the Consolidated Fund		(1)
<b>Net (decrease)/increase in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>		<b><u>43</u></b>
<b>Cash and cash equivalents at the beginning of the period</b>	10	<b><u>-</u></b>
<b>Cash and cash equivalents at the end of the period</b>	10	<b><u>43</u></b>

The notes on pages 55 to 82 form part of these Accounts.

**Statement of Changes in Taxpayers' Equity****For the year ended 31 March 2016**

This statement shows the movement in the year on the different reserves held by LSA, analysed into 'general fund reserves' (i.e. those reserves that reflect a contribution from the Consolidated Fund). The Revaluation Reserve reflects the change in asset values that have not been recognised as income or expenditure. The General Fund represents the total assets less liabilities of the LSA, to the extent that the total is not represented by other reserves and financing items.

	Note	General Fund £000	Revaluation Reserve £000	Taxpayers' Equity £000
Net Assembly Funding		97,805	-	97,805
Comprehensive net expenditure for the year		(226,678)	3	(226,675)
Auditor's remuneration	5	60	-	60
Other notionals	5	878	-	878
Transfer between reserves		2	(2)	-
<b>Balance at 31 March 2016</b>		<b>(127,933)</b>	<b>1</b>	<b>(127,932)</b>

The notes on pages 55 to 82 form part of these Accounts.

## Notes to the Accounts

### 1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2015-16 *Government Financial Reporting Manual (FReM)* issued by the Department of Finance and Personnel. The accounting policies contained in the *FReM* apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the *FReM* permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the LSA for the purpose of giving a true and fair view has been selected. The particular policies adopted by the LSA are described below. They have been applied consistently in dealing with items that are considered material to the Accounts.

#### 1.1 Accounting convention

These Accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment, intangible assets and certain financial assets and liabilities.

The Accounts are stated in sterling, which is the LSA's functional and presentational currency. Unless otherwise noted, the amounts shown in these financial statements are in thousands of pounds sterling (£000).

#### 1.2 Going concern

The LSA is an Executive Agency within the Department of Justice (DOJ) having been established on 1 April 2015 upon the dissolution of the Northern Ireland Legal Services Commission (NILSC) under the Legal Aid and Coroners' Courts Act (Northern Ireland) 2014. The future financing of the LSA's activities is expected to be met by the DOJ from funds which are voted annually under the relevant Budget Act. The LSA takes the view that the going concern concept applies as long as the provisions of the Legal Aid and Coroners' Courts Act (Northern Ireland) 2014 remain extant.

#### 1.3 Property, plant and equipment

Expenditure on property, plant and equipment of over £1,000 is capitalised. Where material the grouping of a range of property, plant and equipment has also been undertaken in respect of some personal computers, printers, office furniture and equipment.

On initial recognition property, plant and equipment are measured at cost including any expenditure, such as installation, directly attributable to bringing them into working condition. Items classified as "under construction" are recognised in the Statement of Financial Position to the extent that money has been paid or a liability has been incurred. In compliance with IAS 16 *Property, Plant and Equipment*, subsequent expenditure on an asset which does not meet the criteria of enhancement or improvement is treated as revenue.

All property, plant and equipment are carried at fair value.

## 1.4 Intangible assets

Expenditure on computer software licenses lasting more than one year and costing more than £1,000 is capitalised and classified as intangible assets.

All intangible assets are carried at fair value. Software licences are revalued annually using appropriate indices provided by the Office for National Statistics.

## 1.5 Revaluation Reserve

Upward revaluations are credited to the Revaluation Reserve and permanent reductions in the value of property, plant and equipment are charged to the Statement of Comprehensive Net Expenditure. Any subsequent revaluation of assets is credited to the Statement of Comprehensive Net Expenditure to the extent that it reverses previous revaluation decreases recognised as an expense.

## 1.6 Depreciation and amortisation

All property, plant and equipment and intangible assets are depreciated/amortised at rates calculated to write them down to estimated residual value on a straight-line basis over their estimated useful lives. Assets in the course of construction are depreciated from the point when the asset is brought into use.

Estimated useful lives, which are reviewed regularly, are:

<b>Asset category</b>	<b>Useful Life</b>
Plant and machinery	3 - 25 years
Information technology	3 - 16 years
Intangible assets (software and licences)	1 - 10 years

Software licences are amortised over the shorter of the term of the licence and the useful economic life.

## 1.7 Realised Element of Depreciation from Revaluation Reserve

Depreciation is charged to expenditure on the revalued amount of property, plant and equipment. An element of depreciation therefore arises due to the increase in valuation and is in excess of the depreciation that would be charged on the historical cost of assets. The amount relating to this excess is a realised gain on disposal and is transferred from the Revaluation Reserve to the General Fund.

## 1.8 Value Added Tax

Where output VAT is charged or input VAT is recoverable, the amounts are stated net of VAT. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of property, plant and equipment and intangible assets. VAT is recoverable on a Departmental basis.

## 1.9 Provisions

Provision is made for legal or constructive obligations, which are of uncertain timing or amount at the reporting date, on the basis of the best estimate of the expenditure required to settle the obligation.

Further details are contained in Note 1.22 and 13 regarding the 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.

## 1.10 Contingent liabilities

In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the LSA discloses as contingent liabilities, potential future obligations arising from past obligating events where the existence of such obligations remain uncertain pending the outcome of future events outside the LSA's control, unless their likelihood is considered to be remote.

In addition, the LSA discloses for Assembly reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to the Assembly in accordance with the requirements of Managing Public Money Northern Ireland.

Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to the Assembly separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to the Assembly.

## 1.11 Third-party assets

Third-party assets are assets for which the LSA acts as custodian or trustee, but in which neither the LSA nor Government more generally has a direct beneficial interest. Third-party assets are not public assets, and hence are not recorded in the primary financial statements.

Awards for damages to funded clients may be required by the LSA to offset any liability to the costs for legal aid. The LSA placed these funds on deposit until the liability, if any, was determined and any excess of damages paid to the funded client. These funds were accounted for as funds held on behalf of third parties and therefore only appear in the notes of these Accounts (see Note 17).

## 1.12 Financing

The LSA is primarily resourced by funds approved by the Assembly through the annual Supply process. Resources are drawn down each month to meet expenditure requirements and are credited to the General Fund.

### 1.13 Classification of Income and Expenditure

The Statement of Comprehensive Net Expenditure for the LSA only includes programme income and expenditure.

Programme expenditure includes costs for publicly funded legal services, grants and other disbursements. The classification of income or expenditure as programme follows the definition set by the Department of Finance (DoF).

### 1.14 Income

Income is accrued and accounted for in the period in which it was earned in the Statement of Comprehensive Net Expenditure. Operating income is income which relates directly to the operating activities of the LSA including contributions towards legal aid costs, costs recovered from clients and, where appropriate, damages awarded.

### 1.15 Staff costs

Under IAS19 (revised) *Employee Benefits*, all staff costs must be recorded as an expense as soon as the organisation is obligated to pay them. This includes the costs of any untaken leave as at the reporting date. The cost of untaken leave has been determined from a sample of staff leave records.

### 1.16 Pension costs

Prior to 1 April 2015, the Northern Ireland Legal Services Commission (NILSC) participated in the Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC) Scheme which is a multi-employer pension scheme. Membership of the scheme was optional for NILSC employees.

The scheme was a defined benefit scheme and the underlying assets and liabilities were disclosed in the Statement of Financial Position. 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, was disclosed as a liability on the Statement of Financial Position. The Scheme closed on 31 March 2015 when LSA members of staff became deferred members of NILGOSC. Former staff of NILSC will be given the option to retain their accrued pension benefits up to 31 March 2015 in NILGOSC or transfer to NICS pension arrangements by way of a bulk transfer.

From 1 April 2015, employees of the LSA are covered by the provisions of the NICS pension arrangements. These defined benefit schemes are unfunded. The LSA recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the NICS pension arrangements of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the NICS pension arrangements. In respect of defined contribution schemes, the LSA recognises the contributions payable for the year.

Further details regarding the above schemes are contained in the Remuneration and Staff Report and Note 13 to the Accounts.

### **1.17 Operating Leases**

Leases where substantially all of the risks and rewards are held by the lessor are classified as operating leases. Rentals are charged to the Statement of Comprehensive Net Expenditure on a straight-line basis over the period of the lease.

### **1.18 Grants Payable**

Grants payable are recorded as expenditure in the period that the underlying event or activity giving entitlement to the grant occurs. Grants related to activity occurring over a specific time period, usually a financial year are recorded as expenditure for that period.

### **1.19 Notional charges**

Notional charges, in respect of services received from DOJ, other Government departments and agencies, are included to reflect the full economic cost of services.

### **1.20 Segmental Reporting**

Under the requirements of IFRS 8 *Operating Segments*, the LSA must disclose information to enable users of the financial statements to evaluate the nature and financial effects of the business in which it engages and the economic environment in which it operates. 'Total Assets' are only required to be disclosed in reporting segments where total assets for segments are regularly reported to the Chief Operating Decision Maker. As total assets for segments are not regularly reported to the Chief Operating Decision Maker the LSA has adopted this option. This does not have a material impact on the LSA's financial statements. Full details of the reporting segments are contained within Note 2.



## 1.21 Financial Instruments

### Recognition and de-recognition of financial assets and financial liabilities

A financial instrument is defined as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. A financial instrument is recognised when the LSA becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the LSA no longer has rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expires.

#### Financial assets

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term (held for trading) or if so designated by management. Financial assets held in this category are initially recognised and subsequently measure at fair value, with changes in value recognised in the income statement in the line which most appropriately reflects the nature of the item or transaction.

#### *Trade and other receivables*

Financial assets within trade and other receivables are initially recognised at fair value, which is usually the original invoiced amount and subsequently carried at amortised cost using the effective method less provisions for doubtful receivables. Provisions are made specifically where there is objective evidence of a dispute or inability to pay.

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash in hand and current balances with banks which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less.

For the purposes of the Statement of Cash Flows, cash and cash equivalents are as defined above net of outstanding bank overdrafts.

#### *Impairment of financial assets*

The LSA assesses at each reporting date whether a financial asset or group of financial assets are impaired. Where there is objective evidence that an impairment loss has arisen on assets carried at amortised cost, the carrying amount is reduced with the loss being recognised in the Statement of Comprehensive Net Expenditure. The impairment loss is measured as the difference between that asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is only reversed if it can be related objectively to an event after the impairment was recognised and is reversed to the extent that carrying value of the asset does not exceed its amortised cost at the date of reversal.

Impairment losses are assessed individually for financial assets that are individually significant and individually or collectively for assets that are not individually significant. In making collective assessment of impairment, financial assets are grouped into portfolios on the basis of similar risk characteristics. Future cash flows from these portfolios are estimated on the basis of the contractual cash flows and historical loss experience for assets with similar risk characteristics.

Impairment losses are recognised in the Statement of Comprehensive Net Expenditure and the carrying amount of the financial asset or group of financial assets reduced by establishing an allowance for impairment losses. If in a subsequent period the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance. If a financial asset is deemed unrecoverable, the amount of the asset is reduced directly and the impairment loss recognised in the Statement of Comprehensive Net Expenditure to the extent a provision was not previously recognised.

## **Financial Liabilities**

### ***Trade and other payables***

Financial liabilities within trade and other payables are initially recognised at fair value, which is usually the original invoiced amount, and subsequently carried at amortised cost using the effective interest method.

## 1.22 Critical accounting estimates and key judgements

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the LSA's accounting policies. The LSA continually evaluates its estimates, assumptions and judgements based on available information and experience. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates. The estimates and assumptions which have the most significant risk of causing a material adjustment to the carrying amounts are discussed below.

### ***Legal Aid Provisions***

The LSA continually evaluates its estimates, assumptions and judgements for the calculation of legal aid provisions based on available information and experience.

There are a number of key assumptions applied in the calculation of the provisions which are detailed below:

- lifecycle of certificates - an analysis of the reports authorised for payment, aged to the certificate granted date to determine a lifecycle per certificate within each business area of the LSA;
- average costs - an analysis of the total costs and total certificates by category within each business area to apply an average cost being applied per certificate in the calculation of the provisions; and
- no bills adjustments - it is known that not all certificates result in a cost to the legal aid fund and an analysis of historical data determines a percentage reduction which is then incorporated in the provisions calculations.

### ***Pension and other post retirement benefits***

The LSA accounts for pension and other post retirement benefits in accordance with IAS 19 *Employee Benefits*. In determining the pension cost and the defined benefit obligation of the pension schemes a number of assumptions are used which include the discount rate, salary growth, price inflation, the expected return on the schemes' investments and mortality rates.

### ***Depreciation of property, plant and equipment and amortisation of intangible assets***

Depreciation and amortisation is provided in the Accounts so as to write-down the respective assets to their residual values over their expected useful lives and as such the selection of the estimated useful lives and the expected residual values of the assets requires the use of estimates and judgements. Details of the estimated useful lives are as shown in Note 1.6.

Other than as noted above, no material accounting estimates or judgements were made by LSA in preparing these accounts.

### 1.23 Accounting standards, interpretations and amendments to published standards and *FReM* - issued and effective in 2015-16 for the first time

Standard	Comments
IFRS 13 - <i>Fair Value Measurement</i> (new)	<p>IFRS 13 has been prepared to provide consistent guidance on fair value measurement for all relevant balances and transactions covered by IFRS (except where IFRS 13 explicitly states otherwise). The Standard defines fair value, provides guidance on fair value measurement techniques, and sets out the disclosure requirements.</p> <p>Although IFRS 13 is applied without adaptation, IAS 16 <i>Property, Plant and Equipment</i> and IAS 38 <i>Intangible assets</i> have been adapted and interpreted for the public sector context to limit the circumstances in which a valuation is prepared under IFRS 13.</p> <p>IAS 16 is adapted to specify the valuation bases for assets which are held for their service potential (i.e. operational assets) and assets which were most recently held for their service potential but are surplus.</p> <p>IAS 38 has been adapted for the public sector dependent on whether or not an active (homogeneous) market exists.</p>

### 1.24 Accounting standards, interpretations and amendments to published standards not yet effective

In addition, certain new standards, interpretations and amendments to existing standards have been published that are mandatory for the LSA's accounting periods beginning on or after 1 April 2016 or later periods, but which the LSA has not adopted early. Other than as outlined in the below, the LSA considers that these standards are not relevant or material to its operations.

<b>Standard</b>	IFRS 15 - <i>Revenue from Contracts with Customers</i> (IAS 18 <i>Revenue</i> replacement) (new)
<b>Effective date</b>	1 January 2018 (not yet EU adopted) - with a view to include in the 2018-19 <i>FReM</i> .
<b>Description of revision</b>	<p>The core principle recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled, in exchange for those goods or services. The Standard sets out five steps to recognise revenue and also includes requirements for accounting for contract costs.</p> <p>The disclosure objective of the new Standard is to establish the application principles required for entities to report useful information to the users of financial statements to better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.</p>
<b>Comments</b>	The introduction of IFRS 15 is subject to analysis and review by HM Treasury and the other Relevant Authorities. HM Treasury will be issuing an Exposure Draft on IFRS 15 over the Summer of 2016.

<b>Standard</b>	IFRS 16 - <i>Leases</i> (IAS 17 <i>Leases</i> replacement) (new)
<b>Effective date</b>	1 January 2019 (not yet EU adopted) - with a view to include in the 2019-20 <i>FReM</i> .
<b>Description of revision</b>	<p>IFRS 16 has been developed by the IASB with the aim of improving the financial reporting of leasing activities in light of criticisms that the previous accounting model for leases failed to meet the needs of users of financial statements.</p> <p>IFRS 16 largely removes the distinction between operating and finance leases for lessees by introducing a single lessee accounting model that requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. This is a significant change in lessee accounting.</p>
<b>Comments</b>	The introduction of IFRS 16 is subject to analysis and review by HM Treasury and the other Relevant Authorities. HM Treasury will issue an Exposure Draft on IFRS 16 in advance of the effective date.

### 1.25 Financial Reporting - Future Developments

The LSA has considered the accounting initiatives identified by HM Treasury for which the Standards are under development and considers that these changes are not relevant or material to its operations.

## 2. Statement of Operating Costs by Operating Segment

The following operating segments are reported to the LSA Board for financial management purposes:

- **Civil Legal Services** - provides legal representation in civil court proceedings, primarily in the County Court and High Court and allows someone to obtain legal representation by a solicitor and barrister, either to bring or to defend a court case; and
- **Criminal Legal Aid** - provides legal representation by a solicitor and barrister to defend someone charged with criminal offences in a magistrates' courts or Crown Court.

	Civil Legal Services	Criminal Legal Aid	2015-16
			£000
			Total
Gross expenditure	50,521	56,989	107,510
Income	(2,915)	-	(2,915)
<b>Net expenditure</b>	<b>47,606</b>	<b>56,989</b>	<b>104,595</b>

### 2.1 Reconciliation between Operating Segments and Statement of Comprehensive Net Expenditure

	Civil Legal Services	Criminal Legal Aid	2015-16
			£000
			Total
Total net expenditure reported for Operating Segments	47,606	56,989	104,595
Reconciling items	-	-	-
<b>Total net expenditure per Statement of Comprehensive Net Expenditure</b>	<b>47,606</b>	<b>56,989</b>	<b>104,595</b>

### 2.2 Reconciliation between Operating Segments and Consolidated Statement of Financial Position

'Total Assets' are only required to be disclosed in reporting segments where total assets for segments are regularly reported to the Chief Operating Decision Maker. As total assets for segments are not regularly reported to the Chief Operating Decision Maker, the LSA has adopted this option. This does not have a material impact on the LSA's financial statements.

### 3. Net (gains)/losses on assets transferred

Following the dissolution of the Northern Ireland Legal Services Commission (NILSC), the Legal Services Agency Northern Ireland was established on 1 April 2015 as an Executive Agency within the Department of Justice (DOJ). In addition, the functions for Criminal Appeals were transferred to the LSA on 1 April 2015 from the DOJ.

In accordance with IFRS 3 *Business Combinations under Common Control*, both of these transfers have been accounted for as a 'transfer by absorption' in the LSA's Accounts for 2015-16 and comparative figures for 2014-15 have therefore not been disclosed.

The following assets and liabilities were transferred as a result of these machinery of government changes on 1 April 2015:

<u>Statement of Financial Position</u>	<b>Transfer from NILSC £000</b>	<b>Transfer from DOJ £000</b>	<b>1 April 2015 Total £000</b>
<b>Non-current assets</b>			
Property, plant and equipment	153	-	153
Intangible assets	249	-	249
<b>Current assets</b>			
Trade and other receivables	1,463	-	1,463
Cash and cash equivalents	37	-	37
<b>Current liabilities</b>			
Trade and other payables	(2,270)	(610)	(2,880)
Provisions	(57,137)	(397)	(57,534)
<b>Non-current liabilities</b>			
Provisions	(63,990)	-	(63,990)
<b>Total assets less total liabilities</b>	<b>(121,495)</b>	<b>(1,007)</b>	<b>(122,502)</b>
<b>Taxpayers' equity and other reserves</b>			
General Fund	(121,498)	(1,007)	(122,505)
Revaluation Reserve	3	-	3
<b>Total equity</b>	<b>(121,495)</b>	<b>(1,007)</b>	<b>(122,502)</b>

The Machinery of Government transfer included under Cash flows from operating activities in the Statement of Cash Flows comprises:

	<b>Transfer from NILSC</b>	<b>Transfer from DOJ</b>	<b>Total</b>
Trade and other receivables	1,463	-	1,463
Cash and cash equivalents	37	-	37
Trade and other payables	(2,270)	(610)	(2,880)
	<b>(770)</b>	<b>(610)</b>	<b>(1,380)</b>

**4. Staff costs**

	<b>2015-16</b>
	<b>£000</b>
	<b>Total</b>
Wages and salaries	3,267
Social security costs	259
Other pension costs	711
<b>Total Gross Costs</b>	<b>4,237</b>
Less recoveries in respect of outward secondments	-
<b>Total Net Costs</b>	<b>4,237</b>

Further details regarding the above costs for permanent staff can be found in the Staff Report within the Accountability Report.



## 5. Programme costs

	Note	2015-16 £000
<b>Purchase of goods and services</b>		
Staff related costs		14
Rentals under operating leases		315
Accommodation costs		305
Office services		220
Contracted out services		50
Professional costs		618
Managed services		233
Appeals Panel and Board member costs		197
Programme operating costs		253
Other		253
		<b>2,458</b>
<b>Non-cash items:</b>		
Auditor's remuneration and expenses		60
Notional charges		412
Intra-departmental notional charges		466
(Decrease)/increase in impairment of trade receivables	11	1,262
		<b>2,200</b>
		<b>4,658</b>
<b>Depreciation and impairment charges</b>		
Depreciation	7	140
Amortisation	8	101
		<b>241</b>
<b>Provisions expense</b>		
Provided in year	13	147,463
Written back in year	13	(49,189)
Borrowing costs	13	30
		<b>98,304</b>
<b>Grants</b>		
		<b>66</b>
<b>Total Programme costs excluding Finance expense</b>		
		<b>103,269</b>
<b>Finance expense</b>		
		<b>4</b>
<b>Total Programme costs including Finance expense</b>		
		<b>103,273</b>

**5. Programme costs (continued)****Summary of Non-cash costs**

	<b>Note</b>	<b>2015-16 £000</b>
Purchase of goods and services	5	2,200
Depreciation and impairment charges	7, 8	241
Provision expense	13	98,304
		<b>100,745</b>

**6. Income**

	<b>2015-16 £000</b>
<b>Sales of goods and services</b>	<b>3</b>
<b>Other operating income</b>	
Contributions and statutory charges	2,912
	<b>2,912</b>
<b>Total operating income</b>	<b>2,915</b>

## 7. Property, plant and equipment

	Plant and Machinery £000	Information Technology £000	2015-16 Total £000
<b>Cost or valuation</b>			
Machinery of government transfer on 1 April 2015	1,210	1,561	2,771
Additions	1	-	1
Disposals	(36)	(1,554)	(1,590)
Transfers	-	-	-
Reclassification	-	-	-
Revaluation released to SCNE	-	-	-
Revaluation	-	-	-
<b>At 31 March 2016</b>	<b>1,175</b>	<b>7</b>	<b>1,182</b>
<b>Depreciation</b>			
Machinery of government transfer on 1 April 2015	1,198	1,420	2,618
Charged in year	4	136	140
Disposals	(36)	(1,554)	(1,590)
Transfers	-	-	-
Reclassification	-	-	-
Revaluation released to SCNE	-	-	-
Revaluation	-	-	-
<b>At 31 March 2016</b>	<b>1,166</b>	<b>2</b>	<b>1,168</b>
<b>Carrying amount at 31 March 2016</b>	<b>9</b>	<b>5</b>	<b>14</b>
<b>Asset financing:</b>			
Owned	9	5	14
<b>Carrying amount at 31 March 2016</b>	<b>9</b>	<b>5</b>	<b>14</b>

Property, plant and equipment were adjusted to their current value by reference to the appropriate indices compiled by the Office for National Statistics.

**8. Intangible assets**

	<b>2015-16 Software and Licences £000</b>
<b>Cost or valuation</b>	
Machinery of government transfer on 1 April 2015	1,885
Additions	(12)
Disposals	(588)
Reclassification	-
Revaluation released to SCNE	-
Revaluation	-
<b>At 31 March 2016</b>	<b>1,285</b>
<b>Amortisation</b>	
Machinery of government transfer on 1 April 2015	1,636
Charged in year	101
Disposals	(588)
Reclassification	-
Revaluation released to SCNE	-
Revaluation	-
<b>At 31 March 2016</b>	<b>1,149</b>
<b>Carrying amount at 31 March 2016</b>	<b>136</b>
<b>Asset financing:</b>	
Owned	136
<b>Carrying amount at 31 March 2016</b>	<b>136</b>

Intangible assets were adjusted to their current value by reference to the appropriate indices compiled by the Office for National Statistics.

## 9. Financial Instruments

IFRS 7 *Financial Instruments: Disclosures* requires disclosure that enables evaluation of the significance of financial instruments for the LSA's financial position and performance, the nature and extent of risks arising from financial instruments to which the LSA is exposed during the period and at the reporting date, and how the LSA manages those risks. As a result of the non-trading nature of its activities and the way in which agencies are financed, the LSA is not exposed to the degree of financial risk faced by business entities.

The LSA has no powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change risks facing the LSA in undertaking its activities.

### ***Classification of financial instruments***

All LSA financial instruments are measured at amortised cost. The LSA's financial assets comprise trade and other receivables (Note 11) and cash and cash equivalents (Note 10). The LSA's financial liabilities comprise trade and other payables and accruals and deferred income (Note 12). The carrying value of these financial assets and liabilities, as disclosed in the notes to the Accounts, approximates to fair value because of their short maturities. The LSA recognises the components of net gain/loss through the Statement of Comprehensive Net Expenditure. Interest on financial instruments is recognised in finance costs under Programme Costs in Note 5.

### ***Credit risk***

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to pay for its obligation. The LSA is exposed to credit risk in relation to the carrying amounts of the trade receivables carried in the statement of financial position. The size of risk is reflected in the receivables impairment (Note 11).

### ***Liquidity risk***

Liquidity risk is the risk that an entity will have difficulties in paying its financial liabilities. The LSA's net revenue resource requirements are financed by resources voted annually by the Assembly, as is capital expenditure. The LSA is therefore not exposed to significant liquidity risks.

### ***Interest Rate Risk***

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. All of the LSA's financial assets and liabilities carry nil or fixed rates of interest. The LSA is therefore not exposed to any interest rate risk.

### ***Currency Risk***

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The LSA does not have the authority to manage currency risk through hedging.

**10. Cash and cash equivalents**

	<b>2015-16</b> <b>£000</b>
Balance at 1 April before machinery of government transfer	-
Net change in cash and cash equivalent balances	43
<b>Balance at 31 March</b>	<b>43</b>
The following balances at 31 March are held at:	
Commercial banks and cash in hand	43
<b>Balance at 31 March</b>	<b>43</b>

**11. Trade receivables and other assets**

	<b>2015-16</b> <b>£000</b>
<b>Amounts falling due within one year:</b>	
Trade receivables	1,756
Other receivables	5
Prepayments and accrued income	127
VAT	11
	<b>1,899</b>
<b>Amounts falling due after more than one year:</b>	
Other receivables	2
	<b>2</b>
<b>Total</b>	<b>1,901</b>

Trade receivables are stated net of the following impairment:

	<b>2015-16</b> <b>£000</b>
Machinery of government transfer on 1 April 2015	4,037
Increase in impairment	1,962
Impairment not required written back	(700)
<b>Balance at 31 March</b>	<b>5,299</b>

**12. Trade payables and other current liabilities**

	<b>2015-16</b>
	<b>£000</b>
<b>Amounts falling due within one year:</b>	
Trade payables	1,227
Other payables	354
Accruals and deferred income	996
	<b>2,577</b>

**13. Provisions for liabilities and charges**

	<b>Civil Legal Services</b>	<b>Criminal Legal Aid</b>	<b>NILGOSC pension</b>	<b>Legal claims</b>	<b>2015-16 £000 Total</b>
Machinery of government transfer on 1 April 2015 - NILSC (Note 3)	82,771	36,258	932	1,166	<b>121,127</b>
Machinery of government transfer on 1 April 2015 - DOJ (Note 3)	-	397	-	-	<b>397</b>
Reclassification	(756)	756	-	-	<b>-</b>
Provided in the year	71,867	75,521	-	75	<b>147,463</b>
Actuarial loss/(gain)	-	-	(422)	-	<b>(422)</b>
Provisions not required written back	(26,229)	(22,620)	-	(340)	<b>(49,189)</b>
Provisions utilised in the year	(47,188)	(43,993)	-	(776)	<b>(91,957)</b>
Borrowing costs	-	-	30	-	<b>30</b>
<b>Balance at 31 March 2016</b>	<b>80,465</b>	<b>46,319</b>	<b>540</b>	<b>125</b>	<b>127,449</b>

**Analysis of expected timing of discounted flows**

	<b>Civil Legal Services</b>	<b>Criminal Legal Aid</b>	<b>NILGOSC pension</b>	<b>Legal claims</b>	<b>2015-16 £000 Total</b>
Not later than one year	23,025	25,955	-	121	<b>49,101</b>
Later than one year and not later than five years	45,391	20,364	540	4	<b>66,299</b>
Later than five years	12,049	-	-	-	<b>12,049</b>
<b>Balance at 31 March 2016</b>	<b>80,465</b>	<b>46,319</b>	<b>540</b>	<b>125</b>	<b>127,449</b>

**Civil Legal Services and Criminal Legal Aid - £126.784m**

The balance in respect of civil legal services and criminal legal aid is based on the estimated provision calculated for existing certificates issued. This amount does not represent the forecast funding requirements within and after one year, as there will also be the costs of new certificates authorised post 31 March 2016 that would fall due for payment.

The payment of civil legal services and criminal legal aid is determined by when solicitors or counsel submit their final bill after a case has concluded. The timing of each submission is outside the direct control of the LSA, but every effort is made to encourage legal representatives to submit their bills as expeditiously as possible.

The LSA continues to seek to limit the duration of emergency certificates as far as is practical to minimise the debt which arises if the recipient proves to be financially ineligible for legal aid or fails to co-operate with the assessment process.

**NILGOSC pension - £0.540m**

Prior to 1 April 2015, the Northern Ireland Legal Services Commission (NILSC) made employer contributions to the Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC) Scheme, which is a funded scheme of the defined benefit type.

The Scheme closed on 31 March 2015 for NILSC employees following the machinery of government transfer from NILSC to the LSA. Former staff of NILSC will be given the option to retain their accrued pension benefits up to 31 March 2015 in NILGOSC or transfer to NICS pension arrangements by way of a bulk transfer. Given the underlying uncertainty in terms of timings, number of staff and amounts involved, the bulk transfer has been disclosed as a Contingent Liability in Note 15.

Under the Local Government Pension Scheme Regulations (Northern Ireland), an actuarial valuation of the NILGOSC Scheme must be completed every three years. Following these valuations, the Committee agrees the level of Employer Contributions. As the LSA no longer admits new employees to the NILGOSC Scheme, an individual employer contribution is calculated for the LSA.

Since 2006-07 it has been possible to define each organisation's share of the Fund's assets and liabilities, and as a result the following disclosures are provided in line with IAS 19. The latest actuarial valuation of the Scheme was carried out at 31 March 2010. The actuarial valuation of the scheme as at 31 March 2013 was finalised after 31 March 2014. The liability and cost valuations are based on actuarial assumptions as at 31 March 2016.



**Risks associated with the NILGOSC Scheme****Asset Risk**

The assets held by the Scheme are weighted towards equities, properties and bonds. The liabilities are calculated using a discount rate set by reference to corporate bond yields. As a result of this, the assets and liabilities are not correlated and therefore a reduction in assets may occur at the same time as an increase in liabilities, increasing the IAS19 deficit.

**Inflation Risk**

Most of the Scheme's benefits are linked to inflation. If inflation is higher/(lower) than expected, the actual liabilities will be higher/(lower) than expected.

**Mortality Risk**

Most of the Scheme's benefits are provided to the member until death, therefore an increase in the life expectancy will increase liabilities

**Assumptions**

The principal actuarial assumptions used for the calculations were:

	<b>31/03/16</b>
	<b>%</b>
Discount rate	3.5%
Future increase in RPI	3.0%
Future increase in CPI	2.0%
Future rate of salary increase	3.5%
Rate of increase in pension in payment	2.0%

**Average expected future life at age 65 for:**

	<b>31/03/16</b>
	<b>Years</b>
Male currently aged 65	21.8
Female currently aged 65	24.3
Male currently aged 45	23.6
Female currently aged 45	26.3

**Assets and liabilities**

	<b>Value at 31/03/16 £000</b>
Assets:	
Equities	17,544
Property	3,216
Bonds	2,948
Cash	658
Total value of assets	<b>24,366</b>
Defined benefit obligation	(24,906)
<b>Defined benefit asset/(liability)</b>	<b>(540)</b>
Restriction to defined benefit asset due to asset ceiling	-
Unfunded liabilities	-
<b>Total defined benefit asset/(liability)</b>	<b>(540)</b>
Related deferred tax (liability)/asset	no allowance
<b>Net asset/(liability)</b>	<b>(540)</b>

**Reconciliation of value of assets**

	<b>2015-16 £000</b>
Machinery of government transfer on 1 April 2015	24,640
Expected return	784
Actuarial gains/(losses)	(786)
Employer contributions	-
Member contributions	-
Benefits paid	(272)
<b>Closing value of assets</b>	<b>24,366</b>

**Reconciliation of the value of the defined benefit obligation**

	<b>2015-16 £000</b>
Machinery of government transfer on 1 April 2015	25,572
Employer service cost	-
Administration expenses	-
Member contributions	-
Interest cost	814
Actuarial losses/(gains) - financial assumptions	(584)
Actuarial losses/(gains) - demographic assumptions	(624)
Actuarial losses/(gains) - experience	-
Benefits paid	(272)
<b>Closing defined benefit obligation</b>	<b>24,906</b>

**Return on the assets**

	<b>2015-16</b> <b>£000</b>
Actual return on the assets	<u>(2)</u>

**Analysis of the amount charged to the Statement of Comprehensive Net Expenditure**

	<b>2015-16</b> <b>£000</b>
Employer service costs	-
Administration expenses	-
Past service cost	-
Interest charged/(credited) in respect of defined benefit liability/(asset)	30
<b>Total</b>	<u><b>30</b></u>

**Actuarial loss/(gain) to be recognised in the Statement of Changes in Taxpayers' Equity**

	<b>2015-16</b> <b>£000</b>
Actuarial gain/(loss)	422
Decrease/(increase) in irrecoverable surplus	-
<b>Total</b>	<u><b>422</b></u>

**Amounts for the current period**

	<b>2015-16</b> <b>£000</b>
Defined benefit obligation	(24,906)
Fair value of assets	24,366
<b>Surplus/(deficit)</b>	<u><b>(540)</b></u>
Experience adjustment on liabilities - gain/(loss)	-
Experience adjustment on assets - gain/(loss)	(786)

### **Sensitivity Analysis**

The key assumptions used to calculate the IAS 19 liabilities are: discount rate, salary growth, inflation and mortality.

The sensitivity of the liabilities to these assumptions are as follows:

<b>Assumption</b>	<b>Change in assumption</b>	<b>Increase/(Decrease) in liabilities</b>
Discount Rate	Increase by 0.5% pa	(9%)
	Decrease by 0.5% pa	10%
Salary Growth	Increase by 0.5% pa	2%
	Decrease by 0.5% pa	(2%)
CPI Inflation (excluding salary growth impact)	Increase by 0.5% pa	7%
	Decrease by 0.5% pa	(7%)
Life Expectancy	Increase by 1 year	2%

## 14. Capital and other commitments

### 14.1 Capital commitments

	2015-16 £000
Contracted capital commitments at 31 March not otherwise included in these financial statements:	
Property, plant and equipment	-
Intangible assets	-
<b>Total</b>	<b>-</b>

### 14.2 Commitments under leases

#### Operating leases

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

	2015-16 £000
<b>Obligations under operating leases comprise:</b>	
<i>Land and buildings</i>	
Not later than one year	319
Later than one year and not later than five years	426
Later than five years	-
<b>Total</b>	<b>745</b>

### 14.3 Other financial commitments

The payments to which the LSA is committed are as follows:

	2015-16 £000
Not later than one year	-
Later than one year and not later than five years	-
Later than five years	-
<b>Total</b>	<b>-</b>

## 15. Contingent liabilities

The Agency's contingent liabilities have been outlined below on the basis that amounts have not been recognised as provisions because their existence will only be confirmed by the occurrence of one or more uncertain future events, not wholly within the Agency's control.

### *NILGOSC bulk transfer*

The transfer of staff to the NICS pension arrangements on 1 April 2015 may give rise to an increase in the estimated shortfall for the cost of the bulk transfer as there is uncertainty in respect of the number of members who are likely to transfer their past service. In addition there may be further costs to buy in to the NICS pension arrangements dependent on the specific assumptions. As these amounts are dependent on members electing to transfer their past service, it is not possible to quantify the exact liability at the reporting date. See also Note 13.

### *Legal cases*

There are a number of legal cases outstanding against the LSA but these claims have not been provided for in the financial statements as they are either considered unlikely to be successful or the outcome is not known with sufficient certainty to calculate a reliable estimate.

## 16. Related party transactions

The LSA is an Executive Agency of the Department of Justice. The Department of Justice is regarded as a related party. During the year, the LSA has had various material transactions with the Department, and with other entities for which the DOJ is regarded as the parent Department, e.g. Northern Ireland Courts and Tribunals Service. In addition, the LSA has had various material transactions with other government departments and other central government bodies. Most of these transactions have been with the Department for Communities (DfC) [formerly Social Services Agency (SSA)] and the Department of Finance (DoF) [formerly Department of Finance and Personnel (DFP)].

No senior manager, IBM or other related parties has undertaken any material transactions with the LSA during the year.

**17. Third-party assets**

Awards for damages to funded clients may be required by the LSA to offset any liability to the Legal Aid Fund. The LSA places these funds on deposit in separate individual client bank accounts until the liability to the Fund, if any, is determined. Any remaining balance of the damages awarded is refunded once the liability to the Fund has been settled. The amounts retained to cover any shortfall to the Fund are recorded in income as 'Damages retained'. The movement on these third-party funds for the 12 months ended 31 March 2016 was as follows:

	<b>2015-16</b>
	<b>£000</b>
Machinery of government transfer on 1 April 2015	288
Damages received	680
Interest received	1
	<hr/> 969
Less:	
Sums repaid to assisted persons	(295)
Damages retained	(296)
<b>Balance at 31 March</b>	<hr/> <b>378</b> <hr/>

These are not included within the LSA's assets as they do not belong to the LSA. The assets held at the reporting period date to which it was practical to ascribe monetary values comprised monetary assets, such as bank balances, monies on deposit and listed securities.

**18. Events after the reporting date**

There were no events after the reporting date that required disclosure.

**Date for authorisation of issue**

The Accounting Officer authorised these financial statements for issue on 30 June 2016.

## REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE NORTHERN IRELAND ASSEMBLY

### Background

1. The Legal Services Agency Northern Ireland (LSANI), an executive agency of the Department of Justice (the Department), was established on 1 April 2015 following the dissolution of the Northern Ireland Legal Services Commission (NILSC), under the Legal Aid and Coroner's Act (Northern Ireland) 2014. LSANI has retained the functions of NILSC for administering legal aid in Northern Ireland.
2. I published a report on 21 June 2016, highlighting a range of concerns in relation to the management of Legal Aid.
  - The LSANI's response to suspected frauds has not been effective. The LSANI's counter fraud strategy is not comprehensive or embedded in day to day management. Internal controls have been established but are inadequate to prevent and detect fraud and the LSANI is dependent upon third parties to identify suspected fraud.
  - The LSANI does not have an effective method to predict future legal aid expenditure. In partnership, the LSANI and Department have sought to develop a new model for forecasting. Despite commendable effort, there remain a number of significant weaknesses which compromise the model's ability to reliably predict future expenditure.
3. As noted in paragraph 5 below I am qualifying the 2015-16 financial statements of LSANI. The audit opinion on the annual accounts of NILSC have been qualified since 2003 due to the lack of effective counter fraud arrangements and weaknesses in the financial estimates for provisions in the annual accounts for legal aid liabilities.

### Purpose of the Report

4. I am required to examine, certify and report upon the financial statements prepared by LSANI under the Government Resources and Accounts Act (Northern Ireland) 2001.
5. The purpose of this report is to explain the background to my qualifications on the LSANI Account for the year ended 31 March 2016. I have qualified the financial statements on the basis of three limitations in scope on my work due to insufficient evidence available to:
  - i. satisfy myself that material fraud did not exist within eligibility assessments of Legal Aid applicants and in expenditure from Legal Aid funds (£98.5 million);



**REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE NORTHERN IRELAND ASSEMBLY**

- ii. support the assumptions and judgements used in the determination of the provision for legal aid liabilities of £126.8 million at 31 March 2016; and
- iii. conclude on the potential income that may be recoverable under the Criminal Legal Aid (Recovery of Defence Costs Order) Rules (Northern Ireland) 2012.

**Limitation in scope arising from insufficient evidence that material fraud did not exist within Legal Aid expenditure**

6. Legal Aid expenditure in 2015-16 was made up of estimates of certificates granted plus charges or credits from provisions to reflect the bills received from practitioners. This gave a total expenditure of £98.5m (Civil £45.6m and Criminal £52.9m).
7. There are two aspects to the limitation in scope in respect of fraud. Firstly there was insufficient evidence to support the eligibility of certain Legal Aid applications and secondly there was insufficient evidence to support payments to legal practitioners.

**Eligibility**

8. Means tested Legal Aid carries a risk that Legal Aid is granted to individuals who are not eligible if income details are misstated on initial application, or if changes in financial circumstances that arise during the case are not reported by the claimant. LSANI depends significantly upon third parties to verify the eligibility of Legal Aid applications. In Civil cases, eligibility is assessed by solicitors and the Legal Aid Assessment Office (LAAO)<sup>1</sup>. In Criminal cases, a judge decides upon an applicant's eligibility which is done following confirmation from the LAAO that the applicant is in receipt of the benefit they have stated. However the court has a legal obligation where there is doubt, over the applicant's means or the merits of the case, to resolve those doubts in favour of the applicant. Therefore it is difficult to estimate how much of Criminal Legal Aid is dependent upon an assessment of benefits being claimed. The complexity of Civil Legal Aid schemes gives scope for fraud or error in assessing eligibility.

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<sup>1</sup> The Legal Aid Assessment Office is part of the Working Age Group in the Department for Communities (formerly the Department of Social Development).

**REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE NORTHERN IRELAND ASSEMBLY**

9. My main concerns relate to eligibility assessments under the remit of the LAAO. There are two aspects of the process that concern me. Firstly, as LAAO has access to the benefits system, it can confirm that benefits are being paid as claimed in Legal Aid application forms. There is an inherent level of fraud within the benefits system that will also impact on Legal Aid payments. This applies to both Civil and Criminal Legal Aid. Secondly, for applicants who are not in receipt of benefits, for example those employed or self-employed, LAAO relies upon the declarations made in application forms and supporting verification documents, such as payslips and accounts, in order to assess the amount of contributions payable towards Legal Aid costs.
10. LSANI has yet to develop a model to estimate its exposure to fraud and error. LSANI continues to work with the Working Age Group (formerly Social Security Agency) to estimate the proportion of applicants who would have lost benefit entitlement (and thereby not 'passported' for legal aid) as a more accurate assessment. LSANI advises me that it is unable to provide me with an estimate of the level of fraud or error present within the benefits checked by LAAO in determining Legal Aid eligibility.

**Payments to Legal Practitioners**

11. I remain concerned about the potential level of fraud in payments to legal practitioners, and particularly in relation to Civil Legal Aid. The nature of the Legal Aid scheme, in making payments to legal practitioners for services which are directly provided to Legal Aid claimants, creates difficulties for LSANI in determining whether the services were appropriately provided, or if overpayments have been made. Currently, LSANI does not produce an estimate of the likely scale of fraud and error in respect of payments to legal practitioners.
12. In my June 2016 Report I noted that a Registration Scheme is an essential element of ensuring that publicly funded legal services deliver value for money. Its absence undermines the LSANI's ability to implement a robust quality assurance process. The LSANI inspection regime should include visits to the offices of legal professionals. During these visits, practitioners' records should be inspected, ensuring there is adequate supporting evidence for bills issued and to confirm that there is evidence of the continued assessment of the financial eligibility of the applicant during the life of the case.
13. The Registration Scheme was included in a Departmental Action Plan created in July 2012, and in 2013 the Department assumed responsibility for the Statutory Registration Scheme. It was assigned a completion date of 2014. To date the Scheme has not been implemented and is currently planned to be integrated into the Agency's new case management system which is unlikely to be fully operational until 2017-18.

## REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE NORTHERN IRELAND ASSEMBLY

14. Given the weaknesses that remain in the counter fraud arrangements for the eligibility of applicants and payments to practitioners, I have 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 a material amount of Legal Aid expenditure has not been claimed fraudulently or in error.

### Limitation in scope arising from insufficient evidence to support the estimate of provisions

15. Due to insufficient evidence to support management information used to determine a number of key assumptions underpinning the current provisions methodologies and the judgements made when calculating provisions I have continued to qualify my opinion on the truth and fairness of the amount provided for legal aid liabilities at 31 March 2016. These liabilities are referred to as Legal Aid provisions and the figures are outlined in the table below.

#### Provision for Legal Aid liabilities at 31 March 2016

	Civil		Criminal	
	At 31 March 2016 £ million	At 31 March 2015 £million	At 31 March 2016 £ million	At 31 March 2015 £ million
Very High <sup>2</sup> / High Cost Cases/ Criminal Appeals <sup>3</sup>	2.3	3.3	4.8	2.7
Non-High Cost Cases	78.2	79.5	41.5	33.5
<b>Total</b>	<b>80.5</b>	<b>82.8</b>	<b>46.3</b>	<b>36.2</b>

<sup>2</sup> As defined by The Legal Aid for Crown Court Proceedings (Costs) Rules (Northern Ireland) 2005 and The Magistrates' Courts and County Court Appeal (Criminal Legal Aid) (Costs) Rules (Northern Ireland) 2009, also referred to as the 2005 and 2009 Rules.

<sup>3</sup> The Criminal Appeals function was transferred to LSANI from DOJ on 1 April 2015.

**REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE NORTHERN IRELAND ASSEMBLY**

16. Provisions for legal aid liabilities, valued at £126.8 million at 31 March 2016 (31 March 2015: £119.0 million), are estimated by LSANI using the Provisions Information Management System (PIMS). PIMS extracts information from the case management database to be used in the calculation of the provision. It is underpinned by a number of key assumptions. The assumptions include the estimated average cost of a case; the adjustments required for cases which result in no reports or multiple reports; and the estimated time it takes to complete a case.
17. The single largest area of uncertainty in the legal aid provision is in relation to high cost cases<sup>4</sup>. With the exception of some specific types of case LSANI has failed to separately identify high cost cases for the last three years. A sensitivity analysis indicates a wide variance in the resulting amount of the possible understatement estimated between £11 million and £37 million. This reflects a period when LSANI cannot provide evidence of controls, procedures or policies for identifying high cost cases.
18. The difficulties in identifying high cost cases means LSANI cannot exclude these cases from the average cost case calculations. The inclusion of these amounts in the average cost calculations is likely to have materially impacted on the accuracy of these figures. Analysis indicates a possible overstatement estimated between £5 million and £9 million.
19. Analysis of the completeness of the numbers of legal aid certificates indicates a possible understatement estimated between £3 million and £5 million.
20. I was unable to determine the full extent of the adjustments necessary to the provision for legal aid liabilities although the estimate of some of the issues which I have detailed above indicates a net understatement estimated between £9 million and £33 million.
21. While the Department was prepared to make a £20 million adjustment to the provision, I consider that the range of uncertainty is too wide to provide me with assurance that the provision would not be materially misstated.
22. Key weaknesses on legal aid provisioning were identified in my previous audits and continue to recur in 2015-16. These relate to the assumptions used in the valuation of provisions. I acknowledge the work undertaken by LSANI with regard to the assumptions and note that a number of the limitations identified in previous years have been addressed however specific concerns remain in relation to:

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<sup>4</sup> The sensitivity analysis assumes the threshold for high cost cases to be £30,000 and the average cost of a case to be £6,900.

**REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE NORTHERN IRELAND ASSEMBLY**

- the accuracy and completeness of the numbers of legal aid certificates;
  - the applicability and relevance of management information used in the provisions valuations; and
  - the review process for the legal aid liabilities for high cost cases at the year end.
23. Provisions for legal aid liabilities are challenging to estimate but ensuring that the basis and assumptions used to estimate provisions are reasonable is important for not only the preparation of the financial statements which I audit, but also for ensuring robust budgeting systems going forward. The estimation of these liabilities is, by nature, extremely difficult due to the current out-working of the Legal Aid scheme.
24. The Department and LSANI are continuing their work to develop a model capable of providing a reasonable estimation of legal aid costs associated with the granting of a legal aid certificate. The Department and LSANI are progressing with a detailed review and further analysis of the current methodology and assumptions used. As yet it is unclear if this model will be sufficiently progressed to inform the provision for legal aid liabilities amount in the 2016-17 financial statements. I am encouraged that the Department and LSANI have recognised the limitations of the current model and, in particular, the assumptions underpinning it.

**Limitation in scope arising from the failure to recover defence costs in appropriate criminal legal aid cases**

25. Legislation which came into effect in 2012 is not being implemented by LSANI. Consequently I am unable to obtain sufficient evidence to conclude that a material amount of income has not been excluded from the accounts.
26. The Criminal Legal Aid (Recovery of Defence Costs Order) Rules (Northern Ireland) 2012 came into effect in October 2012. The Rules provide for orders for the recovery of defence costs to be made against legally aided defendants who have been convicted in the Crown Court. The purpose of such an order is to recover a part of legal aid costs incurred under a criminal legal aid certificate as is reasonable in the financial circumstances of the defendant.
27. LSANI has advised me the greatest difficulty in applying this legislation is its ability to identify cases that are suitable for applications for a 'Recovery of Defence Costs Order' to be made. The Department advises that the Rules envisage a referral system and that it was not the policy intention to give LSANI a proactive power to seek information. LSANI operates on the basis of referrals received from third parties. LSANI has advised that the Department has agreed to review the arrangements to see how improvements might be made. To date 28 referrals have been received. Only one 'Recovery of Defence Costs Order' has been granted.

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28. Consequently I have limited the scope of my audit opinion on the truth and fairness of income recorded in the accounts. I have been unable to obtain sufficient evidence to conclude that a material amount of income in respect of the recovery of defence costs has not been excluded from the accounts.

**Conclusion**

29. Despite raising concerns in previous years there remains insufficient evidence to determine the level of fraud or error regarding the eligibility of legal aid payments or payments to legal practitioners. The Department and LSANI continue to work towards establishing suitable procedures to address the risk of fraud in legal aid expenditure however progress remains slower than is desirable.
30. LSANI was unable to ensure robust methodologies were established to determine the provision for legal aid liabilities. As a result, there remains insufficient audit evidence on the completeness and accuracy of the provision. I am aware that the Department and LSANI are currently working on a revised methodology for determining legal aid provisions, and to provide more robust estimating of legal aid liabilities.
31. Finally, Criminal Legal Aid (Recovery of Defence Costs Orders) Rules (Northern Ireland) 2012 are not being applied effectively. However the Department has previously advised that the Rules are being applied in the way in which they are intended. While I am aware that LSANI has been liaising with the Department to resolve this issue it is important that this is done in a timely manner so that potentially recoverable amounts are identified and that appropriate recovery procedures are applied.



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30 June 2016

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