

Legal Services Agency Northern Ireland
Annual Report and Accounts
For the year ended 31 March 2017

*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

6 July 2017



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PERFORMANCE REPORT

OVERVIEW

The purpose of the Overview is to provide sufficient information to ensure that the remit and purpose of the Agency is understood. The Overview includes:

- a statement from the Chief Executive providing his perspective on the performance of the Agency over the period;
- a statement of the purpose and activities of the Agency;
- the key issues and risks that could affect the Agency in delivering its objectives; and
- a performance summary.

FOREWORD BY CHIEF EXECUTIVE

I am pleased to present the Annual Report and Accounts of the Legal Services Agency Northern Ireland (LSA) for the 2016-17 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 LSA has continued to consolidate the position of the new Agency and encouraged and valued its people to work with legal service providers and the wider justice system in facilitating access to justice. As part of this commitment the LSA has been working with the Digital Transformation Services (DTS) of the Department of Finance (DoF) to deliver a digital transformation project to modernise service delivery.

The LSA is committed to the effective delivery of publicly funded legal services and the stewardship of public monies. The LSA remains committed to providing independent decisions on the grant of legal aid in respect of individual applications for civil legal services. The LSA also worked to process legal aid within the resources available. The LSA continued to seek to improve its delivery of core services.

The LSA focused on its four main strategic objectives during the financial year, namely to:

- i. ensure assistable persons have access to justice;
- ii. demonstrate an effective supplier base for publicly funded legal services;
- iii. ensure governance and accountability; and
- iv. transform legal aid systems.

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 extensive program of work which is being taken forward to deliver digital transformation of the way the LSA delivers its services.

I would like to personally thank all staff within the LSA for their very hard work and the LSA Board for its support, oversight and guidance to the Agency.

STATEMENT OF PURPOSE AND ACTIVITIES

Who We Are

The LSA is an executive agency within the Department of Justice (DOJ), it was created by the dissolution of the Northern Ireland Legal Services Commission (NILSC) on 1 April 2015.

The LSA operates under the direction and control of the Minister of Justice, except for applications for civil legal services which are considered on the merits of the individual case, based on the application of statutory tests to determine whether an individual should receive funding. The LSA is not responsible for granting criminal legal aid for defendants in criminal cases, as criminal legal aid is granted by the courts.

What We Do

The LSA funds and makes payments to the legal profession for services provided under both the criminal and civil legal aid schemes while attaining value for money. Our range of functions include:

- considering applications for advice, assistance, and representation which is known as civil legal services;
- assessing and making payments of bills received for civil legal services and criminal legal aid;
- supporting the DOJ in the development and implementation of a legal aid reform programme;
- supporting the independent appeals function;
- implementing directions and guidance issued by the DOJ; and
- maintaining and developing systems, procedures and relationships which support all of its key activities and the wider strategic aims of the DOJ.

Our Vision

To be an innovative, responsive and impartial Agency effectively and efficiently administering quality, publicly funded legal services for all of our stakeholders.

Our values

At all times we strive to:

- carry out all our functions effectively;
- value our people;
- work together;
- be outward focused; and
- take responsibility.

Our Strategic Aim

Our aim is to support the justice system by administering publicly funded legal services impartially, effectively and efficiently within the governing legislation and policy framework set by the Minister of Justice including achieving value for money across our processes.

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 the LSA. A copy of the LSA Framework Document can be found at www.lsan.gov.uk.

Our Strategic Objectives

The Agency's four strategic objectives focus on:

- i. ensuring assistable (Note 1) persons have access to justice;
- ii. demonstrating an effective supplier base for publicly funded legal services;
- iii. ensuring governance and accountability; and
- iv. transforming legal aid systems.

Note 1: an assistable person is an applicant who meets the eligibility tests (financial and merits) and thereby can receive civil legal services.

The Agency has also developed an associated business indicator, namely to "Maximise the efficiency of the Agency".

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 Act (DPA), and deal with legal challenges.

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

Civil Legal Services

Civil legal services provide 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 applicants can demonstrate that they meet financial means and legal merits tests. The assessment of an applicant's means is determined by the Legal Aid Assessment Office (LAAO), an office of the Department for Communities (DfC).

The assessment of an applicant's means may 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 process may 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 Analytical Support Services (FSD);
- Legal services - Departmental Solicitor's Office (DSO) and Crown Solicitor's Office (CSO); and
- Audit Services - DOJ Internal Audit Service (IAS). From the beginning of the 2017-18 year, a single NICS Internal Audit team has been established within the Department of Finance (DoF) and this will incorporate the DOJ Internal Audit team. The Internal Audit service to the DOJ will continue to be provided as before with the same personnel and to the same professional standards.

There are also a number of new NICS wide and DOJ Shared Services initiatives that may affect LSA in the future. The Agency is proactively involved in these reviews.

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 2016-17, 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 four key risk areas and the corresponding actions being taken are as follows.

- i. **Transformation** - *due to a combination of capacity and capability pressures, the number of interdependent projects, the range of legal aid reforms in train and the requirement to maintain business as usual, there is a risk that the Agency will not deliver the Transformation Programme in a timely manner.*

Given the many interdependencies and the importance of the Transformation Programme to both the Agency and the Department, a dedicated Transformation Director and support team are being put in place to ensure the Agency has the appropriate oversight, focus and resources to deliver the programme objectives.

- ii. **Fraud and Error** - *there is a risk that the current partnership project with the DfC may not provide an appropriate estimate of fraud and error, or identify measures that will enable the Agency to develop a plan to reduce fraud and error.*

Whilst the Agency believes the partnership project with DfC will allow us to draw on the considerable experience of colleagues, there is a recognition that methodologies applied to identifying and measuring benefit fraud and error may need to be adapted when applied to legal aid. Alongside this, the Agency is also engaging with the Legal Aid Agency (England and Wales), the Northern Ireland Audit Office and Departmental colleagues to ensure all existing best practice is incorporated in the arrangements being developed.

- iii. **Registration Scheme** - *there is a risk that legislative delay, potential resistance from the profession or failure to recruit suitably skilled staff may delay the timely implementation of the Registration Scheme and the delivery of anticipated benefits.*

The Agency and Department are working closely to ensure that the appropriate legislation is ready for presentation to the NI Assembly when scheduling permits, that the legal profession is fully engaged in ongoing consultation on the scheme and that the arrangements for recruitment of skilled staff is progressing as intended.

- iv. **Digitisation** - *as a result of legislative, resourcing or technical delays, there is a risk that the project may fail to deliver its objectives on schedule and on budget; or that project resourcing requirements may impact the Agency's ability to deliver business as usual.*

The Project Board for the Digitisation of Legal Aid Project (DTLAP) maintains oversight of the project. Contract and project costs have already been set by DoF and budgets are subject to regular scrutiny. The project also has significant external oversight arrangements, progressing as it does in partnership with DoF. A quality assurance approval process is in place for all developments and end products.

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 2017 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 as at 31 March 2017 shows net liabilities of £150 million (2015-16: £128 million), reflecting liabilities due in future years. It is considered appropriate to adopt a going concern basis for the preparation of the financial statements as the agency is supply financed and draws its funding from the Consolidated Fund. Therefore there is no liquidity risk in respect of the liabilities due in future years.

PERFORMANCE SUMMARY AND FORWARD LOOK

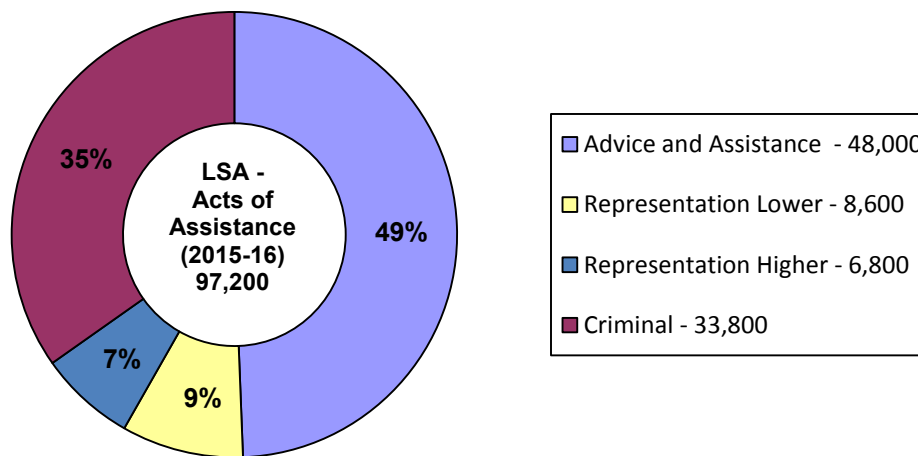
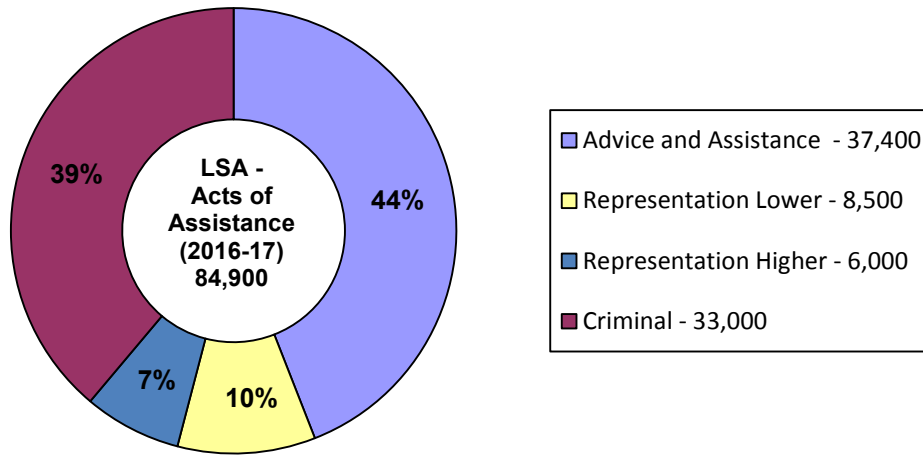
Performance summary

This report covers the second year of the LSA. The key performance issues can be summarised as follows:

1. The LSA continued to implement the new suite of Civil Legal Services Regulations and has made significant progress in dealing with appeals under the new arrangements. In addition, the LSA has overseen a range of adjustments to the legislation. In particular the Agency gave effect to new provisions which introduced exceptional funding provisions for criminal legal aid in the Crown Court and the Magistrates' Court.
2. The LSA faced considerable challenges during the year in managing its payment processes against the funding available. The value of the bills received meant that the LSA was not able to fully expend the funding available.
3. Towards the end of the year the LSA experienced capacity issues in processing applications for civil legal services. Measures were put in hand to address the processing issues.
4. During the year the LSA launched its digitalisation project. Significant progress has been made in developing an on-line registration facility and work has started on development of a new case management system.
5. The LSA has recruited a Head of the Compliance and Registration Unit and is developing a review plan and documentation in preparation for the introduction of the statutory Registration Scheme.
6. The LSA has established a partnership working approach with Department for Communities to estimate the fraud and error rate within the legal aid system and to identify appropriate remedial action to reduce the estimated rates.
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 84,900 acts of assistance in 2016-17. This represents a decrease of 13% compared to the 97,200 acts of assistance recorded by in 2015-16.



Forward look

The LSA Chief Executive, Board and DOJ have agreed the need to set up a Transformation Programme within the Agency. This programme includes a number of key projects that have interlinking objectives and will take forward significant improvements within the Agency. The projects include Digitisation of Legal Aid, Information Management, Counter Fraud Measurement, Compliance Audit and Registration and Strategic Improvement Projects such as development of a new Management Information capability and Organisation development. In 2017-18 the Agency will set up a new Directorate to take forward this Programme of change and an appropriate investment programme will be put in place to support the delivery of the Programme.

The LSA will continue to take forward the work undertaken to date as part of 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 now continue with development phases. The LSA's plan is to complete the project in 2018-19.

The LSA will continue to work in support of 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.

PERFORMANCE ANALYSIS

This is the LSA's second 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 2016-17

The LSA has continued to strive to deliver the commitments included in its 2016-17 Business Plan, and the four Strategic Objectives (SO) established to drive the Agency forward. It is recognised that there is a need to further develop Management Information to support the move to Outcome Based objectives. This will form a key part of the Transformation Programme.

Performance Targets and Objectives

Population Outcome 1 - Facilitating Access to Justice: Assisted Persons to have access to Justice.

Outcome - Applications for legal aid determined promptly and in keeping with statutory requirements.

Emergency Applications

Indicator	% Target	% Achieved
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

Indicator	% Target	% Achieved
Applications for civil legal aid and civil legal services will be determined within 10 weeks of being registered. (Note 2)	85%	85% in 38 weeks*

*This reflects the impact of dealing with queries raised in respect of applications and the impact on adjudications due to staffing pressures at the year end.

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

Note 2: Registered means that the applicant has been properly completed and the applicant has been assessed by the Department for Communities (DfC) as meeting the financial eligibility criteria.

Outcome - Challenges against refusals of legal aid are determined promptly and in keeping with statutory requirements

Indicator	% Target	% Achieved
Appeals addressed within 16 weeks from receipt of an Appeal by LSA Appeals and Review Unit (ARU) until date fixed for Appeal.	75%	55%
Appeals addressed within 20 weeks from receipt of an Appeal by ARU until date fixed for Appeal. (Note 3)	90%	61%

Note 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.

Outcome - Properly presented bills for payment are processed accurately and promptly in keeping with statutory requirements

Indicator	% Target	% Achieved
<p>Authorisation of standard fees for payment within 6-8 weeks from date of receipt.</p>	<p>95%</p>	<p>Criminal:</p> <p>Crown Court - 95 % authorised within 6 weeks. Magistrates Court - 95% authorised within 6 weeks.</p> <p>Civil:</p> <p>Article 3 - 95% within 13 weeks, due to resourcing issues the target was revised in year to 12-14 weeks. As at 31 March 2017 processing was back within target.</p> <p>Civil (non-family) - 95% within 31weeks but 72.5% within 8 weeks,</p> <p>Civil (Taxed Cases):</p> <p>95% within 45 weeks with 81% within 6 weeks.</p> <p>LSA's management information system does not collate data to facilitate the identification of those claims that have been registered but remain under query. This distorts the performance target for civil payments.</p>
<p>Authorisation of non-standard fees (non-Children Order claims) for payment within 12-14 weeks from date of receipt.</p>	<p>95%</p>	<p>Advice and Assistance - 95% within 12 weeks; 95% of PACE fees within 7 weeks.</p> <p>Assistance By Way Of Representation (ABWOR) - 95% within 27 weeks, but 90% within 12 weeks.</p>
<p>Authorisation of non-standard fees (Children Order claims) for payment within 14-18 weeks from date of receipt.</p>	<p>95%</p>	<p>95% achieved in 228 days/46 weeks, however, 75% achieved in 110 days/22 weeks.</p> <p>The high level of queries generated in the assessment process and the subsequent delay in the practitioner's response to same, distorts the measurement of the performance target.</p>

Population Outcome 2 - Demonstrating an Effective Supplier Base for Publicly Funded Legal Services: quality assured providers of Legal Aid

Outcome	Indicator	Progress at 31 March 2017
Process established for registration of suppliers.	By 31 March 2017 to issue information to practitioners, advising of new process.	<p>Achieved - the process for consultation on the registration scheme is already underway. There has been significant engagement to date with both the Law Society and Bar.</p> <p>A technical solution has been developed as part of the Digitisation Project to enable suppliers to register for the scheme.</p>
Information of registration scheme disseminated in a timely manner.	Issue of circulars to practitioners, and briefing sessions and information workshops to take place in keeping with project timelines.	<p>Achieved - engagement with practitioners has progressed in keeping with the project timelines.</p> <p>However, subject to the Assembly being reconvened the project timeline has been rescheduled to take into account the delay in the consideration and approval of the necessary legislation.</p>
Guidance and forms issued in a timely manner for new remuneration and exceptionality arrangements.	Documentation and supporting material issued in advance of implementation of remuneration and exceptionality arrangements.	Achieved - guidance issued on the next criminal exceptionality provisions for Magistrates' Courts and the Crown Court.

Population Outcome 3 - Enhancing Governance and Accountability: improved system of internal control

Outcome	Indicator	Progress at 31 March 2017
All priority 1 audit recommendations addressed in agreed timescales.	Six monthly progress reports to the Audit and Risk Committee.	Priority 1 recommendations continue to be addressed in the agreed timescales. Oversight is maintained via the six-monthly reporting to the Audit and Risk Committee and via the Head of Internal Audit.
Agree and secure funding for a strategy to address the fraud qualification.	By October 2016 to commence recruitment of additional resources. By 31 January 2017 to secure inter-departmental agreement for Fraud Capability Review.	The recruitment of additional resources has commenced as part of the inter-departmental agreement with Department for Communities. The new Counter Fraud Manager is in post and additional resources are planned. Achieved.
Phase 1 revision to provisions model implemented and refined.	By 31 March 2017 to have implemented Phase 1 of provisions reforms.	The provisions model has been revised and has been used to produce the information required for the annual month accounts.
Revised forecasting model implemented.	By 31 March 2017 to have implemented revised forecasting model.	The revised forecasting approach is operating, with further refinements planned. It is currently being documented and will be fully operational in advance of the first Monitoring Round of 2017-18.
Action plan to address Public Accounts Committee (PAC) recommendations on Legal Aid.	Within six weeks of receipt of the PAC Report to develop an Action Plan and report on Progress to the Board, Department and PAC.	The development of an action plan has been taken forward by the Department of Justice. LSA has contributed to the action plan. LSA are providing updates on progress to the Board and Department as required.
Timely submission of quality assured annual accounts.	Accounts laid in accordance with statutory timeline.	The LSA is on target to lay the 2016-17 Annual Report and Accounts in the Assembly before Summer Recess.

Population Outcome 4 - Transforming Legal Aid Systems: develop a digitalised Legal Aid system which accommodates reforms to the statutory environment

Outcome	Indicator	Progress at 31 March 2017
Approval to commence digitalisation secured.	By 31 October 2016 business case approved. By 30 November 2016 to commence Alpha Phase.	Achieved - business case approved on 7 October 2016. Achieved - Project mobilised in October 2016 and Alpha phase commenced.
Digitalisation progressing in keeping with project timescale.	By 31 March 2017 Alpha phase progressing in keeping with project timescale.	Achieved - Alpha Phase progressing in line with project timescales.
Development of a user and supplier training strategy for the new system.	Issue of circulars to practitioners, briefings sessions, information workshops for staff and Practitioners in keeping with project timetable.	A draft Communications plan has been prepared. As the initial engagement with practitioners will be in respect of the Registration Scheme, formal engagement will be scheduled once the Assembly is reconvened and the necessary legislation is made.
Effective participation in reform reviews and project boards.	LSA participants to be nominated for Sponsor Division and other Working Groups.	Achieved - LSA representatives, from both the project and business areas, participate in all relevant reviews and project meetings.

Financial Review

The LSA financial statements for 2016-17 are compared to the previous financial year and the 2014-15 finance year of the former Northern Ireland Legal Services Commission (NILSC) in the table below:

<u>Statement of Comprehensive Net Expenditure</u>	LSA 2016-17 £000	LSA 2015-16 £000	NILSC* 2014-15 £000
Total operating income	(2,198)	(2,915)	(1,999)
Staff costs	3,919	4,237	4,083
Pension provision	5,344	-	-
Purchase of goods and services	4,160	4,658	4,651
Depreciation and impairment charges	90	241	582
Provision expense	101,733	98,304	101,979
Grants	30	66	232
Total operating expenditure	115,276	107,506	111,527
Net operating expenditure	113,078	104,591	109,528
Finance expense	3	4	4
Net expenditure for the year	113,081	104,595	109,532

* In accordance with IFRS 3 *Business Combinations under Common Control*, the machinery of government transfer from NILSC to LSA was accounted for as a 'transfer by absorption' in the Agency's Accounts for 2015-16 on 1 April 2015. Further details are contained in Note 3 to the Accounts.

Expenditure on publicly funded legal services

The total amount of cash paid during 2016-17 for publicly funded legal services was £82.3 million (as per Note 13 to the Accounts - Provisions for Liabilities: Provisions utilised in the year) compared to £91.2 million paid during 2015-16.

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 2017 were £149.8m (2015-16: £127.9m).

Cash flow

As detailed in the notes to the Accounts, the Agency's Net Assembly draw down in 2016-17 was £91.759m (2015-16: £97.805m) and the net decrease in cash and cash equivalents in the year was £1.621m (2015-16: an increase of £0.043m).

Financial risk

For 2016-17, 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.

Long-term expenditure trends

Following departmental restructuring in May 2016, the Planning Appeals Commission and Water Appeals Commission (PACWAC) transferred from the then Office of the First and Deputy First Minister to the NI Courts and Tribunals Service, an Executive Agency of the Department of Justice. The figures given for long term expenditure trends have not been restated in line with the Statement of Assembly Supply not being restated. Consequently, the figures given for 2013-14, 2014-15 and 2015-16 do not include PACWAC expenditure of approximately £2.0m.

The charts below show:

- **Chart 1:** the movement in the Department of Justice non-ringfenced Resource DEL opening baseline over the period 2013-14 to 2017-18; and
- **Chart 2:** the indicative 2017-18 non-ringfenced Resource DEL budget split by the Core Department, Executive Agencies (including the Legal Services Agency NI), and Non-Departmental Public Bodies. For Forensic Science NI, this shows the net income received from the Department.

Chart 1: DOJ Non-Ringfenced Resource DEL opening baseline

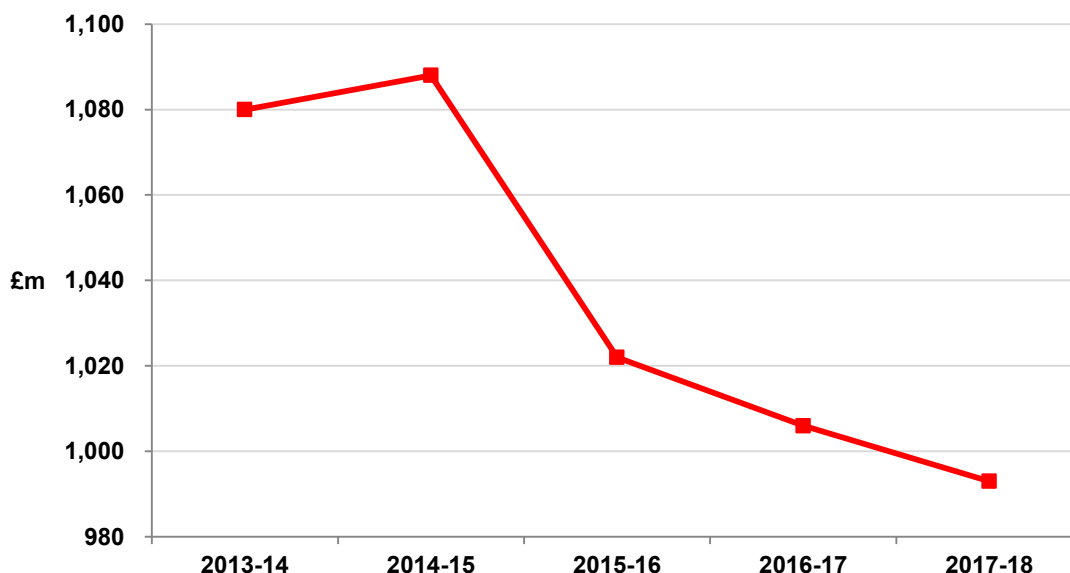
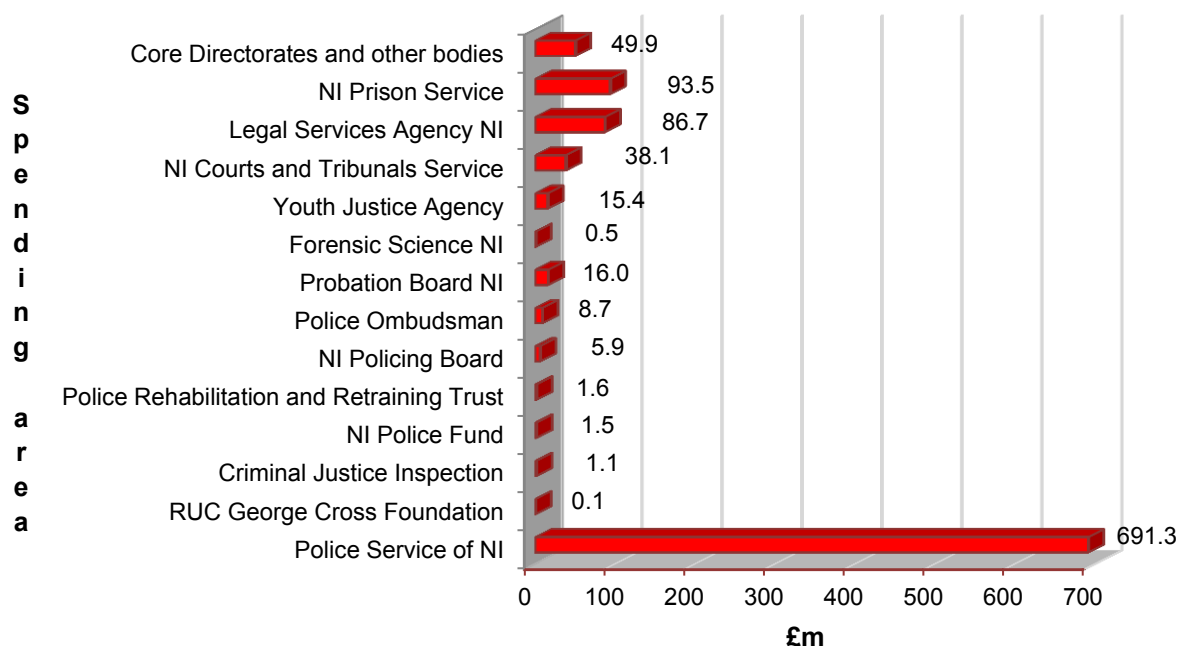


Chart 2: DOJ 2017-18 Non-Ringfenced Resource DEL indicative budgets



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 consequentials 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 non-ringfenced 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 NI Legal Service Commission’s budget (now the Legal Services Agency NI) 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 8.3%. 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

As noted above, 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 was provided by the Executive; and
- additional Voluntary Exit Scheme (VES) funding of £12.4m was available.

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.

2017-18 financial year

In a statement to the House of Commons on 24 April 2017 the Secretary of State for Northern Ireland outlined an indicative Budget position for NI departments. This position was based on the advice of the Head of the NI Civil Service (NICS) in conjunction with the NICS Board. The purpose of this statement was to provide clarity to departments as to the basis for departmental allocations in the absence of an Executive, so that Permanent Secretaries can plan and prepare to take more detailed decisions in that light.

The departmental allocations set out by the Secretary of State provide the basis on which departments are now planning for 2017-18. However, the Secretary of State was clear that the indicative budget position did not constrain the ability of an incoming Executive to adjust its priorities during the year. He also advised that some £42 million Resource DEL and £7 million Capital DEL was left unallocated in order to maintain flexibility for a new Executive to allocate resources to meet further priorities as they deem appropriate.

Therefore, while there is the potential for an incoming Executive to adjust these plans and also to allocate the unallocated resources, individual departments cannot anticipate any additional funding at this stage until such decisions are made.

The starting point for the DOJ's indicative non-ringfenced Resource DEL budget was as follows:

- a 4% cut was applied to the opening budget;
- 25% of the PSNI budget was protected and had no % cut;
- £34m of additional security funding for the PSNI was provided from the 'Fresh Start' Agreement; and
- £20m was provided towards pressures.

In setting indicative 2017-18 budgets, the Legal Service Agency's indicative allocation reduced by 7.2%, taking into account 2016-17 outturn and 2017-18 planned expenditure.

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 notional fee for the audit of the 2016-17 financial statements is £60,000 (2015-16: £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 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. Subsequently the PAC published its report on Managing Legal Aid on 11 January 2017. A draft Departmental response to the PAC report has been prepared with input from LSA and this is due to be finalised in 2017-18.

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 therefore not included in the statistics noted below.

During the financial year, the Agency achieved an average of 88.2% (2015-16: 82.8%) of invoices paid to suppliers within 10 working days following receipt of a properly rendered invoice. The Agency achieved an average of 95.0% (2015-16: 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 continues to increase the amount of information and correspondence issued electronically and with the planned digitisation of legal aid services, this will further reduce the need for hard copy records and postal correspondence.

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 currently 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 and subsequent 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. From a practical stand-point, 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.

Social and Community Issues

The LSA continues to develop its communications strategy in support of the reform programme, which is focused on the needs of the public, suppliers of legal services and other key stakeholders.

Under this programme the LSA continues to work on the following areas:

- a 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 supports a range of projects being taken forward by DOJ.

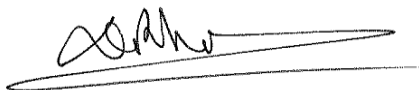
Health and Safety

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 (OSB). 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.

During 2016-17 a Fire Risk Assessment was carried out by the Fire Safety Unit of DOJ. A number of recommendations were made by the assessor, which have been actioned by OSB. There are regular Health and Safety Forum meetings with staff who have health and safety responsibilities within the LSA and Trade Union representatives. A monthly report is provided to the Officer in Charge of Health and Safety in LSA by OSB which includes the assurances that the DOJ procedures are being followed and the appropriate health and safety checks carried out. The Health and Safety Officer attends the quarterly DOJ Health and Safety Forum meetings as the LSA representative. There were no notifiable accidents during 2016-17.

PERFORMANCE REPORT



Paul Andrews
Chief Executive and Accounting Officer
22 June 2017

ACCOUNTABILITY REPORT

The Accountability section of the Annual Report outlines how the Agency meets its key accountability requirements to the Assembly and ensures best practice with corporate governance norms and codes. The three sub-sections within the Accountability Report are outlined below.

i - Corporate Governance Report

The purpose of this section is to explain the composition and organisation of the Agency's governance structures and how they support the achievement of its objectives.

As a minimum, the corporate governance report must include:

- Directors' Report;
- Statement of Accounting Officer's responsibilities; and
- Governance Statement.

ii - Remuneration and Staff Report

This section sets out the Agency's remuneration policy for directors, reports on how that policy has been implemented and sets out the amounts awarded to directors as salary and pension entitlements.

In addition the report provides information relating to remuneration and staff that the Assembly and other users see as key to accountability.

iii - Assembly Accountability and Audit Report

This section brings together the key Assembly accountability documents within the Annual Report and Accounts. It comprises:

- regularity of expenditure;
- Assembly accountability disclosures; and
- Certificate and Report of the Comptroller and Auditor General to the Assembly.

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:

Position	Member
Chief Executive	Paul Andrews
Director, Civil Legal Services	Sheila McPhillips
Director, Payment Services	Jill Herron
Director, Corporate Services	Glynis Brown (from 31 May 2016)
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.

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 at www.lsanigov.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@lsanigov.uk.

Information Assurance

There were no incidences of loss of information assets or personal data during 2016-17 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 by the Agency 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 10 complaints recorded for the LSA during 2016-17 (2015-16: 21) and these were mainly concerned with process or delay. Of these, five were closed in 2016-17 and five have been carried forward into 2017-18 for resolution.

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

E-mail: 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 LSA cannot investigate complaints about the representation received by recipients of civil legal services or criminal legal aid. Complaints about the service or performance of solicitors and barristers must be 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) 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 as part of the Access to Justice Reform Programme. 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 is approved by the DOJ.

The Board of the LSA has a corporate responsibility for ensuring that the Agency fulfils the aims and objectives set by the DOJ 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 are effectively directed to delivering business objectives. It also provides a range of assurances that appropriate internal controls are in place and working effectively.

The Board considers it has 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 Department are invited as observers to attend all Board and Audit and Risk Committee meetings. This arrangement ensures that both parties continue to be well informed as to the wide range of matters that may impact on achievement of business objectives.

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 this period has been:

- establishing the 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 2016-17:

Position	Member	Attendance
Chief Executive	Paul Andrews	11/11
Director, Civil Legal Services	Sheila McPhillips	9/11
Director, Payment Services	Jill Herron	11/11
Director, Corporate Services	Glynis Brown (from 31 May 2016)	9/10
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 five meetings of the Audit and Risk Committee held during 2016-17:

Position	Member	Attendance
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 Audit and Risk Committee Member	Peter Toogood	5/5

The following were generally in attendance at all Audit and Risk Committee meetings: Chief Executive, Director, Corporate Services, Business Assurance Manager, Head of Internal Audit, Deputy Director DOJ and representatives from NIAO and DOJ 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. This risk appetite is currently 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 agenda items focusing specifically on risk management;
- structures in place to assess and report on information risk; and
- twice-yearly 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 Departmental whistleblowing arrangements.

5. Review of Effectiveness of the Governance Framework

In March 2017, the Board carried out an evaluation of its performance using the National Audit Office (NAO) Board Evaluation Questionnaire. Each member of the Board independently evaluated the Board performance and the findings were reviewed at the March 2017 Board meeting. The Board was satisfied with its effectiveness against the criteria set in the National Audit Office (NAO) Questionnaire and 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. The process also identified a small number of areas where further improvements can be made in 2017-18 and an action plan is being prepared to address these matters.

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

6. 2017-18 Budget Position

The Northern Ireland Assembly was dissolved as from 26 January 2017 for an election which took place on 2 March, on which date Ministers also ceased to hold office. An Executive was not formed following the election within the period specified in the legislation. As a consequence, a Budget Act is not yet in place for 2017-18. In the absence of a budget for 2017-18 determined by an Executive, Section 59 of the Northern Ireland Act 1998 and Section 7 of the Government Resources and Accounts Act (Northern Ireland) 2001 provide for the Permanent Secretary of the Department of Finance to issue cash to departments and agencies from the NI Consolidated Fund. These powers are an interim measure designed to ensure that services can be maintained until such times as a budget is agreed and a Budget Act passed.

7. Significant Internal Control Issues

External Audit - Account Qualifications

The C&AG qualified the 2016-17 financial statements of LSA on the basis of a limitation of scope in respect of:

- regularity of transactions in the period – LSA was unable to provide sufficient evidence to assure NIAO that a material amount had not been claimed fraudulently or in error;
- true and fair view of the balance of provisions for legal aid liabilities stated in the Statement of Financial Position - LSA was unable to provide sufficient evidence to support its estimate of the provision for legal aid liabilities to the level of accuracy required; and
- completeness of income arising from LSA not effectively implementing legislation introduced to allow for the recovery of defence costs in criminal legal aid cases.

LSA has prepared a work programme to address these qualifications and has been taking this forward in conjunction with the Department. As some of the changes required are dependent on the new Digitisation system for legal aid this work programme will span a number of financial years.

Regularity of expenditure

The LSA remains committed to a range of initiatives to address this qualification. In particular within this financial year a partnership approach has been established with the Department for Communities to work together in developing methodologies to measure the error rate which may exist within the legal aid system. This arrangement will also review the fraud investigatory approaches available to LSA and will work to further improve the culture for ensuring fraud is proactively managed across the Agency. There has also been a review of the resourcing and skills within the Counter Fraud team and these have been increased and enhanced so that the agency can take forward improvements required. LSA is seeking to enhance the 1% sample check of case files, and will analyse ways in which this can be more effectively targeted at high risk areas.

The LSA has also continued an extensive review of the ongoing financial eligibility of individuals who remain in receipt of civil legal aid. This enabled the LSA to take action in a number of cases and helped the LSA to identify further steps which will require legislative cover. These measures will be further strengthened with the introduction of a statutory compliance regime in 2018.

Provisions

The LSA is supporting work led by the Department to improve the technique it uses when estimating outstanding liabilities for publicly funded legal services provided by legal practitioners. Extensive work has been undertaken to analyse the payment profiles and the life cycle of claims to provide an enhanced suite of analysis to inform the estimates. In addition, the LSA has established a high cost case register for cases which are projected to cost in excess of £100,000 and a request for information issued to practitioners. This area of 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 the qualification 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. The LSA has developed separate approaches for Forecasting and Provisions to recognise the distinct processes involved.

Income

The Department has undertaken a review of the legislation and operational requirements governing Recovery of Defence Costs Orders. Proposals to enhance the effectiveness of the scheme have been developed and will be brought forward for implementation in 2017-18.

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. Subsequently the PAC published its report on Managing Legal Aid on 11 January 2017. A draft Departmental response to the PAC report has been prepared with input from LSA and this is due to be finalised in 2017-18.

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 and in particular the specific audit qualifications and wider recommendations from both external and internal audit. During 2016-17 I have put in place a number of projects as part of the Transformation Programme that will begin to address these weaknesses and the recommendations made. 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. The minimum point has been removed in each year from 2014 to 2016 (the scales now have 8 pay points) 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.

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.

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 £000	Benefits in kind (to nearest £100)	*Pension Benefits £'000	2016-17
				Total £000
Paul Andrews Chief Executive	75-80	-	31	110-115
Sheila McPhillips Director, Civil Legal Services	60-65	-	24	85-90
Jill Herron Director, Payment Services	60-65	-	11	70-75
Glynis Brown Director, Corporate Services (from 31 May 2016)	45-50 (55-60 full year equivalent)	-	24	70-75
Allen McCartney Independent Board Member	5-10	100	-	5-10
Professor John Morison Independent Board Member	5-10	-	-	5-10
Stephen Wooler CB Independent Board Member	5-10	4,400	-	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.*

[Audited information]

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

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 ex 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.

Fair pay disclosure

	2016-17	2015-16
Band of highest paid Director's Total Remuneration*	£75-80,000	£80-85,000
Median Total Remuneration*	£24,975	£24,728
Ratio	3.1	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 2016-17 was £75-80,000 (2015-16: £80-85,000). This was 3.1 times (2015-16: 3.3) the median remuneration of the workforce, which was £24,975 (2015-16: £24,728). In 2016-17 no employees received remuneration in excess of the highest paid director. Remuneration in 2016-17 ranged from £18,000 to £75-80,000 (2015-16: £18,000 to £80-85,000).

Pension entitlements

[Audited information]

Officials	Accrued pension at pension age as at 31/3/17 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/3/17 or as noted	CETV at 31/3/16*	Real increase in CETV	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	(Nearest £100)
Paul Andrews Chief Executive	30-35 plus 70-75 related lump sum	0-2.5 plus nil related lump sum	539	516	17	-
Sheila McPhillips Director, Civil Legal Services	35-40 plus 75-80 related lump sum	0-2.5 plus nil related lump sum 0- 2.5	774	749	20	-
Jill Herron Director, Payment Services	30-35 plus 90-95 related lump sum	0-2.5 plus 0-2.5 related lump sum	659	618	13	-
Glynis Brown Director, Corporate Services (from 31 May 2016)	10-15 plus nil related lump sum	0-2.5 plus nil related lump sum	147	131	11	-

* or date of joining if later

No pension benefits are provided to the Independent Board Members.

Northern Ireland Civil Service (NICS) Pension Schemes

Pension benefits are provided through the Northern Ireland Civil Service pension schemes 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 had an option to transfer to the NICS pension arrangements. A bulk transfer process is underway to transfer membership from NILGOSC to NICS pension schemes for those members who wish to transfer their prior service from NILGOSC to CSP.

Prior to the formation of the LSA, some staff were seconded to NILSC from DOJ and were members of CSP. These seconded staff became LSA permanently employed staff on 1 April 2015. Of these staff, staff in post 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 reviewed annually in line with changes in the cost of living. Prior to 2011, pensions were reviewed 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 reviewed annually in line with changes in the cost of living.

A new pension scheme, alpha, was introduced for new entrants from 1 April 2015. The majority of existing members of the NICS pension arrangements have also moved to alpha from that date. Members who on 1 April 2012 were within 10 years of their normal pension age will 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 reviewed annually in line with changes in the cost of living.

Increases to public service pensions are the responsibility of HM Treasury. Pensions are reviewed each year in line with the cost of living. Any applicable increases are applied from April and are determined by the Consumer Prices Index (CPI) figure for the preceding September. The CPI in September 2016 was 1% and HM Treasury has announced that public service pensions will be increased accordingly from April 2017.

Employee contribution rates for all members for the period covering 1 April 2017 to 31 March 2018 are as follows:

Annualised Rate of Pensionable Earnings (Salary Bands)		Contribution rates - Classic members or classic members who have moved to alpha	Contribution rates - All other members
From	To		
£0	£15,000.99	4.60%	4.60%
£15,001.00	£21,422.99	4.60%	4.60%
£21,423.00	£51,005.99	5.45%	5.45%
£51,006.00	£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 8% and 14.75% (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 schemes 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. 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 changes 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	2016-17 £000 Total	2015-16 £000 Total
Wages and salaries		2,950	51	3,001	3,267
Social security costs		281	-	281	259
Other pension costs		637	-	637	711
Pension provision		5,344	-	5,344	-
Total Gross Costs		9,212	51	9,263	4,237
Less recoveries in respect of outward secondments		-	-	-	-
Total Net Costs		9,212	51	9,263	4,237

The Northern Ireland Civil Service pension schemes are unfunded multi-employer defined benefit schemes but (insert employer's name) 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 DoF Superannuation and Other Allowances Annual Report and Accounts as at 31 March 2017.

For 2016-17, employers' contributions of £665,893 were payable to the NICS pension arrangements (2015-16: £710,335) at one of three 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 2017-18, the rates will range from 20.8% to 26.3%. The contribution rates are set to meet the cost of the benefits accruing during 2016-17 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 (2015-16: Nil) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 8% to 14.75% (2015-16: 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% (2015-16: £Nil, 0.5%) of pensionable pay, were payable to the NICS Pension schemes 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.

1 person (2015-16: 2 persons) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £5,708 (2015-16: £Nil).

Average number of persons employed

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

[Audited information]

	2016-17	2015-16
Operational staff	105	112
Total	105	112

Staff composition

The number of persons employed at 31 March 2017 was as follows:

	Female staff	Male staff	Total staff
LSA Board	3	4	7
Senior Civil Service	-	1	1
LSA Employees	79	41	120

Managing attendance

The average days lost per whole time equivalent member of staff for 2016-17 has been estimated at 13.4 days (2015-16: 11.7 days). Official finalised figures will be available on publication of the "Sickness Absence in the Northern Ireland Civil Service 2016-17" report later this year.

Staff Policies

Staff Wellbeing, Equal Opportunities and Diversity

During 2016-17 the WELL Champions arranged for representatives from the various support services available in NICS to provide information on the support services that LSA staff can access as Civil Servants.

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 2016-17 the LSA continued to take steps to improve the knowledge and awareness of staff about equality and diversity issues. A selection of staff across the Agency attended Diversity Now training in November 2016.

Employment of disabled persons

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

All staff completed a Personal Development Plan which identified training needs for 2016-17. The LSA Divisional Training Co-ordinator monitored progress 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.

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. Directors are responsible for ensuring that team briefings have been held in their Directorate and provide an overview of the key points arising to each Board meeting.

During 2016-17 the LSA published regular staff bulletins and messages from the Chief Executive. The SMT encouraged and promoted a culture of regular Team Briefings throughout LSA. Briefing sessions were arranged and took place on a monthly basis in each business area and were used to cascade information flowing from the Board Brief, SCS Forum events, Core Brief and to update on local issues as well as offering the opportunity for staff to feedback opinion, advance suggestions and discuss topics of interest.

A Staff Engagement Forum was established in DOJ comprising of representatives, from each business area and Agency. Two members of LSA staff volunteered to be the representatives on the Forum. The purpose of the Forum was to provide a voice for staff to discuss issues and concerns and, on many fronts influence the future direction of the department and to help shape the response to the 2015 staff attitude survey. The LSA representatives attended a number of meetings of the Forum throughout the year to feed back on the views of the LSA staff. The representatives worked closely with colleagues on the Forum from other departments to develop a response and a prioritised action plan. Work will continue in this area in 2017-18.

Expenditure on consultancy

The LSA incurred no expenditure on consultancy in 2015-16 or 2016-17.

Off-payroll payments

The LSA made no off-payroll payments in 2015-16 or 2016-17.

Reporting of Civil Service and other compensation schemes - exit packages

The LSA incurred no expenditure on compulsory redundancies or other departures during 2016-17 (2015-16: £Nil). 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***

The value of trade receivable balances written-off during 2016-17 was £781,481 (2015-16: £216,630).

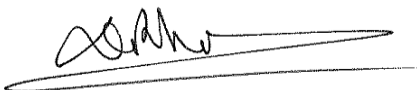
Statutory Charge Losses

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 2017, 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 2016-17 that require disclosure. Note 15 provides further details regarding the contingent liabilities that are included within the financial statements.

ACCOUNTABILITY REPORT

Paul Andrews
Chief Executive and Accounting Officer
22 June 2017

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 2017 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 Reports 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 £101.6 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 £146.1 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

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 2017 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 Reports and the Assembly Accountability disclosures to be audited have been properly prepared in accordance with Department of Finance (formerly Department of Finance and Personnel) 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 87 to 92.



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

5 July 2017

FINANCIAL STATEMENTS**Statement of Comprehensive Net Expenditure****For the year ended 31 March 2017**

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.

	Note	2016-17 £000	2015-16 £000
Income from sale of goods and services	6	-	(3)
Other operating income	6	(2,198)	(2,912)
Total operating income		(2,198)	(2,915)
Staff costs	4	9,263	4,237
Purchase of goods and services	5	4,160	4,658
Depreciation and impairment charges	5	90	241
Provision expense	5	101,733	98,304
Grants	5	30	66
Total operating expenditure		115,276	107,506
Net operating expenditure		113,078	104,591
Finance expense	5	3	4
Net expenditure for the year		113,081	104,595
Non-operating activities			
Net (gain)/loss on liabilities transferred	3	-	122,502
Other comprehensive net expenditure			
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	(1)	-
- actuarial (gain)/loss on pension liability	13	1,597	(422)
Comprehensive net expenditure for the year		114,677	226,675

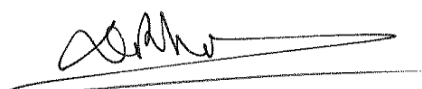
The notes on pages 56 to 86 form part of these Accounts.

Statement of Financial Position

As at 31 March 2017

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	2016-17 £000	2015-16 £000
Non-current assets			
Property, plant and equipment	7	19	14
Intangible assets	8	2,696	136
Trade and other receivables	11	1	2
Total non-current assets		2,716	152
Current assets			
Trade and other receivables	11	1,500	1,899
Cash and cash equivalents	10	16	43
Total current assets		1,516	1,942
Total assets		4,232	2,094
Current liabilities			
Cash and cash equivalents	10	(1,594)	-
Trade and other payables	12	(1,673)	(2,577)
Provisions	13	(54,551)	(49,101)
Total current liabilities		(57,818)	(51,678)
Total assets less current liabilities		(53,586)	(49,584)
Non-current liabilities			
Provisions	13	(96,244)	(78,348)
Total non-current liabilities		(96,244)	(78,348)
Total assets less total liabilities		(149,830)	(127,932)
Taxpayers' equity and other reserves			
General fund		(149,831)	(127,933)
Revaluation reserve		1	1
Total equity		(149,830)	(127,932)



Paul Andrews
Chief Executive and Accounting Officer

22 June 2017

The notes on pages 56 to 86 form part of these Accounts.

Statement of Cash Flows

For the year ended 31 March 2017

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	2016-17 £000	2015-16 £000
Cash flows from operating activities			
Net expenditure for the year		(113,081)	(104,595)
Adjustment for non-cash transactions	5	109,022	100,745
(Increase)/decrease in trade and other receivables	11	400	(1,901)
<i>Movement in receivables relating to items not passing through the SCNE</i>	11	(835)	(1,262)
Increase in trade and other payables	12	(904)	2,577
<i>Movement in payables relating to items not passing through the SCNE</i>	12	1	(5)
Use of provisions	13	(85,328)	(91,957)
Machinery of government transfer	3	-	(1,380)
Net cash outflow from operating activities		(90,725)	(97,778)
Cash flows from investing activities			
Purchase of property, plant and equipment		(14)	-
Purchase of intangible assets		(2,641)	16
Net cash outflow from investing activities		(2,655)	16
Cash flows from financing activities			
Net Assembly Funding		91,759	97,805
Net financing		91,759	97,805
Net (decrease)/increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		(1,621)	43
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)
Net (decrease)/increase in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		(1,621)	43
Cash and cash equivalents at the beginning of the period	10	43	-
Cash and cash equivalents at the end of the period	10	(1,578)	43

The notes on pages 56 to 86 form part of these Accounts.

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2017

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
Balance at 31 March 2015		-	-	-
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)	-
Balance at 31 March 2016		(127,933)	1	(127,932)
Net Assembly Funding		91,759	-	91,759
Comprehensive net expenditure for the year		(114,678)	1	(114,677)
Auditor's remuneration	5	60	-	60
Other notionals	5	960	-	960
Transfer between reserves		-	(1)	-
Balance at 31 March 2017		(149,831)	1	(149,830)

The notes on pages 56 to 86 form part of these Accounts.

Notes to the Accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2016-17 *Government Financial Reporting Manual (FReM)* issued by the Department of Finance. 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:

Asset category	Useful Life
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 Notes 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 - based on an analysis of historical payment values and volumes a series of average costs within defined bands are calculated by category within each business area. This series of averages is then applied to the certificate volume to be provided in line with the latest historical payment profile; 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 2016-17 for the first time

The Agency has considered the accounting initiatives identified by HM Treasury effective in 2016-17 for the first time and considers that these changes are not relevant or material to its operations.

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 Agency's accounting periods beginning on or after 1 April 2017 or later periods, but which the Agency has not adopted early. Other than as outlined below, the Department considers that these standards are not relevant or material to its operations.

Standard	IFRS 15 - Revenue from Contracts with Customers (IAS 18 Revenue replacement) (new)
Effective date	1 January 2018 (not yet EU adopted) - with a view to include in the 2018-19 <i>FReM</i> .
Description of revision	<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>
Comments	The introduction of IFRS 15 is subject to analysis and review by HM Treasury and the other Relevant Authorities. HM Treasury issued an Exposure Draft on IFRS 15 over the Summer of 2016. Feedback from this consultation process has been considered and will inform updates to the <i>FReM</i> . No adaptations to IFRS 15 have been proposed.

Standard	IFRS 16 - Leases (IAS 17 Leases replacement) (new)
Effective date	1 January 2019 (not yet EU adopted) - with a view to include in the 2019-20 <i>FReM</i> .
Description of revision	<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>
Comments	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 early 2018.

1.25 Financial reporting - future developments

The Department 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' court or Crown Court.

			2016-17 £000
	Civil Legal Services	Criminal Legal Aid	Total
Gross expenditure	60,013	55,266	115,279
Income	(2,198)	-	(2,198)
Net expenditure	57,815	55,266	113,081
			2015-16 £000
	Civil Legal Services	Criminal Legal Aid	Total
Gross expenditure	50,521	56,989	107,510
Income	(2,915)	-	(2,915)
Net expenditure	47,606	56,989	104,595

2.1 Reconciliation between Operating Segments and Statement of Comprehensive Net Expenditure

	2016-17 £000		
	Civil Legal Services	Criminal Legal Aid	Total
Total net expenditure reported for Operating Segments	57,815	55,266	113,081
Reconciling items	-	-	-
Total net expenditure per Statement of Comprehensive Net Expenditure	57,815	55,266	113,081

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

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 on 1 April 2015.

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

The Machinery of Government transfer included under Cash flows from operating activities in the Statement of Cash Flows for 2015-16 comprises:

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

4. Staff costs

	2016-17 £000	2015-16 £000
	<u>Total</u>	<u>Total</u>
Wages and salaries	3,001	3,267
Social security costs	281	259
Other pension costs	637	711
Pension provision	5,344	-
Total Gross Costs	<u>9,263</u>	<u>4,237</u>
Less recoveries in respect of outward secondments	-	-
Total Net Costs	<u>9,263</u>	<u>4,237</u>

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

5. Programme costs

	Note	2016-17 £000	2015-16 £000
Purchase of goods and services			
Staff related costs		15	14
Rentals under operating leases		315	315
Accommodation costs		295	305
Office services		188	220
Contracted out services		47	50
Professional costs		243	618
Managed services		262	233
Appeals Panel and Board member costs		169	197
Programme operating costs		766	253
Other		5	253
		2,305	2,458
Non-cash items:			
Auditor's remuneration and expenses		60	60
Notional charges		435	412
Intra-departmental notional charges		525	466
(Decrease)/increase in impairment of trade receivables	11	835	1,262
		1,855	2,200
		4,160	4,658
Depreciation and impairment charges			
Depreciation	7	8	140
Amortisation	8	82	101
		90	241
Provisions expense			
Provided in year	13	128,068	147,463
Written back in year	13	(26,354)	(49,189)
Borrowing costs	13	19	30
		101,733	98,304
Grants		30	66
Total Programme costs excluding Finance expense		106,013	103,269
Finance expense		3	4
Total Programme costs including Finance expense		106,016	103,273

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

	Note	2016-17 £000	2015-16 £000
Pension provision	4	5,344	-
Purchase of goods and services	5	1,855	2,200
Depreciation and impairment charges	7, 8	90	241
Provision expense	13	101,733	98,304
		109,022	100,745

6. Income

	2016-17 £000	2015-16 £000
Sales of goods and services	-	3
Other operating income		
Contributions and statutory charges	2,198	2,912
	2,198	2,912
Total operating income	2,198	2,915

7. Property, plant and equipment

	Plant and Machinery £000	Information Technology £000	2016-17 Total £000
Cost or valuation			
At 1 April 2016	1,175	7	1,182
Additions	13	-	13
Disposals	(11)	-	(11)
Transfers	-	-	-
Reclassification	-	-	-
Revaluation released to SCNE	-	-	-
Revaluation	-	-	-
At 31 March 2017	1,177	7	1,184
Depreciation			
At 1 April 2016	1,166	2	1,168
Charged in year	6	2	8
Disposals	(11)	-	(11)
Transfers	-	-	-
Reclassification	-	-	-
Revaluation released to SCNE	-	-	-
Revaluation	-	-	-
At 31 March 2017	1,161	4	1,165
Carrying amount at 31 March 2017	16	3	19
Carrying amount at 31 March 2016	9	5	14
Asset financing:			
Owned	16	3	19
Carrying amount at 31 March 2017	16	3	19

7. Property, plant and equipment (continued)

	2015-16		
	Plant and Machinery £000	Information Technology £000	Total £000
Cost or valuation			
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	-	-	-
At 31 March 2016	1,175	7	1,182
Depreciation			
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	-	-	-
At 31 March 2016	1,166	2	1,168
Carrying amount at 31 March 2016	9	5	14
Asset financing:			
Owned	9	5	14
Carrying amount at 31 March 2016	9	5	14

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

	2016-17			
	Software licences £000	Software £000	Assets Under Construct- ion £000	Total £000
Cost or valuation				
At 1 April 2016	905	380	-	1,285
Additions	-	2	2,639	2,641
Disposals	(264)	-	-	(264)
Transfers	-	-	-	-
Reclassification	-	-	-	-
Revaluation released to SCNE	-	-	-	-
Revaluation	-	3	-	3
At 31 March 2017	641	385	2,639	3,665
Depreciation				
At 1 April 2016	889	260	-	1,149
Charged in year	16	66	-	82
Disposals	(264)	-	-	(264)
Transfers	-	-	-	-
Reclassification	-	-	-	-
Revaluation released to SCNE	-	-	-	-
Revaluation	-	2	-	2
At 31 March 2017	641	328	-	969
Carrying amount at 31 March 2017	-	57	2,639	2,696
Carrying amount at 31 March 2016	16	120	-	136
Asset financing:				
Owned	-	57	2,639	2,696
Carrying amount at 31 March 2017	-	57	2,639	2,696

8. Intangible assets (continued)

	2015-16			
	Software licences £000	Software £000	Assets Under Construct- ion £000	Total £000
Cost or valuation				
Machinery of government transfer on 1 April 2015	1,521	364	-	1,885
Additions	-	(12)	-	(12)
Disposals	(484)	(104)	-	(588)
Transfers	-	-	-	-
Reclassification	(132)	132	-	-
Revaluation released to SCNE	-	-	-	-
Revaluation	-	-	-	-
At 31 March 2016	905	380	-	1,285
Depreciation				
Machinery of government transfer on 1 April 2015	1,330	306	-	1,636
Charged in year	43	58	-	101
Disposals	(484)	(104)	-	(588)
Transfers	-	-	-	-
Reclassification	-	-	-	-
Revaluation released to SCNE	-	-	-	-
Revaluation	-	-	-	-
At 31 March 2016	889	260	-	1,149
Carrying amount at 31 March 2016	16	120	-	136
Asset financing:				
Owned	16	120	-	136
Carrying amount at 31 March 2016	16	120	-	136

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

	2016-17 £000	2015-16 £000
Balance at 1 April	43	-
Net change in cash and cash equivalent balances	(1,621)	43
Balance at 31 March	(1,578)	43

The following balances at 31 March are held at:

Commercial banks and cash in hand	(1,578)	43
Balance at 31 March	(1,578)	43

Balances for Cash and cash equivalents are disclosed in the Statement of Financial Position as follows:

	2016-17 £000	2015-16 £000
Current assets	16	43
Current liabilities	(1,594)	-
Total	(1,578)	43

11. Trade receivables and other assets

	2016-17 £000	2015-16 £000
Amounts falling due within one year:		
Trade receivables	1,342	1,756
Other receivables	3	5
Prepayments and accrued income	124	127
VAT	31	11
	1,500	1,899
Amounts falling due after more than one year:		
Trade receivables	-	-
Other receivables	1	2
	1	2
Total	1,501	1,901

Trade receivables are stated net of the following impairment:

	2016-17 £000	2015-16 £000
At 1 April	5,299	-
Machinery of government transfer	-	4,037
Net movement during year	835	1,262
Balance at 31 March	6,134	5,299

12. Trade payables and other current liabilities

	2016-17 £000	2015-16 £000
Amounts falling due within one year:		
Trade payables	975	1,227
Other payables	373	354
Accruals and deferred income	325	996
	1,673	2,577

13. Provisions for liabilities and charges

					2016-17 £000
	Civil Legal Services	Criminal Legal Aid	Pension liability	Legal claims	Total
At 1 April 2016	80,465	46,319	540	125	127,449
Provided in the year	71,997	55,957	5,344	114	133,412
Actuarial loss/(gain)	-	-	1,597	-	1,597
Provisions not required written back	(12,584)	(13,770)	-	-	(26,354)
Provisions utilised in the year	(41,040)	(41,288)	(3,000)	-	(85,328)
Borrowing costs	-	-	19	-	19
Balance at 31 March 2017	98,838	47,218	4,500	239	150,795

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

Analysis of expected timing of discounted flows

					2016-17 £000
	Civil Legal Services	Criminal Legal Aid	Pension liability	Legal claims	Total
Not later than one year	27,609	25,203	1,500	239	54,551
Later than one year and not later than five years	64,804	21,947	3,000	-	89,751
Later than five years	6,425	68	-	-	6,493
Balance at 31 March 2017	98,838	47,218	4,500	239	150,795

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

Civil Legal Services and Criminal Legal Aid: £146.056m (2015-16: £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 2017 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.

Pension liability: £4.500m (2015-16: £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 NILGOSC Scheme closed on 31 March 2015 for NILSC employees following the machinery of government transfer from NILSC to the LSA. The accrued pension benefits of NILGOSC for pensioners and deferred members will remain in NILGOSC.

Current members of LSA staff have been 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. Whilst it is not currently possible to quantify the actual financial exposure, the following provisions have been included in the financial statements as the best estimate of the potential liabilities.

	2016-17	2015-16
	£000	£000
NILGOSC - cessation payment	1,100	540
NICS pension - shortfall payment	3,400	-
	4,500	540

Given the underlying uncertainty in terms of timings, number of staff and amounts involved, a Contingent Liability has been disclosed as in Note 15.

NILGOSC - IAS 19 disclosures

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 2017.

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

NILGOSC - IAS 19 disclosures (continued)**Assumptions**

The principal actuarial assumptions used for the calculations were:

	31/03/17 %	31/03/16 %
Discount rate	2.50%	3.50%
Future increase in RPI	3.20%	3.00%
Future increase in CPI	2.20%	2.00%
Future rate of salary increase	3.70%	3.50%
Rate of increase in pension in payment:		
- Guaranteed Minimum Pension (CPI max 3%)	1.95%	2.00%
- Excess pension (CPI)	2.20%	2.00%

Average expected future life at age 65 for:

	31/03/17 Years	31/03/16 Years
Male currently aged 65	21.0	21.8
Female currently aged 65	23.4	24.3
Male currently aged 45	22.7	23.6
Female currently aged 45	25.3	26.3

Assets and liabilities

	Value at 31/03/17 £000	Value at 31/03/16 £000
Assets:		
Equities	23,842	17,544
Property	3,360	3,216
Bonds	3,680	2,948
Cash	1,120	658
Total value of assets	32,002	24,366
Defined benefit obligation	(33,102)	(24,906)
Defined benefit asset/(liability)	(1,100)	(540)
Restriction to defined benefit asset due to asset ceiling	-	-
Unfunded liabilities	-	-
Total defined benefit asset/(liability)	(1,100)	(540)
Related deferred tax (liability)/asset	no allowance	no allowance
Net asset/(liability)	(1,100)	(540)

NILGOSC - IAS 19 disclosures (continued)**Reconciliation of value of assets**

	2016-17 £000	2015-16 £000
At 1 April	-	-
Machinery of government transfer	24,366	24,640
Expected return	848	784
Actuarial gains/(losses)	4,065	(786)
Employer contributions	3,000	-
Member contributions	-	-
Benefits paid	(277)	(272)
Closing value of assets	32,002	24,366

Reconciliation of the value of the defined benefit obligation

	2016-17 £000	2015-16 £000
At 1 April	24,906	-
Machinery of government transfer	-	25,572
Employer service cost	-	-
Administration expenses	-	-
Member contributions	-	-
Interest cost	867	814
Actuarial losses/(gains) - financial assumptions	6,310	(584)
Actuarial losses/(gains) - demographic assumptions	(648)	(624)
Settlement	1,944	-
Benefits paid	(277)	(272)
Closing defined benefit obligation	33,102	24,906

Return on the assets

	2016-17 £000	2015-16 £000
Actual return on the assets	4,913	(2)

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

	2016-17 £000	2015-16 £000
Employer service costs	-	-
Administration expenses	-	-
Settlement	1,944	-
Interest charged/(credited) in respect of defined benefit liability/(asset)	19	30
Total	1,963	30

NILGOSC - IAS 19 disclosures (continued)**Actuarial loss/(gain) to be recognised in the Statement of Changes in Taxpayers' Equity**

	2016-17 £000	2015-16 £000
Actuarial gain/(loss)	(1,597)	422
Decrease/(increase) in irrecoverable surplus	-	-
Total	(1,597)	422

Amounts for the current period

	2016-17 £000	2015-16 £000
Defined benefit obligation	(33,102)	(24,906)
Fair value of assets	32,002	24,366
Surplus/(deficit)	(1,100)	(540)
Experience adjustment on liabilities - gain/(loss)	-	-
Experience adjustment on assets - gain/(loss)	4,065	(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:

Assumption	Change in assumption	Increase/(Decrease) in liabilities
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	3%

14. Capital and other commitments

14.1 Capital commitments

	2016-17 £000	2015-16 £000
Contracted capital commitments at 31 March not otherwise included in these financial statements:		
Property, plant and equipment	-	-
Intangible assets	2,221	-
Total	2,221	-

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.

	2016-17 £000	2015-16 £000
Obligations under operating leases comprise:		
<i>Land and buildings</i>		
Not later than one year	319	319
Later than one year and not later than five years	107	426
Later than five years	-	-
Total	426	745

14.3 Other financial commitments

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

	2016-17 £000	2015-16 £000
Not later than one year	-	-
Later than one year and not later than five years	-	-
Later than five years	-	-
Total	-	-

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) and the Department of Finance (DoF).

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 2017 was as follows:

	2016-17 £000	2015-16 £000
At 1 April	378	-
Machinery of government transfer	-	288
Damages received	822	680
Interest received	-	1
	<hr/> 1,200	<hr/> 969
Less:		
Sums repaid to assisted persons	(243)	(295)
Damages retained	(275)	(296)
Balance at 31 March	<hr/> 682 <hr/>	<hr/> 378 <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 5 July 2017.

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. The Public Accounts Committee of the Northern Ireland Assembly has published two reports on the subject of legal aid; one in 2011 and another in January 2017. Both reports were critical of how the legal aid budget had been managed by NILSC and LSANI over a number of years.
4. I am qualifying my audit opinion on the 2016-17 financial statements of LSANI. The audit opinions on the annual accounts of NILSC and LSANI 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

5. 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.
6. This report is to explain the background to my qualifications on the LSANI Account for the year ended 31 March 2017. 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 and error did not exist within eligibility assessments of legal aid applicants and in expenditure from legal aid funds (£101.6 million);

- ii. support the assumptions and judgements used in the determination of the provision for legal aid liabilities of £146.1 million at 31 March 2017; 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 and error did not exist within legal aid expenditure

7. Legal aid expenditure in 2016-17 was £101.6m (Civil £59.4 million and Criminal £42.2 million).
8. There are two aspects to the limitation in scope in respect of fraud and error. Firstly there was insufficient evidence to support the eligibility of certain Legal aid applications; secondly there was insufficient evidence to support the completeness and accuracy of payments to legal practitioners.

Eligibility

9. 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 criminal cases, a judge decides upon an applicant's eligibility following confirmation from the Legal Aid Assessment Office (LAAO)¹ that the applicant is in receipt of benefits. However, where there is doubt over the applicant's means or the merits of the case, the court has a legal obligation to resolve those doubts in favour of the applicant. Consequently, it is difficult to estimate how much of criminal legal aid is dependent upon an assessment of benefits being claimed.
10. In civil cases, eligibility is assessed by solicitors and the LAAO. The complexity of civil legal aid schemes gives scope for fraud or error in assessing eligibility. My main concerns relate to eligibility:
 - there is an inherent level of fraud within the benefits system that could impact on legal aid payments. This applies to both civil and criminal legal aid; and
 - for applicants who are not in receipt of benefits, for example those employed or self-employed, assessments rely upon the declarations made in application forms with supporting documents such as payslips and accounts, in order to assess eligibility.
11. In 2016-17 LSANI carried out an exercise to estimate the level of claimants who may no longer be eligible for support 12 months after the claim was submitted. The results identified a significant number of claimants who were no longer entitled to legal aid. Consequently, certificates were withdrawn and payments ceased for any legal work completed after the review exercise.

¹ The Legal Aid Assessment Office is part of the Working Age Group in the Department for Communities

12. LSANI is investing significant resources to develop a robust strategy to counter fraud and error, working with the Department for Communities (DfC) to develop an estimate of the levels of fraud and error in the system. This includes a more accurate assessment of the proportion of applicants who would have lost benefit entitlement and thereby not been 'passported' for legal aid.

Payments to legal practitioners

13. The nature of the legal aid scheme, in making payments to legal practitioners for services which are provided directly to 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.
14. 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. A registration scheme has been lacking for a number of years. It is planned currently to be integrated into the Agency's new case management system which is unlikely to be fully operational until next year.
15. I asked LSANI what progress it had made to develop and implement the registration scheme. It advised me that the Department has consulted on the registration scheme, including regulations which will be brought before the Assembly in due course. In addition, LSANI has developed an online registration facility as part of its digitalisation programme. This will form the first part of the roll-out of the new system, to be implemented once the legislation is passed.
16. I have limited the scope of my audit opinion on the regularity of expenditure in 2016-17 because I have been unable to obtain sufficient audit evidence 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

17. The LSANI is not able to determine the specific number of live/active legal aid certificates currently issued. Costs for Civil Legal Aid cases are not standardised, so different firms may bill varying amounts for similar work. The LSANI uses an estimates process to calculate a statistical approximation of the likely number of legal aid certificates. It uses another estimates process to calculate the range of likely average costs of different types of cases. These estimates introduce an unacceptable level of uncertainty and error in the valuation of legal aid liabilities at 31 March.
18. 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 2017

	At 31 March 2017 £ million	At 31 March 2016 £million	At 31 March 2015 £ million
Criminal	47.2	46.3	36.2
Civil	98.8	80.5	82.8
Total	146.1	126.8	119.0

19. Provisions for legal aid liabilities are estimated 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, including a range of estimated average costs of each case type; the adjustments required for cases which result in no reports or multiple reports; and the estimated time it takes to complete a case.
20. Significant work has been undertaken by LSANI to improve the provisions model and a number of the limitations identified in previous years have now been addressed. The Department and LSANI are continuing to develop a model capable of providing a reasonable estimation of future legal aid costs. The model progressed significantly and was used to inform the provision for legal aid liabilities in the 2016-17 financial statements. However, the model is limited by specific concerns in relation to:
- the accuracy and completeness of the numbers of legal aid certificates; and
 - the quality of management information used in the provisions valuations.
21. I have qualified my audit opinion on the truth and fairness of the amount provided for legal aid liabilities at 31 March 2017 due to insufficient evidence to support the

current provisions methodologies and the judgements made when calculating provisions.

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

22. 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 as is reasonable in the financial circumstances of the defendant. As the majority of defendants are on benefits or of limited means, the legislation is likely to apply to only a limited number of cases.
23. The Department asserts that the Rules envisage a referral system and that it was not the policy intention to give LSANI a proactive power to pursue information to identify cases that are suitable for a Recovery of Defence Costs Order to be made. LSANI has advised me that it continues to remind prosecuting authorities of the facility to refer appropriate cases to the Agency and that it reviews all referrals received. In my view, this presents a significant risk that cases suitable for Recovery of Defence Costs Orders are not being identified.
24. To date 48 referrals have been received. Only two were suitable for an application to the court and Recovery of Defence Costs Orders have been granted in these cases.
25. LSANI has advised me that the Department has conducted a review of the policy and the Rules. Proposals to enhance the effectiveness of the scheme, and the necessary amendments to legislation, will be brought forward for approval by the Assembly and implementation in 2017-18.
26. I have qualified my audit opinion on the truth and fairness of income recorded in the accounts, as 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.

Conclusions

27. LSANI continues to work with the Department for Communities to estimate the levels of fraud and error in the legal aid budget and to develop an effective counter fraud strategy. Significant progress has been made during the course of the year and a realistic timetable established. There remains insufficient evidence to determine the level of fraud or error regarding the eligibility of legal aid payments or payments to legal practitioners in 2016-17.
28. The Department and LSANI have completed a revised methodology for determining legal aid provisions, and to provide more robust estimating of legal aid liabilities. This is limited by the quality of information provided by the existing management information systems and as a result, there remains insufficient audit evidence to support the completeness and accuracy of the provision. This situation is likely to remain until the implementation of a new case management system during 2018-19.

29. Criminal Legal Aid (Recovery of Defence Costs Orders) Rules (Northern Ireland) 2012 are not being applied effectively. The Department has advised that work is at an advanced stage to identify potential improvements to the operational arrangements governing Recovery of Defence Costs Orders, with particular focus on the referral mechanism. 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 appropriate recovery procedures applied.



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