

Statement of accounts

FOR THE YEAR ENDED 31 MARCH 2002



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FOREWORD

Principal Activities

The Board's principal activities are to assess and where appropriate grant applications for legal aid; to scrutinise and pay legal aid accounts submitted by solicitors and advocates; collect expenses and contributions; and to advise Scottish Ministers on legal aid matters.

Background

The Scottish Legal Aid Board ('the Board') presents its accounts for the financial year ended 31 March 2002. The accounts have been prepared in a form directed by Scottish Ministers in accordance with section 5 (2) of the Legal Aid (Scotland) Act 1986, as amended by the Public Finance and Accountability (Scotland) Act 2000, and in accordance with the Executive Non-Departmental Public Bodies Annual Reports and Accounts Guidance 2001/02.

The Board is a Non-Departmental Public Body established in 1987 and set up under the Legal Aid (Scotland) Act 1986 and is accountable to Scottish Ministers. A key objective for the Board is to operate within its Administration budget and to manage the Legal Aid Fund. Separate accounts have been prepared for the Legal Aid Fund ("the Fund") and for the administrative income and expenditure of the Board.

Scottish Legal Aid Fund

The Income and Expenditure account shows the net cost of operations, excluding notional charges, transferred to the General Fund is £140.102m (2001 - £128.197m). This includes the estimated value of work done on legal aid certificates outstanding as at 31st March 2002.

Scottish Legal Aid Board – Administration Expenditure

The Income and Expenditure account on an accruals basis shows the net cost of operations, excluding notional charges, but including pension costs, transferred to the General Fund is £9.532m (2001 - £8.818m).

Communication

The Board produces a monthly newsletter and occasional circulars for staff covering the Board's activities, including performance. These are discussed with staff during team briefing sessions. An employee opinion survey is carried out every two years to monitor staff views on a range of issues, such as communications, training and development, management practices, and quality of service. A Joint Consultative Committee of management and union representatives meets regularly.

As an Investor in People we continue to provide our staff with the opportunities and support that they need to develop their skills in meeting the organisation's objectives.

Creditor payment policy

The Board's payment policy with regard to suppliers in respect of Grant-in-aid expenditure is to agree payment terms when orders for goods and services are placed and, whenever necessary, ensure that suppliers are aware of the Board's terms of payment. The Board aims to comply with these terms subject to satisfactory performance by the supplier. The Board adheres to "The Better Payment Practice Code". The target turnaround time for invoices is 30 days. In 2001/02 96% of invoices met this target.

Audit

Audit Scotland carried out the audit of the Board's accounts for the 2001/02 financial year.

Equal Opportunities

The Board is committed to providing equal opportunities in employment. No job applicant or employee is treated less favourably, on the grounds of gender, race, colour, religion, nationality, age, disability, sexual orientation or marital status. This applies in the recruitment, reward, training and promotion of both new and existing employees. It also applies to the application of grievance, disciplinary, or other procedures, the provision of employee benefits and all terms and conditions of employment.



Lindsay Montgomery
Chief Executive and Accountable Officer
5th July 2002

STATEMENT ON THE SYSTEM OF INTERNAL CONTROL

1. ACCOUNTABLE OFFICER

As Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Scottish Legal Aid Board (SLAB) policies, aims and objectives, whilst safeguarding the public funds and assets for which I am responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

2. THE BOARD AND EXECUTIVE TEAM

SLAB is a non-departmental public body sponsored by the Scottish Executive Justice Department. The Board has a Chairman appointed by Scottish Ministers and consists of not less than 11 and not more than 15 members who are appointed by Scottish Ministers. Board members have reserved responsibility for determining SLAB's strategic aims, approving its corporate plan, monitoring expenditure and operations, providing advice to Scottish Ministers and reviewing Board performance.

The Executive Team comprises the Chief Executive and the directors of each of the operational and administrative functions of the Board. The Executive Team meets regularly and receives comprehensive management information to allow it to monitor and manage the Board's performance and to report accordingly to the Board.

3. SYSTEM OF INTERNAL FINANCIAL CONTROL

The system of internal control in relation to financial matters is based on a framework of regular management information, financial regulation and administrative procedures, including the segregation of duties and various levels of delegation specified by The Scottish Executive Justice Department and the Scottish Legal Aid Board itself.

In particular, it includes:

- Comprehensive budgeting systems – the annual Grant-in-Aid budget is approved by the Board.
- Regular reviews of monthly, quarterly and annual financial reports which indicate financial performance against budgets and forecasts.
- Setting targets to measure financial and other performance.
- Regular review by the Executive Team of comprehensive management information.
- Clearly defined delegated authority and capital investment control guidelines.
- Management checking and quality systems.
- Quarterly updates on risk management.

4. SYSTEM OF INTERNAL CONTROL

The wider system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of SLAB policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 March 2002 and up to the date of approval of the annual report and accounts and accords with appropriate guidance and best practice.

As Accountable Officer, I also have responsibility for reviewing the effectiveness of the system of internal control and the following framework is in place:

4.1 The Board

The Board meets monthly and monitors operational and financial performance, considers the plans and strategic direction of SLAB and considers reports from Board Committees set up to deal with areas such as Audit, Legal Services and Remuneration & Appointments. The Chief Executive and Directors also attend Board meetings.

4.2 The Executive Team

The Chief Executive leads an executive team made up of the directors responsible for all operational and administrative functions of the Board. The Executive Team meet at least twice per month and receives comprehensive management information on all of the Board's operations, including information relating to risk management.

4.3 The Remuneration and Appointments Committee

The Committee considers and makes recommendations to the Board on remuneration and related matters including the annual staff pay remit submitted to the Scottish Executive, Remuneration and Terms of Conditions for the Chief Executive and Executive Directors, and Pensions policies and related matters.

4.4 The Audit Committee

The Audit Committee comprises members of the Board and reports directly to the Board. Amongst its remit is a responsibility to advise the Accountable Officer of the effectiveness of the Board's internal control system.

The Audit Committee has responsibility for assisting the Accountable Officer and the Board members to discharge their individual and collective responsibilities for ensuring that:

- The Board's financial and accounting systems are providing accurate and up to date information on the current financial position.
- The Board's published financial statements represent a true and fair reflection of this position.
- The Board complies with any statutory requirements for the use of public funds.
- The Board operates within agreed limits to its authority and for the use of public funds.
- Board members comply with the code of conduct for NDPBs published by Treasury.

The Audit Committee receives regular reports from internal audit, to standards defined in the Government Internal Audit Manual, which include the Director of Audit's independent opinion on the adequacy and effectiveness of SLAB's system of internal control together with recommendations for improvement. It is also responsible for overseeing financial reporting, external audit, internal control, and Audit and Compliance Department activities.

4.5 Internal Audit

The Scottish Legal Aid Board has an internal audit service under the supervision of the Director of Audit. Internal Audit work concentrates on areas of key activity determined from an analysis of the areas of greatest risk. These are scheduled in the annual audit activity plan approved by the Audit Committee and the Accountable Officer. The Director of Audit is responsible to me as the Chief Executive and also reports to the Audit Committee on a quarterly basis. He has direct access to Board members and to the Convener of the Audit Committee.

The Director of Audit has issued an Assurance Statement to me, which provides his opinion on the adequacy and effectiveness of the internal control system and the extent to which it can be relied upon. In addition, the external auditors report to me and to the Audit Committee, and to the Board, any internal control issues which are identified in the normal course of their audit activities

4.6 Risk Management Framework

SLAB has established a risk management framework, in accordance with guidance on best practice from the Treasury, Scottish Executive and relevant professional bodies, key features of which are:

- SLAB's risk management policy and control strategy has been developed to incorporate external advice and expertise in conjunction with input from experienced SLAB staff from all operational and administrative areas.
- A Board wide risk register is maintained. It records all risks identified, is based on prioritisation of risk by ranking criteria and records actions taken to manage risks.
- High level ownership of all risks is at director level. Directors assign individual risks to named operational managers.
- The Executive Team receives regular reports on all aspects of risk management.
- Directors receive progress reports on at least a quarterly basis on risks identified within their area of responsibility and are involved in reviewing whether new risks have been identified for action.
- The Audit Committee receives quarterly reports on risks identified and action taken.
- The Board receives regular reports which incorporate updates on risk management initiatives such as the Cabinet Office report Successful IT: Modernising Government in Action.
- To pursue ways to reduce the impact of fraud and abuse of legal aid.

My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

Statement of Board's and Chief Executive's Responsibilities

The Legal Aid (Scotland) Act 1986 (the Act), as amended by the Public Finance and Accountability (Scotland) Act 2000, states that the Board is required to prepare a statement of accounts for each financial year in the form and on the basis determined by Scottish Ministers. The accounts are prepared on an accrual basis and must show a true and fair view of the Board's state of affairs at the year-end and of its income and expenditure and cash flows for the financial year.

In preparing the accounts the Board is required to:

- observe the accounts direction issued by the Scottish Ministers, 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 have been followed, and disclose and explain any material departures in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Board will continue in operation.

The Accountable Officer for the Scottish Executive Justice Department has designated the Chief Executive of the Scottish Legal Aid Board as the Accountable Officer for the Board. His relevant responsibilities as Accountable Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accountable Officer Memorandum.

The Board is responsible for the maintenance and integrity of its website. The information published on the website has been prepared under United Kingdom Company Law and may not be in accordance with the legal requirements of other countries from which the information can be accessed.



Lindsay Montgomery
Chief Executive and Accountable Officer
5th July 2002

Independent Auditor's report

To the members of the Scottish Legal Aid Board, the Scottish Parliament and the Auditor General for Scotland

I have audited the financial statements on pages v to xv under the Legal Aid (Scotland) Act 1986. The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on page viii.

Respective responsibilities of the Scottish Legal Aid Board, the Chief Executive and Auditor

As described on page iii the Scottish Legal Aid Board and the Chief Executive are responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions. The Scottish Legal Aid Board and the Chief Executive are also responsible for the preparation of the Foreword and other contents of the Annual Report. My responsibilities, as independent auditor, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Legal Aid (Scotland) Act 1986 and directions made thereunder and whether, in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Scottish Legal Aid Board has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages ii and iii complies with Scottish Executive guidance on statements on the system of internal control. I report if it does not comply with the guidance, or if the statement is misleading or inconsistent with other information I am aware of from my audit.

Basis of audit opinions

I conducted my audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, which requires compliance with relevant United Kingdom Auditing Standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and receipts shown in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Scottish Legal Aid Board and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Board's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error, and that, in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

Financial statements

In my opinion the financial statements give a true and fair view of the state of affairs of the Scottish Legal Aid Board at 31 March 2002 and of the net cost of operations, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Legal Aid (Scotland) Act 1986 and directions made thereunder.

Regularity

In my opinion, in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Signature provided on printed copies

5 July 2002

Fiona Kordiak CPFA, Chief Auditor
Audit Scotland (Edinburgh Area)
Osborne House, 1/5 Osborne Terrace
Edinburgh EH12 5HG

**INCOME AND EXPENDITURE ACCOUNT for the SCOTTISH LEGAL AID FUND
YEAR ENDED 31 MARCH 2002**

<i>a. Scottish Legal Aid Fund</i>			2002	2001
	Notes	£'000	£'000	£'000
Income				
Operating income	2.2		8,565	10,414
Expenditure				
Operating costs	3	(148,420)		(137,869)
Decrease / (increase) in bad debts provision	4	(266)		(759)
			(148,686)	(138,628)
Net cost of operations before interest			(140,121)	(128,214)
Interest receivable	5.4		19	17
Interest on capital (notional)	5.5		(2)	(3)
Net cost of operations			(140,104)	(128,200)
Add back notional charges			2	3
Net cost of operations excluding notional charges				
Transferred to General Fund	12		(140,102)	(128,197)

**BALANCE SHEET
AS AT 31 MARCH 2002**

<i>a. Scottish Legal Aid Fund</i>			2002	2001
	Notes	£'000	£'000	£'000
Fixed assets				
Tangible assets	6.1		17	33
Current assets				
Debtors	8	80,142		64,375
Cash at bank and in hand	9	8,097		8,227
		88,239		72,602
Current liabilities				
Creditors	10	(83,956)		(68,437)
Net current assets			4,283	4,165
Net assets			4,300	4,198
Financed by:				
General Fund	12		4,300	4,198

The notes on pages viii to xviii form part of these accounts and should be read in conjunction with the statements above.

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



Lindsay Montgomery
Chief Executive and Accountable Officer
5th July 2002

**INCOME AND EXPENDITURE ACCOUNT for the SCOTTISH LEGAL AID BOARD'S GRANT-IN-AID
YEAR ENDED 31 MARCH 2002**

b. Scottish Legal Aid Board

	Notes	£'000	2002 £'000	2001 £'000
Income	2.1		-	-
Expenditure				
Staff costs	5.1	(5,896)		(5,361)
Operating costs	5.2	(2,717)		(2,634)
Depreciation	6.2	(305)		(305)
Permanent diminution in value of fixed assets	6.2	(368)		(173)
Amortisation of government grant	13	174		48
Total expenditure			(9,112)	(8,425)
Net cost of operations before interest			(9,112)	(8,425)
Interest Received	5.4		6	8
Interest on capital (notional)	5.5		(95)	(93)
Loss on disposal of fixed assets			-	4
Net cost of operations			(9,201)	(8,506)
Pension costs	5.3		(426)	(405)
Net cost of operations including pension costs			(9,627)	(8,911)
Add back notional charges	5.5		95	93
Net cost of operations excluding notional charges and including pension costs transferred to General Fund	12		(9,532)	(8,818)

**BALANCE SHEET
AS AT 31 MARCH 2002**

b. Scottish Legal Aid Board

	Notes	£'000	2002 £'000	2001 £'000
Fixed assets				
Tangible assets	6.2		1,085	1,455
Current assets				
Stock	7	31		33
Debtors	8	229		321
Cash at bank and in hand		324		195
		584		549
Creditors				
Amounts falling due within one year	10	(189)		(327)
Net current assets			395	222
Total assets less current liabilities			1,480	1,677
Deferred income	11		(182)	(234)
Net assets			1,298	1,443
Financed by:				
Government grant	13		765	714
Reserves:				
General Fund	12		532	726
Revaluation reserve	14		1	3
			1,298	1,443

The notes on pages viii to xviii form part of these accounts and should be read in conjunction with the statements above.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 2002**

b. Scottish Legal Aid Board

	2002 £'000	2001 £'000
Net cost of operations	(9,532)	(8,818)
Unrealised surplus (deficit) on revaluation of tangible fixed assets less supplementary depreciation	2	2
Total recognised gains and losses relating to the year	(9,530)	(8,816)

Lindsay Montgomery

Lindsay Montgomery
Chief Executive and Accountable Officer
5th July 2002

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2002**

a. Scottish Legal Aid Fund	Notes	2002 £'000	2001 £'000
Net cash outflow from operating activities	15	(124,230)	(123,610)
Capital expenditure:			
Payments to acquire tangible fixed assets		-	-
Financed by government grant		124,100	123,908
Increase / (decrease) in cash in the year		(130)	298

Reconciliation of movement in cash to movement in net funds	2002 £'000	2001 £'000
Opening cash at bank and in hand	8,227	7,929
Closing cash at bank and in hand	8,097	8,227
Movement in net funds	(130)	298

b. Scottish Legal Aid Board's Grant-in-Aid	Notes	2002 £'000	2001 £'000
Net cash outflow from operating activities	15	(9,130)	(8,360)
Capital expenditure:			
Payments to acquire tangible fixed assets	6.2	(305)	(763)
Financed by government grant	2.1	9,564	9,165
Increase / (decrease) in cash in the year		129	42

Reconciliation of movement in cash to movement in net funds	2002 £'000	2001 £'000
Opening cash at bank and in hand	195	153
Closing cash at bank and in hand	324	195
Movement in net funds	129	42

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2002

1. Accounting policies

1.1 Basis of accounting

The accounts have been prepared in accordance with the historical cost convention as modified to include fixed assets at their value to the organisation by reference to their current cost. Without limiting the information given, the accounts meet the accounting and disclosure requirements of the Companies Act 1985 and the Accounting Standards Board, so far as those requirements are appropriate and in accordance with the Accounts Direction given by the Scottish Ministers for Scotland (note 21).

1.2 Continuing activities

The results reported in this statement of accounts are derived from continuing activities of the Scottish Legal Aid Board. The Public Defence Solicitors' Office (PDSO) opened on 1 October 1998, the costs of which are charged to the Scottish Legal Aid Fund. The PDSO pilot was originally to run for five years. An evaluation report has been submitted to the Scottish Parliament after the third year of operation and a clause has been included in the Criminal Justice Scotland Bill currently before the Scottish Parliament to extend the PDSO beyond 5 years.

1.3 Fixed assets

Fixed assets are capitalised at their cost of acquisition and installation and are revalued each year using Business Monitor Producer Price Indices to take account of specific price changes. The threshold for capitalisation of assets is £5,000; however, individual assets whose cost falls below the threshold and pose a risk to fraud or theft but are of a similar nature are grouped together and capitalised.

1.4 Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write-off the revalued cost, less estimated residual value, of each asset over its expected useful life as follows:

office equipment - 5 years	computer hardware and software - 5 years
office furniture - 10 years	personal computer hardware and software - 3 years

1.5 Stocks

Stocks are valued at the lower of historic cost and net realisable value.

1.6 Notional costs

In accordance with Government Accounting, a notional charge for interest on capital is included in the Income and Expenditure Account (note 5.5). An accounting entry reversing this notional charge is also included in the Income and Expenditure Account.

1.7 Operating leases

Rentals applicable to operating leases are charged to the Income and Expenditure Account on a straight-line basis over the period of the lease.

1.8 Accruals and accrued funding

The liability to pay accounts resulting from work in progress as at 31st March 2002 on outstanding legal aid certificates is recognised within the Fund. An accrued liability is established based on the number of outstanding certificates and estimates of cost and the time since the certificate was issued. This liability will be funded in full from a number of possible sources including contributions from assisted persons, expense recoveries, and losses recovered from damages. The government meets the balance. Accordingly a debtor balance, representing accrued funding, is established to match the total of the accrued liability and amounts due by the Fund to solicitors and advocates.

1.9 Pension costs

Pensions and other benefits are payable out of the Grant-in-Aid and are met as they fall due, with the exception of the PDSO staff whose pension payments are made from the Legal Aid Fund. They are made in accordance with the Legal Aid (Scotland) Pension Scheme 1988, which is a salary scheme based on a normal retirement age of 60 for staff who joined after 1 April 1987. Staff scheme members pay a contribution of 6% of salary. Pension increases are made as if the pensions were 'official pensions' as defined and specified in the Pensions (Increase) Act 1971. The Pension Scheme is not a funded scheme and the Board does not make any direct contributions to a fund. The Scheme is in accordance with guidance contained in "NDPB" – A Guide for departments". Any future liability for pensions will be met by the Scottish Executive.

1.10 Deferred income

Deferred income is provided as a financial incentive from the landlord of 40-44 Drumsheugh Gardens in return for extending the life of the lease. The lease was extended by 10 years, from 5/10/95 to 4/10/05 and will be released as a benefit to the Board over this period.

1.11 Capital Expenditure

The Government Grant-in-Aid represents income received from the Scottish Executive and includes an amount to cover capital project expenditure. This sum is amortised as the economic benefits are recognised and consumed over the assets' useful economic lives as per SSAP 4.

2. Income

General

The Board is financed by a Grant-in-Aid from the Government. The grant for the Scottish Legal Aid Board covers both revenue and capital items and the grant has been credited directly to the General Fund (note 12). The Government grant represents income received from the Scottish Executive covering capital project expenditure incurred during the year (note 13).

2.1 Grant-in-Aid

Under the Board's pension arrangements (note 1.9), receipts, of employees' contributions and net transfer values for the Pension Scheme, greater than £180,000, are surrendered to the Scottish Executive Justice Department as a consolidated fund extra receipt. The amount to be surrendered for 2001/02 is £83,000 (2001 - £32,000).

The amounts were -	2002 £'000	2001 £'000
Grant-in-Aid (Revenue)	9,159	8,223
Government grant (Capital)	225	762
Pension receipts	180	180
Funding	9,564	9,165

2.2 Operating income of the Fund

	2002			2001		
	Gross Income £'000	Adjustments £'000	Net Income £'000	Gross Income £'000	Adjustments £'000	Net Income £'000
Contributions by assisted persons	1,858	(446)	1,412	2,060	(559)	1,501
Expenses recovered	6,231	(209)	6,022	7,444	212	7,656
Other income	25		25	39	80	119
Losses recovered from damages	1,106		1,106	1,138	-	1,138
Total	9,220	(655)	8,565	10,681	(267)	10,414

Adjustments to contribution income arise primarily because:

- i) the financial circumstances of the assisted person have changed
- ii) the total cost of the case is less than the contribution
- iii) the cost of a case has been fully recovered from a third party.

These adjustments may mean that the assisted person has paid more than the amount due. In these cases, the excess is refunded.

The net amounts refunded were **£272,000 (2001 - £347,000)**.

Adjustments to expenses recovered arise primarily because the legal aid account has been taxed (re-assessed) by the auditor of court.

Expenses refunded during 2001/02 were **£8,000 (2001 - £41,000)**. These are incorporated in the operating income table above.

Under certain circumstances, the Board will securitise assets such as property until the debts are repaid. Any outstanding sum will attract interest at 8% per annum, unless the rate is adjusted by an Act of Sederunt, until the balance is settled. The total value of securitised assets for 2001/02 including **accrued interest is £407k**.

3. Operating costs of the Fund

	2002 £'000	2001 £'000
Advice and assistance (A&A)		
Solicitors' charges	30,631	33,652
Counsel's fees	16	48
Solicitor Advocates' fees	2	0
Outlays	2,403	1,838
	33,052	35,538
Civil Legal Aid		
Solicitors' charges	20,778	17,227
Counsel's fees	3,279	3,427
Solicitor Advocates' fees	8	6
Outlays	9,679	7,337
	33,744	27,997
Expenses paid to successful unassisted persons	107	36
	33,851	28,033
Criminal Legal Aid		
Solicitors' charges	64,663	61,050
Counsel's fees	7,824	6,044
Solicitor Advocates' fees	1,464	700
Outlays	4,311	3,747
	78,262	71,541
Legal Aid for Children		
Solicitors' charges	1,922	1,841
Counsel's fees	644	256
Solicitor Advocates' fees	0	3
Outlays	261	183
	2,827	2,283
Contempt of court		
Solicitors' charges	33	40
Counsel's fees	2	0
Solicitor Advocates' fees	4	0
Outlays	1	1
	40	41
Public Defence Solicitors' Office		
Criminal defence costs - outlays	29	45
Salaries and wages	209	218
Social security costs	17	18
Accommodation	63	82
Audit fees	2	2
Depreciation	10	11
Permanent diminution in value of fixed assets	6	12
Other operating costs	21	28
	357	416
Repayable bank interest (note 5.4)	19	17
Miscellaneous Costs	12	-
Total operating costs - legal aid	148,420	137,869

Operating costs include estimates for work done as a matter of special urgency. Some of this work will not lead to a grant of full legal aid and may be paid under determination by the Scottish Ministers under section 4(2)(c) of the Legal Aid (Scotland) Act 1986. The expenditure under this scheme was £474,000 (2001 - £361,000).

Operating costs also include payments to account made to solicitors and advocates under regulation 11 of the Civil Legal Aid (Scotland) (Fees) Regulations 1989. The expenditure under this scheme was £1,399,526 (2001 - £1,576,000).

The PDSO office opened on 1 October 1998. Eight people (2001 – 9) were employed by the PDSO during the year (2001/02). One member of the PDSO staff received remuneration within the band £50,000 - £59,999 (2001 - 1). PDSO pensions and other benefits are payable out of the Scottish Legal Aid Fund account.

4. Fund - Bad Debts (net of changes in provision)

	2002	2001
	£'000	£'000
Irrecoverable contributions from assisted persons	(28)	214
Irrecoverable expenses	294	530
Irrecoverable other income	-	15
	266	759

The sums written off during the year were £626,000 (2001 - £564,000).

5. Expenditure by the Board

	2002	2001
	£'000	£'000
5.1 Pay Related Costs		
Board members' emoluments	102	99
Staff salaries and wages	5,423	4,909
Social security costs	371	353
	5,896	5,361

Under the Board's pension arrangements (note 5.3), the Board makes no employer's contribution.

The annual emoluments of the Board members, excluding the Chairman, fell into the following bands:

	2002	2001
Nil - £4,999	1	1
£5,000 - £9,999	10	10
£10,000 - £14,999	0	0

The Chairman's emolument for the year was £25,769 (2001 - £25,123). The Chairman and the Board members are appointed for a fixed term and receive emoluments and expenses only. Board members do not make pension contributions.

The Chief Executive's total remuneration for 2001/02 was £77,867 The Chief Executive has a permanent contract effective from 1 July 1999 and is entitled to participate as an ordinary member of the Board's pension scheme.

The average number of persons employed during the year was 300 (2001- 274) of which 208 (2001 - 174) were employed in operations and legal services, and 92 (2001 - 100) in administration and support functions.

Senior staff including Directors received remuneration in the following bands

	2002	2001
£35,000 - £39,999	3	3
£40,000 - £44,999	2	3
£45,000 - £49,999	-	2
£50,000 and above	2	0

5.2 Other operating costs

	2002	2001
	£'000	£'000
Accommodation	899	870
Audit fee	31	31
Auditors – non audit fees	-	30
Other administrative costs	1,787	1,703
	2,717	2,634

5.3 Pension costs, pay and accrued pension

The Scottish Legal Aid Board is currently exempt from compliance with SSAP24. FRS17 Retirements benefits was issued in November 2000 but does not require implementation until 2003/04. Prior to this, phased transitional disclosures are required. These are detailed below as appropriate to The Scottish Legal aid Board.

- a) The Scottish Legal Aid Board operates a defined benefit (final salary) pension scheme whereby pensions and other benefits are payable out of the Grant-in-Aid and are met when they fall due. PDSO staff are also eligible to be members of the scheme with the same entitlements to benefits, except payments would be made from the Legal Aid Fund.
- b) The Legal Aid (Scotland) Pension Scheme 1988 sets out the conditions for entitlement and determines the rate at which benefits are payable. The scheme is set up under paragraph 8(3) of Schedule 1 to the Legal Aid (Scotland) Act 1986 which gives the Scottish Legal Aid Board (SLAB) power to make rules to provide pensions, allowances or gratuities for its employees. The scheme is administered on behalf of the Board by the Scottish Public Pensions Agency (SPPA), an Executive Agency of Scottish Ministers.
- c) There is no pensions fund as such. Scheme benefits, including cost-of-living increases (pensions increases) are met on a pay as you go basis out of the Grant-in-Aid.
- d) In March 1999, the Government Actuary's Department (GAD) calculated the accrued long-term liability of the scheme and likely cashflow projections. At that time, the Government Actuary calculated the liability for future pension payments to be £10.1m. It is proposed to commission an update from GAD on these estimates in advance of the financial statements for 2002/03. As the Board are exempt from SSAP24 the accrued cost of providing for future benefits has not been recognised in the financial statements.

In terms of the main financial assumptions used by the GAD in arriving at this figure, the following rates were adopted:

- a rate of pensionable pay increases of 6.9% per annum;
- a rate of pension increases of 5.3%;
- a gross rate of return on investment (to discount scheme liabilities) of 9% per annum.

e) Staff scheme members pay a contribution of 6% of salary, £232k in the year 2001/2002. As there is no scheme fund, these amounts are used to offset Grant-in-Aid expenditure. Any excess receipts are surrendered to the Scottish Executive. As a result, any excess expenditure on pensions, over and above that estimated for the year is met by the Scottish Executive.

As the Board is exempt from SSAP24, the employer's cost of providing for future benefits has not been recognised in the financial statements. However, for this year, we have estimated a notional employer's contribution scheme using information available from the Principal Civil Service Pension Scheme (PCSPS) on the basis that it is considered a by analogous scheme. On this basis, the average employer's contribution is estimated to be 7.35%. The Government Actuary will be asked to provide an estimate of the employer's contribution amount specific to the Board's pension scheme in advance of the 2002/2003 financial statements.

Pay and accrued pension of the Chief Executive and Directors:

	Chief Executive	Director of Legal Services	Director of Finance	Director of Information Systems – See note	Director of Audit and Compliance
	L Montgomery	T Murray	J Edgar	W Gray	I Middleton
Age	49	50	41	41	52
Salary at 31/3/02 (£k)	78	53	53	19*	45
Pension increase (net of inflation) (£k)	1.3	0.7	1.3	0.3	0.6
Accrued pension at 31/3/02 (£k) including transfers in.	30.4 pa	10.6 pa	16.4 pa	2.8 pa	12.0 pa

*W Gray resigned from The Scottish Legal Aid Board on 31st August 2001 and is therefore no longer a Director. This figure represents his actual salary paid year to date at 31st August 2001.

5.4 Interest Receivable

The contract with the Royal Bank of Scotland means that bank interest is now received on a quarterly basis. The Board has yet to finalise its discussion with the Scottish Executive Justice Department on whether this money should be retained or surrendered as a Consolidated Fund Extra Receipt. The Board has accrued this sum as a payment through the income/expenditure account.

5.5 Notional costs

A notional charge for interest on capital is included in the Income and Expenditure Account. This is calculated at 6% of the average value of total assets less current liabilities (note 1.6). The notional charge included in the Fund Income and Expenditure Account relates to the assets of the PDSO.

6. Tangible fixed assets

6.1 Scottish Legal Aid Fund	Office Furniture and Fittings £'000	Office Equipment £'000	PC/ computer hardware and software £'000	Total £'000
Cost or valuation				
Balance at 1 April 2001	5	5	60	70
Additions	-	-	-	-
Disposals	-	-	-	-
Permanent diminution in value	-	-	(16)	(16)
As at 31 March 2002	5	5	44	54
Depreciation				
Balance at 1 April 2001	1	1	35	37
Provided during year	1	1	8	10
Disposals	-	-	-	-
Backlog	-	-	(10)	(10)
As at 31 March 2002	2	2	33	37
Net book value at 31 March 2002	3	3	11	17
Net book value at 31 March 2001	4	4	25	33

These costs relate to the operation of the PDSO (see notes 1.2 and 3)

6.2 Scottish Legal Aid Board	Office Furniture and Fittings £'000	Office Equipment £'000	PC/ computer hardware and software £'000	Total £'000
Cost or valuation				
Balance at 1 April 2001	181	96	1,947	2,224
Additions	-	57	248	305
Disposals	(66)	-	-	(66)
Revaluation	4	5	-	9
Permanent diminution in value	-	-	(517)	(517)
As at 31 March 2002	119	158	1,678	1,955
Depreciation				
Balance at 1 April 2001	142	78	549	769
Provided during year	12	7	286	305
Disposals	(66)	-	-	(66)
Backlog	3	4	-	7
Permanent diminution in value	-	-	(145)	(145)
As at 31 March 2002	91	89	690	870
Net book value at 31 March 2002	28	69	988	1,085
Net book value at 31 March 2001	39	18	1,398	1,455

7. Stocks

	2002	2001
	£'000	£'000
Publications and consumables	31	33

8. Debtors

Scottish Legal Aid Fund		2002	2001
		£'000	£'000
Accrued funding		75,937	60,004
Contributions due from assisted persons		1,774	1,412
Expenses to be recovered		2,093	2,650
Other		327	300
Prepayments		11	9
		80,142	64,375

Under the Legal Aid (Scotland) Act 1986, all sums properly due from the Legal Aid Fund will be met by the Government except where funds are recovered from third parties. Accrued funding is an estimate of the sums due arising from the value of outstanding legal aid cases at 31 March 2002. This accrued funding has been fully attributed to the Government and has therefore been credited directly to the General Fund (note 12).

Amounts falling due after more than one year included above are:	2002	2001
	£'000	£'000
Accrued funding	12,893	11,521
Contributions due from assisted persons	1,066	790
Expenses to be recovered	1,801	2,173
	15,760	14,484

Scottish Legal Aid Board	2002	2001
	£'000	£'000
Trade debtors	2	2
Prepayments	227	319
	229	321

9. Cash at bank and in hand	2002	2001
	£'000	£'000
9.1 Scottish Legal Aid Fund		
Cash at bank and in hand	404	233
Principal sums	7,421	7,695
Funds held under arrestment	272	299
	8,097	8,227

Principal sums consist of damages and other monies recovered on behalf of assisted persons. They are held in an interest bearing account until all the financial transactions for a case are concluded and the net liability to the Legal Aid Fund can be settled. The movement in the account during the year was as follows:

	2002	2001
	£'000	£'000
Balance as at 1 April 2001	7,695	6,957
Received during the year	20,127	34,374
Interest received during year	288	481
	20,415	34,855
	28,110	41,812
Less:		
Sums repaid to assisted persons	19,325	32,717
Interest paid to assisted persons	258	262
Losses recovered from damages	1,106	1,138
	20,689	34,117
Balance as at 31 March 2002	7,421	7,695

10. Creditors	2002	2001
	£'000	£'000
Scottish Legal Aid Fund		
Accruals (note 1.8)	72,853	60,236
Amounts due to solicitors and advocates	3,281	136
	76,134	60,372
Contribution refunds due to assisted persons	125	63
Principal sums (note 9)	7,421	7,695
Arrestments	272	299
PDSO	4	8
	83,956	68,437

Amounts falling due after more than one year included above are:	2002	2001
	£'000	£'000
Accruals	12,893	11,521
(These represent the estimated value of certificates at 31 March 2002, that are due to be settled after more than one year).	12,893	11,521

Scottish Legal Aid Board	2002	2001
	£'000	£'000
Accruals	89	236
Trade creditors	17	91
Pension refund	83	-
	189	327

11. Deferred income

Deferred income relates to financial incentives obtained from the landlord of 40-44 Drumsheugh Gardens in return for extending the life of the lease.

12. General Fund

	2002 £'000	2001 £'000
Scottish Legal Aid Fund		
Balance at 1 April 2001	4,198	4,532
Government grant	124,100	123,908
Government grant – movement in accrued funding	16,104	3,955
Net cost of operations (excluding notional charges)	(140,102)	(128,197)
Balance as at 31 March 2002	4,300	4,198

	2002 £'000	2001 £'000
Scottish Legal Aid Board		
Balance at 1 April 2001	726	1,140
Vote funding	9,338	8,404
Net cost of operations (excluding notional charges)	(9,532)	(8,818)
Balance as at 31 March 2002	532	726

13. Government Grant (Scottish Legal Aid Board)

	2002 £'000	2001 £'000
Balance at 1 April 2001	714	-
Government grant	225	762
Government grant Amortisation	(174)	(48)
Balance as at 31 March 2002	765	714

14. Revaluation reserve

	2002 £'000	2001 £'000
Balance at 1 April 2001	3	10
Revaluation of cost	(2)	1
Backlog depreciation	-	(8)
Balance as at 31 March 2002	1	3

15. Reconciliation of net costs of operations to net cash outflow from operating activities

	2002 £'000	2001 £'000
Scottish Legal Aid Fund		
Net cost of operations	(140,102)	(128,197)
Government grant – movement in accrued funding	16,104	3,955
Depreciation charges	10	15
Permanent diminution in value of fixed assets	6	8
(Increase) / decrease in debtors	(15,767)	(4,498)
Increase / (decrease) in creditors	15,519	5,107
Net cash outflow from operating activities	(124,230)	(123,610)

	2002 £'000	2001 £'000
Scottish Legal Aid Board		
Net cost of operations excluding notional charges	(9,532)	(8,818)
Deferred income	(52)	(25)
Depreciation charges	305	305
Permanent diminution in value of fixed assets	368	173
Loss/ (gain) on disposal of fixed assets	-	(4)
Amortisation of government grant	(174)	(48)
Decrease / (increase) in debtors	92	(30)
Decrease / (increase) in stock	2	(3)
(Decrease)/ increase in creditors	(139)	90
Net cash outflow from operating activities	(9,130)	(8,360)

16. Ex-Gratia payments

There are cases where in good faith a solicitor or counsel provides advice for which the Board cannot make payment under the letter of the Act or Regulations. There are also cases where as a result of the Board's fault a party is prejudiced. In such cases the Board may make an ex gratia payment without prejudice by way of compensation up to an agreed limit. In this year the value of payments made was £6,000.

17. Capital commitments

During 2002-03, the Board is committed to implementing the "Electronic Delivery of Legal Aid". Contractual commitments to expenditure are being made as the project progresses.

18. Operating leases

Annual commitments under operating leases are as follows:	2002		2001	
	Land and Buildings £'000	Other £'000	Land and Buildings £'000	Other £'000
Leases expiring				
in one year or less	-	0	0	17
between one and five years	-	18	0	14
in five years or more	562	-	522	0
	562	18	522	31

Committed expenditure for operating leases during 2002/03 will be similar to the charges in 2001/02.

19. Related Party Transactions

The Scottish Executive Justice Department is regarded as a related party. During the year, the Scottish Legal Aid Board has had various material transactions with The Scottish Executive Justice Department, essentially the payment of the grant-in-aid. (see note 2.1).

During the year, the Scottish Legal Aid Board entered into transactions of a value greater than £1000 with the following related parties.

	2002 £'000	2001 £'000
Brian Adair	64	46
Jack Adair	113	109
Jill Adair	33	13
Graeme Jessop	21	41
Derek O'Carroll	2	8
Maurice O'Carroll	1	5
Margaret Scanlan	12	28
Michael Scanlan	4	6
Alexander Wylie	10	19

These related parties are Board members and their spouses or relatives who were transacting with the Board at any time during the year. They are active legal aid practitioners and all the transactions arise from the provision of legal aid to assisted persons in the normal course of their profession. The amounts detailed include outlays and VAT.

20. Post balance sheet date events

No events occurred between 1 April 2002 and the time these accounts were signed that would materially affect the information provided.

21. Direction given by Scottish Ministers

The Scottish Ministers, in pursuance of Section 5(2) of the Legal Aid (Scotland) Act 1986¹, hereby give the following Direction.

1. In accordance with Section 5(1) of the Legal Aid (Scotland) Act 1986 the Scottish Legal Aid Board has a duty to prepare a **separate statement of accounts** in respect of the Scottish Legal Aid Fund (the Fund) and the administration of the Fund (the Board). The accounts, of **both the Fund and the Board**, for the financial year ended 31 March 2002 and in respect of any subsequent financial year, shall comprise:

- a foreword;
- an income and expenditure account;
- a balance sheet;
- a cash flow statement;
- a statement of total recognised gains and losses;
- a statement of accountable officer's responsibilities; and
- a statement on the system of internal control.

including such notes as may be necessary for the purposes referred to in the following paragraphs.

¹ 1986 c.47. The functions of the Secretary of State were transferred to the Scottish Ministers by virtue of section 53 of the Scotland Act 1998 (c.46).

2. The statement of accounts shall give a true and fair view of the income and expenditure and cash flows for the financial year and the state of affairs as at the end of the financial year. Subject to this requirement, the accounts shall be prepared in accordance with:

- the accounting and disclosure requirements of the Companies Act for the time being in force;
- generally accepted accounting practice in the UK, including accounting standards issued or adopted by the Accounting Standards Board;
- guidance which Scottish Ministers may issue from time to time in respect of accounts which are required to give a true and fair view;
- the accounting and disclosure requirements given in "Executive NDPBs: Annual Reports and Accounts Guidance", as amended or augmented from time to time;

insofar as these are appropriate to the Scottish Legal Aid Board and are in force for the financial year for which the statement of accounts is to be prepared.

3. Clarification of the application of the accounting and disclosure requirements of the Companies Act and accounting standards is given in Schedule 1 attached. Additional disclosure requirements are set out in Schedule 2 attached.

The income and expenditure account and balance sheet shall be prepared under the historical cost convention modified by the inclusion of:

- fixed assets at their value to the business by reference to current costs; and
- stocks valued at the lower of net current replacement cost (or historical cost if this is not materially different) and net realisable value.

4. This Direction shall be reproduced as an appendix to the statement of accounts.

5. The Direction given on 16 May 2002 is hereby revoked.

SCHEDULE 1

Application of the Accounting and Disclosure requirements of the Companies Act and Accounting Standards

Companies Act

1. The disclosure exemptions permitted by the Companies Act shall not apply.
2. The Companies Act requires certain information to be disclosed in the Director's Report. To the extent that it is appropriate, the equivalent information relating to the Scottish Legal Aid Board shall be contained in the foreword.
3. When preparing its income and expenditure account the Scottish Legal Aid Board shall have regard to the profit and loss account format 2 prescribed in Schedule 4 to the Companies Act.
4. When preparing its balance sheet the Scottish Legal Aid Board shall have regard to the balance sheet format 1 prescribed in Schedule 4 to the Companies Act.
5. The Scottish Legal Aid Board is not required to provide the additional information required by paragraph 33(3) of Schedule 4 to the Companies Act.
6. The foreword and balance sheet shall be signed and dated by the Scottish Legal Aid Board's Accountable Officer.

Accounting Standards

7. The Scottish Legal Aid Board is not required to include a note showing historical cost profits and losses as described in FRS3.
8. The Scottish Legal Aid Board shall not adopt the Financial Reporting Standard for Smaller Entities.
9. The Scottish Legal Aid Board is not required to comply with SSAP24.

SCHEDULE 2

Additional disclosure requirements

1. The foreword shall, *inter alia*:
 - a. state that the statement of accounts has been prepared in a form directed by the Scottish Ministers in accordance with Section 5(2) of the Legal Aid (Scotland) Act 1986; and
 - b. include a brief history of the Scottish Legal Aid Board and its statutory background.
2. The notes to the accounts shall include:
 - a. details of any key corporate financial targets set by the Scottish Ministers together with an indication of the performance achieved; and
 - b. details of the pension arrangements operated by the Scottish Legal Aid Board and confirmation that the scheme accords with the guidance contained in "Non-Departmental Public Bodies: A guide for Departments".
3. In respect of the Fund the notes to the accounts shall include:
 - a. an analysis of operating income showing:
 - contributions by assisted persons;
 - expenses recovered; and
 - losses recovered from damages.
 - b. a breakdown of legal aid operating expenditure from the Fund over:
 - civil cases;
 - criminal cases;
 - children's scheme;
 - contempt of court;
 - advice and assistance; and
 - expenditure in respect of the Public Defence Solicitor Office established under Part V of the Legal Aid (Scotland) Act 1986.
 - c. a note of the amount of cash advanced in-year under regulation 11 of the Civil Legal Aid (Scotland) (Fees) Regulations 1989².
 - d. a note of sums on deposit for assisted persons.

² S.I. 1989/1490.