

**Legal Services Agency Northern Ireland**

**Annual Report and Accounts**

**For the year ended 31 March 2019**

*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*

5 July 2019



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<b><u>CONTENTS</u></b>	<b>Page</b>
<b><u>PERFORMANCE REPORT</u></b>	
Overview	
- Foreword by Chief Executive	1
- Statement of purpose and activities	3
- Performance summary and forward look	10
Performance analysis	13
<b><u>ACCOUNTABILITY REPORT</u></b>	
Corporate Governance Report	
- Directors' Report	27
- Non-Executives' Report	30
- Statement of Accounting Officer's Responsibilities	32
- Governance Statement	33
Remuneration and Staff Report	40
Assembly Accountability and Audit Report	
- Assembly accountability disclosures	54
- Certificate of the Comptroller and Auditor General	55
<b><u>FINANCIAL STATEMENTS</u></b>	
Statement of Comprehensive Net Expenditure	58
Statement of Financial Position	59
Statement of Cash Flows	60
Statement of Changes in Taxpayers' Equity	61
Notes to the Accounts	62
<b><u>OTHER</u></b>	
Report of the Comptroller and Auditor General	91

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## **PERFORMANCE REPORT**

### **OVERVIEW**

This purpose of this overview is to provide information to enable readers to understand the remit and purpose of the Legal Services Agency Northern Ireland (LSA). The Overview includes:

- the Chief Executive's perspective on the performance of the LSA over the period;
- the purpose and activities of the LSA; and
- the key issues and risks that could affect the LSA in delivering its objectives.

### **FOREWORD BY CHIEF EXECUTIVE**

I am pleased to present the fourth Annual Report and Accounts of the LSA for the 2018-19 financial year.

The Department of Justice's Mission Statement is *'to support the Minister of Justice deliver a safe community where we respect the law and each other'*. LSA, as an Executive Agency of the Department of Justice (DoJ), contributes to that objective by being an innovative, responsive and impartial Agency, effectively and efficiently administering quality publicly funded legal services for all stakeholders.

The Agency has assessed its outcomes against the following Programme for Government (PfG) outcomes: 'We have a safe community where we respect the law'. In addition the Agency has developed its own Business Indicator which is 'to continually improve the efficiency of the Agency'.

Throughout this year the Agency has continued to deliver our core business while progressing our Transformation Programme. This represents an exciting opportunity to bring digitally enabled services to all aspects of the legal aid schemes. The LSA is committed to delivering its new digital case management system in July 2019. When fully implemented, the Transformation Programme will also strengthen the assurance which the Agency can provide for the public funds allocated to legal aid, through a registration and compliance regime, robust fraud and error measures and enhanced forecasting capability.

The LSA continued to value its people and encouraged working with legal service providers and the wider justice system to facilitate access to justice. As part of this commitment the LSA has been working with policy colleagues to support ongoing reforms to legal aid and other justice system initiatives. In addition staff continued to work closely with colleagues in the Department for Communities across a range of activities focusing on Fraud and Error, the transfer of the statutory functions of the Legal Aid Assessment Office to LSA, and exploring opportunities in debt management.

Significant progress has also been made in delivering cultural and structural change in the Agency. Reforms are well advanced to bring the current directorate structures in to a more business focused model in 2019-20 which will see the payment and assessment functions brought together under one Director.

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 payment for legal aid provided within the resources available and to ensure the timely payment of monies to legal practitioners. This included processing £3m additional funds provided to support the cut-over to Legal Aid Management System (LAMS). The LSA continued to seek to improve its delivery of core services. The LSA remains committed to the effective delivery of publicly funded legal services and the stewardship of public monies.

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

1. provide timely and reliable access to legal aid;
2. supporting the policy initiatives;
3. securing value for money and sound governance and accountability; and
4. supporting our staff to achieve their full potential through valuing them and being fair and supportive.

The LSA continued to strengthen its relationships with external bodies and providers of legal services. The LSA has been preparing for the establishment of a compliance and registration function which will interface with providers of publicly funded legal services as part of the transformation of services. However these functions could not be finalised in the absence of the Assembly to scrutinise the necessary legislative instruments. This continued delay in being able to introduce the Registration Scheme has somewhat impeded the Agency's ability to fully incorporate the compliance mechanisms required to provide the necessary assurances in respect of practitioner working practices. As a result, it has similarly delayed the Agency addressing some of the concerns previously identified by the Northern Ireland Audit Office in this area.

As Chief Executive, I welcome the extensive programme of work which is being taken forward to deliver transformation of the way the LSA delivers its services, including the progress to deliver the new digital platform for legal aid in July 2019.

Due to the additional work involved in preparing the Agency to undergo transformation this year, in particular, has been one of the most demanding since the Agency was established and I would like to personally thank all staff within the LSA for their very hard work and commitment, and the LSA Board for its support, oversight and guidance to the Agency.

## STATEMENT OF PURPOSE AND ACTIVITIES

### Who we are

As an executive agency within DoJ, the LSA operates under the direction and control previously set by 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 courts are responsible for granting criminal legal aid for defendants in criminal cases.

### 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 development and implementation of a legal aid reform programme;
- supporting the independent appeals function;
- implementing Departmental directions and guidance; 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:

- deliver effectively;
- value our people;
- work together;
- be outwardly 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 previously 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.lsani.gov.uk](http://www.lsani.gov.uk).

## **Our strategic objectives**

The Agency's four strategic objectives focus on:

1. providing timely and reliable access to legal aid;
2. supporting the policy initiatives;
3. securing value for money and sound governance and accountability; and
4. supporting our staff to achieve their full potential through valuing them and being fair and supportive.

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

The work of the LSA is taken forward in the areas outlined below.

## **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 was determined, for the greater part of the year, by the Legal Aid Assessment Office (LAAO), an office of the Department for Communities (DfC). This function transferred from DfC to the Agency at the latter end of this year. By bringing the function in-house, and thereby amalgamating all civil legal aid services within the one organisation, this will support the development of a more integrated approach to the delivery and administration of legal aid whilst maximising efficiencies as recommended in the first Access to Justice Report.

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.

## 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.

## 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 2019 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 2019 shows net liabilities of £129 million (2017-18: £133 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.

## 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 NICS HR;
- 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
- Internal 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 incorporates 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. Throughout this year the Agency has invested in its people to ensure they are equipped to face the new challenges of digitalisation and transformation, including a range of new functions and different ways of delivering services. The LSA aims to make the Agency a better place to work by:

- delivering effectively;
- valuing our people;
- working together;
- being outwardly focused; and
- taking responsibility.

## Working with providers

As legal aid is an important component 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 Office of the Lord Chief Justice, 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, the Police Service of Northern Ireland and voluntary sector organisations.

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

The LSA has been actively engaged in the following:

- Magistrates' and Family Courts working groups to ensure that the LSA supports the work of the courts;
- 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;
- reference groups and stakeholder fora to progress the Transformation Programmes and digitisation project;
- extensive engagement with members of the legal profession in relation to the development and implementation of the Legal Aid Management System (LAMS) which has included a strategic Stakeholder Engagement Forum, province wide awareness sessions and a programme of training events for solicitors, barristers and office staff;
- ad-hoc meetings with other stakeholders to enhance interaction;
- reform projects which impact on civil legal services or criminal legal aid;
- the Shadow Family Justice Board and the Shadow Civil Justice Council; and
- supporting problem solving justice pilots.

The LSA has regular engagement with the organisations outlined 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 for 2018-19 the Agency has aligned the Risk Register to reflect the wider approach adopted by the Department re-casting the Register to fit with the revised approach to risk reporting and monitoring. Throughout 2018-19, the LSA has ensured that key and emerging risks have been clearly identified and actions taken to develop mitigations to address those risks.

This approach has ensured that, through the Agency's ongoing monitoring and reviews of the risks and mitigations, it has been able to respond to, and manage, the dynamic environment that the Transformation Programme has brought to the LSA over the past year.

The LSA's top four key risk areas and the corresponding actions being taken are as follows.

**1. Transformation benefits realisation** - *there is a risk that the benefits resulting from the implementation of the Transformation Programmes and projects are lost or delayed due to the absence of competent authority to legislate. There is a risk that the enhancements to controls and governance are delayed minimising the potential benefits of the Transformation Programme and impacting in the ongoing qualification of annual accounts.*

The Transformation Programme is pivotal to delivering cultural and structural change and additional dedicated resources have been allocated to the Agency to ensure the continued preparation and delivery of the Programme. The delivery position is monitored by the Digital Transformation Programme Board and LSA Board on a monthly basis. In addition the Departmental Legislative Programme Board review the necessary legislative changes on an ongoing basis and the Legal Aid Strategy Group are provided with quarterly reports and updates. These arrangements ensure the Agency has the appropriate governance oversight, focus and resources to deliver the programme objectives.

**2. Governance and accountability** - *there is a risk that weaknesses in the Agency's Governance framework and controls will delay the removal of the qualifications from the Annual Accounts. This risk could limit the Agency's ability to deliver its objectives and expose the Agency to making payments in error or on fraudulent claims. There is significant liability to reputational risk.*

Significant progress has been made on embedding the new Provisions and Forecasting methodology and developing new reporting and management information solutions as part of the Transformation Programme. A Service Level Agreement has been agreed with DfC and work is well advanced to provide an estimate of the level of practitioner fraud and error and additional work is ongoing to develop a pilot to estimate the level of applicant fraud. The Agency has worked with Departmental policy colleagues to develop and deliver changes to how information is gathered and assessed to deliver more effective arrangements for Recovery of Defence Cost Orders.

**3. Resources to deal with transformation and deliver reforms** - *there is a risk that competing or emerging priorities could impact on the Agency's capacity and capability to enable the delivery of reform services on time and to the required standard. If the levels of trained staff are inadequate to deliver core activities or progress transformation business it could result in delays on delivering decisions and payments or insufficient progress in the planned Transformation Programme.*

Weekly Business Change Manager meetings have been introduced to allow all Directors input to the cross-over planning process and to allow full visibility of pressure points across all directorates. Ongoing monthly meetings are being held with Corporate HR to assess staff resources and training. While this ongoing partnership with NICS HR has been beneficial in delivering resources for the Transformation Programme it has, on occasions, brought some pressures due to competing resourcing priorities across the wider HR arena which have been largely outside the Agency's control. There is ongoing utilisation of recruitment agency staff and overtime to deliver key activities. Significant resource has been allocated to staff training on the change programme and LAMS training. Additional staff resource will be retained beyond the go-live of LAMS to allow for additional capacity and continuity throughout the most critical times.

**4. External stakeholder engagement** - *there is a risk that failure to secure support of the professional bodies will limit confidence in LAMS and challenge design features thereby compromising the ability to launch LAMS.*

A Communications Working Group has been established with members of both professional bodies to provide a two-way conduit for discussion of emerging or difficult issues. The Transformation Programme Team has developed a communications plan to ensure corporate messages are communicated to practitioners at timely intervals throughout the lifespan of the programme. Practitioners have completed User Acceptance Testing of LAMS and additional training has been provided for office administrative staff and lawyers. The Agency has delivered a series of regional roadshows highlighting the changes LAMS will deliver. Multi-media and printed materials have been developed to support the training programme and dedicated support will also be provided to the profession throughout the cut-over period.

The engagement with the profession facilitated ongoing development and detailed discussion about the Agency and supplier readiness for LAMS go-live. Towards the end of the financial year the Law Society and Bar Council raised concerns in respect of some design issues and technical difficulties encountered during testing. Following detailed discussions with the representative bodies a decision was taken by the DoJ Permanent Secretary, on 28 March 2019, to delay LAMS go-live to 1 July 2019. This postponement was taken to facilitate further confidence building measures to include the establishment of a weekly Liaison Forum with members of the Bar and Law Society to demonstrate design and technical changes and to discuss concerns raised by the profession to ensure the revised go-live of 1 July is delivered. The Agency is in the final stages of preparation for the launch of LAMS on 1 July.

## PERFORMANCE SUMMARY AND FORWARD LOOK

### Performance summary

This report covers the fourth year of the Agency. The key performance issues can be summarised as follows, the Agency:

- continued to operate within the range of legislation which governs all its activities.
- processed payments in line with its funding allocation and has been exploring issues which delay the processing of payments including the deficiencies in the bills submitted for payment.
- addressed the volume of civil legal services applications which awaited determination.
- during the year the LSA progressed its digitisation project. The on-line registration process was opened to practitioners on 14 January 2019 with 1,214 suppliers registering by the time the on-line portal was closed on 24 March 2019. There was significant engagement throughout the year with practitioners to develop LAMS, agree registration verification processes and undertake User Acceptance Testing. In response to requests from the legal profession Agency staff delivered roadshows throughout Northern Ireland and LSA provided in-depth training sessions for legal and administration staff. Go-live is scheduled for 1 July 2019.
- developed a programme of compliance reviews for civil legal services and criminal legal aid in anticipation of legislative authority to launch a statutory registration scheme for the provision of publicly funded legal services. The necessary legislation to introduce the Scheme cannot be progressed in the absence of the Assembly.
- established an effective 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. Extensive training and sample testing took place during the year within the terms of agreed data sharing agreements.
- supported the Department in the development of various reforms and the implementation of reform initiatives. The LSA is also represented on the Shadow Family Justice Board and the Shadow Civil Justice Council.

**Acts of assistance**

The LSA had a total of 80,677 acts of assistance in 2018-19. This represents an increase of 2.5% compared to the 78,680 acts of assistance recorded in 2017-18.



## Forward look

The LSA will introduce its Transformation Programme to effect a radical change in the way legal aid is delivered and its underpinning governance.

The Transformation Programme will deliver fundamental changes to how the LSA provides its services and will deliver critical benefits to the Agency, providers of publically funded legal services and individual applicants for legal aid.

As part of the Transformation Programme the LSA will:

- implement its new digital case management system which will transform how providers of publicly funded legal services interact with the Agency;
- work with the Department to introduce a Registration Scheme for all providers of publicly funded legal services when a suitable legislative vehicle is available;
- progress an agenda of strategic improvement across a number of discrete issues including the development and implementation of a management information strategy which seeks to make more information publicly available; and
- establish during a shadow year its preliminary assessment of error rates within the legal aid system while putting in place remedial actions and strengthening its counter-fraud measures.

The LSA will continue to work in support of all reform initiatives which are brought forward in conjunction with the Access to Justice Review II and the Gillen Review of Civil and Family Justice as well as discrete legal aid reforms.



## **PERFORMANCE ANALYSIS**

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 change in all aspects of the Agency's work.

The LSA has continued to strive to deliver the commitments included in its 2018-19 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 has formed a key part of the Transformation Programme.

The following sections summarise the Key Indicators and Performance Measurements for LSA in 2018-19.

<b><i>Strategic Objective 1: Provide timely and reliable access to justice</i></b>		
<b>Outcome</b>	<b>Actions taken to achieve the overall Outcome</b>	<b>Progress at 31 March 2019</b>
Adjudicate on applications for civil legal services.	<b>Non-Emergency Applications</b> Process 80% of all properly completed non-emergency applications for legal aid for representation higher courts and exceptionality received from 1 April 2018 which do not require additional information within 14 weeks of date of receipt.	<b>88.8%</b>
	<b>Emergency Applications</b> Process 95% of all properly completed applications received from 1 April 2018 for emergency legal aid for representation lower and higher courts within 48 hours from date of receipt.	<b>96.9%</b>

<b>Strategic Objective 1: Provide timely and reliable access to justice</b>		
<b>Outcome</b>	<b>Actions taken to achieve the overall Outcome</b>	<b>Progress at 31 March 2019</b>
Adjudicate on applications for exceptionality and support the independent appeals process.	Process 75% of all properly constituted appeals against the refusal of representation higher courts within 16 weeks from date of receipt and all other appeals against fees paid within 6 weeks in respect of Civil and Criminal matters to include exceptionality and Extra Statutory Grant Funding.	<b>84.3%</b>
Pay properly assessed bills.	Process 95% of standard fees which do not generate queries within 8 weeks of date of receipt.	<b>85.2%</b>  In respect of the above %, the Agency's performance targets for the processing of payments are premised on properly completed claim forms being received which can be assessed and authorised without query.  However, the Agency's current Management Information System does not permit the exclusion of incomplete claims (i.e. those that could not be authorised due to missing information) from the calculation of these performance measures. These statistics therefore reflect the overall time taken by both the Agency and Practitioners to complete the processing of payments, which cannot be disentangled.
	Process 75% of non-standard fees which do not generate queries within 16 weeks of date of receipt (non-Children Order claims).	<b>88.2%</b>
	Process 75% of non-standard fees which do not generate queries within 24 weeks of date of receipt (Children Order claims).	<b>90.4%</b>

<b>Strategic Objective 1: Provide timely and reliable access to justice</b>		
<b>Outcome</b>	<b>Actions taken to achieve the overall Outcome</b>	<b>Progress at 31 March 2019</b>
	<p>Process 95% of Taxed cases (excluding those cases involving statutory charge) which do not generate queries within 6 weeks of date of receipt.</p>	<p><b>79.6%</b></p> <p>In respect of the above %, the Agency's performance targets for the processing of payments are premised on properly completed claim forms being received which can be assessed and authorised without query.</p> <p>However, the Agency's current Management Information System does not permit the exclusion of incomplete claims (i.e. those that could not be authorised due to missing information) from the calculation of these performance measures. These statistics therefore reflect the overall time taken by both the Agency and Practitioners to complete the processing of payments, which cannot be disentangled.</p>

<b>Strategic Objective 2: Supporting the policy initiatives</b>		
<b>Outcome</b>	<b>Actions taken to achieve the overall Outcome</b>	<b>Progress at 31 March 2019</b>
Support DoJ in developing policy proposals.	Participating in all DoJ legal aid reform projects.	The Agency fully participated in all relevant legal aid reform projects up to 31 March 2019, providing statistical data and operational input where required.
Implement new policy provisions.	Introducing new fees to support the problem solving justice pilot projects.	The Agency has worked with the Department in setting fees for two problem solving pilot projects, the Domestic Violence Project and Drugs/Substance Misuse Courts; and preparing for the introduction of Fines Enforcement fees.
	Implementing new family fees.	The Agency has fully participated with the Department in developing proposals for new family fees. This project has not progressed to implementation due to the ongoing absence of the Assembly to introduce the necessary legislative instruments.
	Give effect to new arrangements in support of revised Recovery of Convicted Defendant Cost Order arrangements.	The Agency has assisted the Department in developing proposals to facilitate a better approach the recovery of costs from those defendants who can afford to contribute towards their own defence.
Participate in work of Shadow Family Board and the Shadow Civil Justice Council.	Participating in the Shadow Board and Council.	The Agency was an active participant and meetings of the Shadow Board and Council, presenting papers and providing input on a range of issues.

<b>Strategic Objective 3: Securing value for money and sound governance and accountability</b>		
<b>Outcome</b>	<b>Actions taken to achieve the overall Outcome</b>	<b>Progress at 31 March 2019</b>
Live within the allocated budget.	Closely monitor fund, admin and capital spend.	Achieved. The Agency fully expended all budget allocations up to 31 March 2019 in line with monthly profiled expenditure including additional funds made available in anticipation of LAMS cut-over.
Complete the design of our new Case Management system and prepare for implementation in 2019-20.	Closely monitoring the delivery of the key stages of the Case Management project.	All aspects of the new Legal Aid Management System (LAMS) have been developed and tested and will be fully implemented by summer 2019.
Develop measurement of error approach and enhance fraud practices.	Ensuring the Agency prioritises the work required to develop the measurement of error approach and enhance fraud investigations.	Significant progress has been made, working with Department for Communities, to implement new fraud and error working practices. An initial audit year has been completed to test and further develop the audit strategy and methodology relating to applicant fraud. Work has also progressed on plans to develop the practitioner fraud capabilities within the Agency with a view to commencing this work stream in the 2019-20 year.
	Deal promptly with audit recommendations.	The Agency worked closely with finance colleagues to address priority recommendations. Six monthly progress reports were reported to the Departmental Audit and Risk Committee.
Set up the Practitioner Compliance and Registration Scheme once the legislation is passed	Implementing the Agency delivery plan once the Practitioner Compliance and Registration Scheme legalisation is approved.	<p>The Agency has progressed all elements of the Registration Scheme to assist policy colleagues in the development of the Scheme. This continued delay in being able to introduce the Registration Scheme has somewhat impeded the Agency's ability to fully incorporate the compliance mechanisms required to provide the necessary assurances in respect of practitioner working practices.</p> <p>The Supplier Registration elements have been utilised for registering suppliers for LAMS.</p>

<b><i>Strategic Objective 4: Support our staff to achieve their full potential by valuing them and being fair and supportive</i></b>		
<b>Outcome</b>	<b>Actions taken to achieve the overall Outcome</b>	<b>Progress at 31 March 2019</b>
Improve and enhance our business processes.	Provide training and produce desk instructions / staff manuals reflecting re-engineered business processes facilitated by LAMS.	<p>Desk instructions for Civil Legal Services are in draft form, with work on-going to refine the guidance for implementation with LAMS.</p> <p>LAMS Overview training has been compiled and invites issued to all staff to attend training in January 2019. Desk instructions for payments processes, have been completed and staff workshops have commenced. Desk instructions for financial services and fraud and error have been completed.</p>
Implement improvements to our business.	Monitoring staff absence and sickness rates across the Agency.	Staff sickness levels are reported monthly to the Board via HR reports and, where appropriate, specific interventions have been put in place to address underperformance and absence.
Develop the capability of our staff to manage and lead the business.	Monitoring training courses taken in the Agency and their effectiveness.	<p>A comprehensive Training Plan was developed and delivered to all throughout the year. LAMS specific training has been developed and delivered to all business areas across the Agency. All staff with management responsibilities have undertaken a suite of mandatory management training commensurate to their grades.</p> <p>Staff at all grades across the Agency have also been enrolled in Change Management training to reflect the transformation environment. In addition to formal training course, opportunities for job-shadowing, rotation and involvement in specific projects has also been offered where appropriate. More training will be rolled out across the Agency over the incoming year also.</p>

<b><i>Strategic Objective 4: Support our staff to achieve their full potential by valuing them and being fair and supportive</i></b>		
<b>Outcome</b>	<b>Actions taken to achieve the overall Outcome</b>	<b>Progress at 31 March 2019</b>
Build on ensuring we have an inclusive workplace, that has dignity for all staff.	Senior Management Team (SMT) to publish 'Values & Behaviours' to be rolled out across the Agency.	<p>The Values and Behaviours have been agreed and issued to all staff; both permanent staff and staff employed through recruitment agencies. The standards expected of staff are also reflected at the Agency Board, and Audit and Risk Committee (ARC). All Board and Committee members, including the Non-Executive Directors, have committed to operating against the same standards that are expected of staff.</p> <p>Value and Behaviours has now become a formal agenda item for LSA Board and ARC meetings and each meeting records how the members adhered to the agreed set of Values and Behaviours throughout the meeting.</p>
Adhere to NICS People Strategy.	Monitoring progress for the development of NICS People Strategy and contribute to the DoJ People Plan.	Engaged with wider Department on all aspects of Task and Finish Groups and work on People Plan.

## Financial review

The LSA financial statements for 2018-19 are compared to the two previous financial year in the table below:

### Statement of Comprehensive Net Expenditure

	2018-19 £000	2017-18 £000	2016-17 £000
<b>Total operating income</b>	<b>(2,632)</b>	<b>(2,798)</b>	<b>(2,198)</b>
Staff costs	4,814	4,281	3,919
Staff costs - pension provision	-	213	5,344
Purchase of goods and services	4,006	4,146	4,160
Depreciation and amortisation charges	16	59	90
Provision expense	84,330	68,757	101,733
Grants	21	21	30
<b>Total operating expenditure</b>	<b>93,187</b>	<b>77,477</b>	<b>115,276</b>
<b>Net operating expenditure</b>	<b>90,555</b>	<b>74,679</b>	<b>113,078</b>
Finance expense	3	3	3
<b>Net expenditure for the year</b>	<b>90,558</b>	<b>74,682</b>	<b>113,081</b>

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

The total amount of cash paid during 2018-19 for publicly funded legal services was £84.2m (as per Note 12 to the Accounts - Provisions for Liabilities: Provisions utilised in the year) compared to £79.2m paid during 2017-18. 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 Note 12 to the Accounts.

### ***Financial position***

The total net liabilities of the LSA at 31 March 2019 were £128.5m (2017-18: £132.5m).

### ***Cash flow***

As detailed in the notes to the Accounts, the Agency's Net Assembly draw down in 2018-19 was £93.724m (2017-18: £90.989m) and the net increase in cash and cash equivalents in the year was £1.569m (2017-18: an increase of £0.067m).

### ***Financial risk***

For 2018-19, the Agency relied 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.

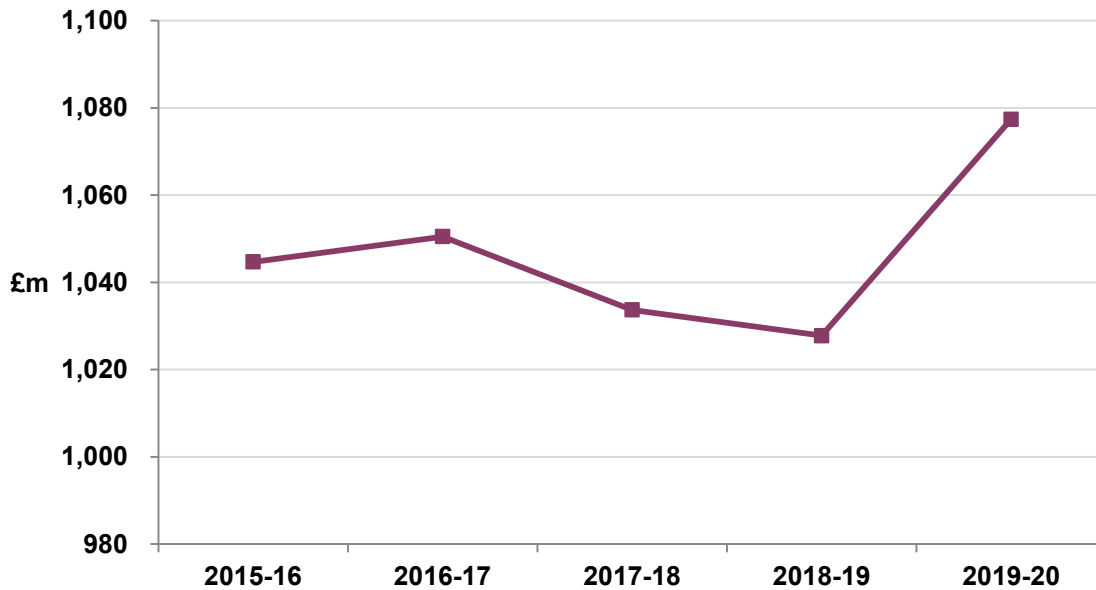


**Long-term expenditure trends**

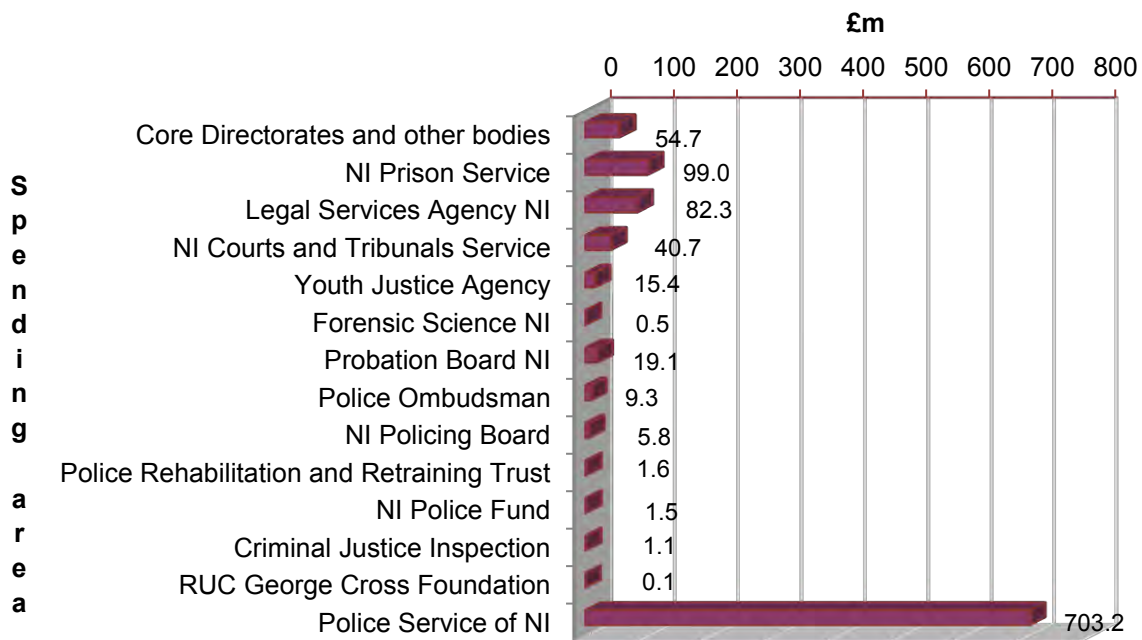
The charts below show:

- **Chart 1:** the movement in the Department of Justice non-ringfenced Resource DEL opening baseline over the period 2015-16 to 2019-20; and
- **Chart 2:** the 2019-20 non-ringfenced Resource DEL budget split by the Core Department, Executive Agencies and Non-Departmental Public Bodies.

**Chart 1: DoJ Non-Ringfenced Resource DEL opening baselines**



**Chart 2: DoJ 2019-20 Non-Ringfenced Resource DEL Opening Budgets**



## 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 could plan and prepare to take more detailed decisions in that light. The departmental allocations set out by the Secretary of State provided the basis on which departments could plan for 2017-18. The Department's budget was confirmed on 13 November 2017 when the Secretary of State announced a 2017-18 Northern Ireland budget.

The starting point for the Department of Justice's 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 identified by the Department.

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.

## 2018-19 financial year

The Secretary of State announced a Northern Ireland 2018-19 budget on 8 March 2018.

The starting point for the Department of Justice's non-ringfenced Resource DEL Budget was as follows:

- a 2% 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 identified by the Department.

In 2018-19 the Legal Service Agency's budget fell by 1.2%, taking into account 2017-18 outturn and 2018-19 planned expenditure.

**2019-20 financial year**

The Secretary of State announced a Northern Ireland 2019-20 budget on 28 February 2019.

The Department of Justice's non-ringfenced Resource DEL Budget was as follows:

- a flat cash allocation (2018-19 opening baseline);
- £31.1m of additional security funding for the PSNI was provided from the 'Fresh Start' Agreement;
- £11.3m was provided towards pressures identified by the Department;
- £32.0m contribution towards pension pressures; and
- £10.7m of funding for EU Exit costs.

In 2019-20 the Legal Service Agency's budget fell by 3.6%, taking into account 2018-19 outturn and 2019-20 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 2018-19 financial statements is £65,000 (2017-18: £65,000).

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.

**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 89.3% (2017-18: 85.9%) of invoices paid to suppliers within 10 working days following receipt of a properly rendered invoice. The Agency achieved an average of 95.7% (2017-18: 96.1%) of invoices paid to suppliers within 30 calendar days following receipt of a properly rendered invoice.

## **Environmental and sustainability initiatives**

The LSA continues to remain 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 promote the use of electronic correspondence where practicable and the implementation of LAMS will see the introduction of fully paper free legal aid applications. The transfer of the Legal Aid Assessment Office functions has also removed the need for transportation of paper forms between Belfast and Londonderry.

All staff have access 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:

- practitioner familiarisation with LAMS;
- preparation of documentation in support of LAMS; and
- improved debt collection arrangements.

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) and the arrangements in place enable the Agency to comply with its legal duties and responsibilities under the Health and Safety at Work Act 1974.

## Human rights

Civil servants have a statutory duty to respect, protect and fulfil people's human rights when developing and delivering government policy and services. The Northern Ireland Human Rights Commission (NIHRC) interactive guide to Human Rights is available to staff in the Agency to ensure they have knowledge of human rights law and standards and the core principles through which human rights are realised. The training is designed to increase human rights knowledge and strengthen the culture of human rights awareness and good practice within the Agency.

## Whistleblowing

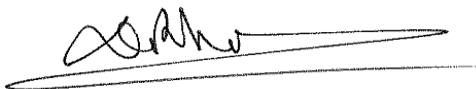
The Agency has a Whistleblowing policy in place, designed to reassure staff that it is safe and acceptable to speak up, when they have a concern about malpractice. The procedures provide arrangements so that such concerns can be addressed at an early stage and in a fair and proper way. The Head of Internal Audit is involved in conducting independent investigations into issues raised under the policy.

## Anti-corruption and anti-bribery

The Agency is committed to the values of probity and accountability which foster a positive organisational culture. It is also committed to the elimination of any fraud within the Agency, to the rigorous investigation of any prima facie case, and, where fraud or other criminal acts are proven, to ensure that wrongdoers are dealt with appropriately. The Agency will take proportionate steps to recover any assets lost as a result of fraud, corruption or theft. The Agency has a zero tolerance approach towards acts of bribery and corruption by staff, associated persons and organisations.

Managing the risk of fraud and bribery is seen by the Agency in the context of managing a wider range of risks. The Agency promotes an anti-fraud and anti-bribery culture by encouraging management to create conditions in which staff members have neither the motivation nor the opportunity to commit fraud or either offer or accept bribes. Professional staff are the first line of defence against these issues, supported by the establishment and maintenance of carefully designed and consistently operated procedures.

## PERFORMANCE REPORT



**Paul Andrews**  
**Chief Executive and Accounting Officer**  
**3 July 2019**

## **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:

<b>Position</b>	<b>Member</b>
Chief Executive	Paul Andrews
Transformation Director	Marcella McKnight (from 30 April 2018)
Director, Civil Legal Services	Sheila McPhillips
Director, Payment Services	Jill Herron
Director, Corporate Services	Mark McGuicken (from 28 January 2019)
Director, Corporate Services	Glynis Brown (until 31 January 2019)
Independent Board Member	Allen McCartney
Independent Board Member	Stephen Wooler, CB (until 18 June 2019)
Independent Board Member	Professor John Morison (until 18 June 2018)

In addition a senior representative from the DoJ 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 has been determined by the Department. 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 previously set 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 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](http://www.lsanigov.uk).

### **Board Members' interests**

Details of company directorships and other significant interests held by LSA Board Members are set out within the related party disclosures at Note 17 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](mailto:enquiries@lsanigov.uk).

### **Information assurance**

There was one incident of loss of information assets or personal data during 2018-19 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 19 complaints recorded for the LSA during 2018-19 (in 2017-18 there were 22) and these were mainly concerned with process or delay. Of these, 13 were closed in 2018-19 and 6 have been carried forward into 2019-20 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](mailto:enquiries@lsani.gov.uk)

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

The 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.

## **NON-EXECUTIVES' REPORT**

### **Overview**

The 2018-19 year has seen significant changes within the Legal Services Agency. A major transformation programme has embraced both preparation for the introduction of the digital case management systems, and also organisational, structural and cultural reforms. As non-executive members of the Agency Board, we have had full oversight and input to the work of the LSA, the business planning process and risk analysis.

Our role is to provide constructive but robust challenge to the senior management team within the Agency and to support that team in driving forward the very necessary changes. Those dual functions have also extended to our interaction with the Agency's HR partners to address concerns about the staffing of the transformation programme, and deliver a substantial reduction in sickness absences. At our request, payment services and finance have undertaken a re-profiling of the payments made by the Agency thereby reducing the year-end work in progress.

We also used our independent perspective to support those whom legal aid is designed to protect, and whose representation was funded by the public purse. In particular, we have encouraged a transparent approach through regular updates to the Bar and Law Society on the performance of the Agency. We also continued to challenge constructively all financial aspects of the Agency's work to ensure the demand led aspects of its work were sufficiently resourced.

We have also supported the Director of Legal Aid Casework by ensuring that legal aid decisions remain independent and free from any inappropriate influence.

### **Agency Board**

The Agency Board met 11 times and discussion focused heavily on how the Transformation Programme would deliver the changes envisaged whilst the Agency's core business continued to be delivered. It is significant to note that in excess of 80,000 acts of assistance were delivered, and an outturn position of more than £84m in payments this year, including an additional £3m to facilitate the preparation for the go-live of LAMS. This was against the backdrop of significant additional reform activity and preparation. We have continued to scrutinise and, where appropriate, challenge Agency delivery plans. Such challenge is embraced well by the executive members of the Board and there is effective communication on all key issues. As non-executive members, we have appreciated the commitment from staff at all grades across the organisation to delivering high quality work in these challenging circumstances.

The ongoing absence of the Assembly, and a suitable legislative function, has continued to frustrate the Agency and policy colleagues in the wider Department in bringing forward the reforms necessary to deliver some important changes that require legislation. The inability to implement the Registration Scheme continues to be a particular disappointment.

## **Audit and Risk Committee**

The Audit and Risk Committee (ARC) met on six occasions this year and received ongoing reports from internal and external audit colleagues; counter fraud activities updates; finance, and transformation reports. ARC also undertook continual scrutiny of the Agency's Risk Register which was reviewed and updated throughout the year, particularly in the context of the changing transformation environment.

ARC has had a particular focus on the Transformation Programme generally and the planning for go-live of LAMS in particular. With the deferment which the Department has agreed this will continue to be a focus for the ARC.

One area worthy of particular note was the significant progress which has been made in respect of fraud and error detection and we are pleased to see the partnership with the Department for Communities bedding-in and delivering results. Further work is necessary to drive this forward and we will continue to support the senior management team in ongoing discussions with audit officials in this regard. In accordance with NICS policy, internal audit services have been centralised and we shall monitor any impact that change may have.

ARC members do however continue to be concerned by the time taken by the criminal justice agencies to investigate and take decisions on potential fraud cases referred by the Agency. We will continue to push for more timely resolution of cases brought to the attention of the police and prosecuting authorities.

## **Conclusion**

Overall this has been a very challenging year for the Agency. It saw a reduction from three to two non-executive members when Professor John Morison's tenure at the Board came to an end in June 2018 and we would like to thank him for his commitment to the Agency over the past four years. Like every front-line delivery organisation, there is room for improvement and we will continue to work with the senior management team and staff to deliver the necessary changes. However, organisational change of the magnitude being delivered by the Transformation Programme is not easy and the resilience of staff as they continue to deliver all aspects of the Agency's Business Plan must be commended.

## 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.

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.

The Chief Executive as Accounting Officer confirms that the Annual Report and Accounts as a whole is fair, balanced and understandable and takes personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

## **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 Audit and Risk 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;
- 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 2018-19:

<b>Position</b>	<b>Member</b>	<b>Attendance</b>
Chief Executive	Paul Andrews	11/11
Transformation Director	Marcella McKnight (from 30 April 2018)	9/10
Director, Civil Legal Services	Sheila McPhillips	8/11
Director, Payment Services	Jill Herron	9/11
Director, Corporate Services	Mark McGuicken (from 28 January 2019)	3/3
Director, Corporate Services	Glynis Brown (until 31 January 2019)	6/9
Independent Board Member	Allen McCartney	11/11
Independent Board Member	Stephen Wooler, CB	11/11
Independent Board Member	Professor John Morison (until 18 June 2018)	2/2

## 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 6 meetings of the Audit and Risk Committee held during 2018-19:

<b>Position</b>	<b>Member</b>	<b>Attendance</b>
Independent Board Member (Chair)	Allen McCartney	6/6
Independent Board Member	Stephen Wooler, CB	6/6
Independent Board Member	Professor John Morison (until 18 June 2018)	3/3
Independent Audit and Risk Committee Member	Peter Toogood	5/6

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, senior representative from the 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, Directorate 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**

The Board and Audit and Risk Committee continually review the range, format, frequency and detailed content of the reports and assurances provided to each meeting. This process ensures that requirements are met in terms of providing timely and effective information to the relevant meeting to allow members to fulfil their governance responsibilities. During this year at the Board and Audit and Risk Committee, copies of *Conflicts of Interest; A Good Practice Guide*, produced by the Northern Ireland Audit Office were tabled for formal discussion. Both the Board and ARC reviewed the roles and responsibilities, and corporate structures of the committees, and reflected that they were still compliant with the reissued Guidance. Additionally, the Audit and Risk Committee provides the Board with a comprehensive annual report, setting out the work of the Committee and appropriate assurances for the relevant financial year.

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

## **6. Budget position**

In the continuing absence of an Executive and a sitting Assembly the Northern Ireland Budget Act 2018 was progressed through Westminster, receiving Royal Assent on 20 July 2018, followed by the Northern Ireland Budget (Anticipation and Adjustments) Act 2019 which received Royal Assent on 15 March 2019. The authorisations, appropriations and limits in these Acts provide the authority for the 2018-19 financial year and a vote on account for the early months of the 2019-20 financial year as if they were Acts of the Northern Ireland Assembly.

## 7. Significant internal control issues

### Northern Ireland Audit Office - account qualifications

The C&AG qualified the 2018-19 financial statements of LSANI in respect of:

- the level of estimated official error in legal aid payments and a limitation in scope on the regularity of legal aid payments in the period - due to the LSANI being unable to provide sufficient evidence to assure NIAO that a material amount of legal aid expenditure had not been claimed fraudulently or due to claimant error; and
- a limitation in scope regarding the true and fair view of the balance of provisions for legal aid liabilities stated in the Statement of Financial Position and the resulting adjustments required to the annual legal aid expenditure. LSANI was unable to provide sufficient evidence to support its estimate of the provision for legal aid liabilities to the necessary level of accuracy.

LSA has continued with a work programme to address these qualifications and has been taking this forward in conjunction with both DoJ and DfC. A number of the changes required remain dependent on the introduction of LAMS in the summer of 2019. These elements of the work programme will therefore continue to span a number of financial years.

#### **Regularity of expenditure**

The LSA has continued with a range of initiatives to address this qualification. Significant progress has been made, working with Department for Communities, to implement new fraud and error working practices. An initial audit year, focusing on internal error, has been completed by Standards Assurance Unit (SAU) to refine, test and further develop the audit strategy and methodology. This work will also establish a baseline to assess future error rates against. LSANI has appointed a dedicated team to deal with the work arising from the error work programme. Work on the applicant fraud and error continues to be developed and will become fully operational in the coming months. SAU has now extended its work to encompass measurement of applicant error, through a pilot programme of home visits to Assisted Persons. Once all aspects of the work become fully operational the existing Service Level Agreement with SAU will be updated to reflect any additional services provided.

An LSA team has continued to review the ongoing financial eligibility of individuals who remain in receipt of civil legal aid. The initial review of error methodology by the SAU has also identified the potential for DfC to undertake face-to-face applicant review visits for relevant Assisted Persons. The LSA is exploring the options to develop this as a further form of assurance in respect of ongoing financial eligibility.

Work has also progressed on plans to develop the practitioner fraud capabilities within the Agency with a view to commencing this work stream in 2019-20.

## **Provisions**

The LSA continues to support work led by the Department to improve the techniques and methodology used when estimating outstanding liabilities for publicly funded legal services provided by legal practitioners. Incremental work remains ongoing to analyse the payment profiles and the life cycle of claims to provide an enhanced suite of analysis to inform the estimates. LAMS will further assist the process through access to much improved management information. The team working on legal aid data migration in preparation for LAMS has also engaged with finance and internal audit colleagues to ensure anticipated provisions reporting and measurement requirements are fully addressed.

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 this qualification removed remains a significant challenge. The LSA will continue to work with the Department to enhance controls in this area with the aim of removing the qualification in future years. The LSA has developed separate approaches for forecasting and provisions to recognise the distinct processes involved. As part of this process the Agency has been reviewing the cases which can be considered live cases for migration to the new case management system and to underpin the provisions model.

## **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 Memorandum of Reply (MoR) response to the PAC report has been prepared with input from LSA. However, this draft MoR cannot be finalised by Ministers or laid in the Assembly given the current political situation. Due to need for legislative change some of these issues cannot be progressed in the ongoing absence of the Assembly. However, where changes can be implemented these have either been completed, or are being actively progressed.

## **Accounting Officer statement on assurance**

In providing my statement on assurance I am informed by a range of sources, including the work of the Legal Aid Assessment Office, the Northern Ireland Courts and Tribunals Service, the LSA's risk management framework, stewardship arrangements and reports from the internal and external auditors. Assurance is provided by DoF internal auditors in terms of the corporate shared services provided by each respective department to LSA. Further assurances include the Annual Internal Audit Assurance Report and Opinion for 2018-19, which provides a Satisfactory assurance rating in relation to internal control, risk management and corporate governance for the period.

I acknowledge the ongoing weaknesses identified, particularly the account qualifications, but also note the significant steps taken during the period to address the issues highlighted. I consider that the overall system of internal control, governance and risk management, that are within the parameters of my control, are such as to provide satisfactory assurance to me in relation to the ability of the LSA to effectively discharge its governance responsibilities.

## **REMUNERATION AND STAFF REPORT**

### **REMUNERATION REPORT**

#### **Remuneration policy**

The pay remit for the Northern Ireland (NI) public sector, including senior civil servants (SCS), is normally approved by the Minister of Finance. In the absence of an Executive, the Department of Finance's Permanent Secretary has set the 2018-19 NI public sector pay policy in line with the overarching HMT parameters and in a manner consistent with the approach taken by the previous Finance Minister in 2016-17. The pay award for SCS staff for 2018-19 has been finalised but not yet paid.

The pay of senior civil servants (SCS) is 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.

Staff at Grade 6 and below fall within the pay settlement provided by the NICS Comprehensive Pay and Grading Review.

#### **Service contracts**

The Civil Service Commissioners (NI) Order 1999 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Code published by the Civil Service Commissioners for Northern Ireland specifies the circumstances when appointments may be made otherwise.

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

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

Following an open competition three IBMs were appointed by the DoJ on 19 June 2014, for an initial period of three years, with the option to extend the appointments by mutual consent. These appointments were subsequently extended by the DoJ as follows:

- Allen McCartney - three years until 18 June 2020;
- Stephen Wooler, CB - two years until 18 June 2019; and
- Professor John Morison - one year until 18 June 2018.

## Remuneration and pension entitlements

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	2018-19
				Total £000
<b>Paul Andrews</b> Chief Executive	80-85	-	31	110-115
<b>Marcella McKnight</b> Transformation Director (from 30 April 2018)	60-65 (full year equivalent 70-75)	-	9	70-75
<b>Sheila McPhillips</b> Director, Civil Legal Services	60-65	-	25	85-90
<b>Jill Herron</b> Director, Payment Services	60-65	-	3	65-70
<b>Mark McGuicken</b> Director, Corporate Services (from 28 January 2019)	5-10 (full year equivalent 55-60)	-	9	15-20
<b>Glynis Brown</b> Director, Corporate Services (until 31 January 2019)	45-50 (full year equivalent 60-65)	-	24	70-75
<b>Allen McCartney</b> Independent Board Member	5-10	400	-	5-10
<b>Stephen Wooler, CB</b> Independent Board Member	5-10	4,700	-	10-15
<b>Professor John Morison</b> Independent Board Member (until 18 June 2018)	0-2.5 (full year equivalent 5-10)	-	-	0-2.5 (full year equivalent 5-10)

[Audited information]

Officials and IBMs	Salary	Benefits in kind (to nearest	*Pension Benefits (Restated)	2017-18 Total (Restated)
	£000	£100)	£'000	£000
	<b>Paul Andrews</b> Chief Executive	75-80	-	31
<b>Sheila McPhillips**</b> Director, Civil Legal Services	60-65	-	24	85-90
<b>Jill Herron</b> Director, Payment Services	60-65	-	(8)	55-60
<b>Glynis Brown**</b> Director, Corporate Services	55-60	-	32	85-90
<b>Allen McCartney</b> Independent Board Member	5-10	100	-	10-15
<b>Professor John Morison</b> Independent Board Member	5-10	-	-	5-10
<b>Stephen Wooler, CB</b> Independent Board Member	5-10	3,600	-	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.*

*Negative real increases in CETV and pension benefits can occur during periods of pay restraint or where there is no pay rise. The increase in pension due to extra service may not be sufficient to offset the inflation increase. In addition, if a member has a preserved award from a previous Northern Ireland Civil Service employment that they have not opted to aggregate (or link) with the pension from their current service this has not record been recorded at 31 March 2018 but was included at 31 March 2017 resulting in negative real increase is CETV and pension benefits.*

*\*\*Pension benefits have been restated to reflect updated information received from Civil Service Pensions.*

**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**

	2018-19	2017-18
Band of highest paid Director's Total Remuneration*	**£75-80,000	£75-80,000
Median Total Remuneration*	£24,827	£24,975
Ratio	3.1	3.1

\*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.

\*\* The banded salary of the highest paid director (the Chief Executive) differs from his banded salary disclosed under Remuneration and pension entitlements due to salary arrears paid during 2018-19.

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 salary of the highest paid director in LSA in the financial year at 31 March 2019 was £75-80,000 (2017-18: £75-80,000). This was 3.1 times (2017-18: 3.1) the median remuneration of the workforce, which was £24,827 (2017-18: £24,975).

In 2018-19, no employees received remuneration in excess of the highest paid director.

Remuneration in 2018-19 ranged from £14,000 to £75-80,000 (2017-18: £14,000 (*restated*) to £75-80,000).

## Pension entitlements

[Audited information]

Officials	Accrued pension at pension age as at 31/3/19* and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/3/19**	CETV at 31/3/18*	Real increase in CETV	Employer contribution to partnership pension account (Nearest £100)
	£000	£000	£000	£000	£000	
<b>Paul Andrews</b> Chief Executive	35-40 plus 70-75 lump sum	0 -2.5 plus nil lump sum	596	564	19	
<b>Marcella McKnight</b> Transformation Director (from 30 April 2018)	35-40 plus 110-115 lump sum	0-2.5 plus 0-2.5 lump sum	853	774	9	-
<b>Sheila McPhillips</b> Director, Civil Legal Services	35-40 plus 75-80 lump sum	0-2.5 plus nil lump sum	832	801	21	-
<b>Jill Herron</b> Director, Payment Services	30-35 plus 95-100 lump sum	0 to 2.5 plus 0 -2.5 lump sum	761	693	3	-
<b>Mark McGuicken</b> Director, Corporate Services (from 28 January 2019)	20-25 plus 45-50 lump sum	0-2.5 plus 0-2.5 lump sum	359	351	6	-
<b>Glynis Brown</b> Director, Corporate Services (until 31 January 2019)	15-20 plus nil lump sum	0-2.5 plus nil lump sum	207	169	12	-

\*Or date of joining if later.

\*\*Or date of leaving if earlier.

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).

The alpha pension scheme was introduced for new entrants from 1 April 2015. The alpha scheme and all previous scheme arrangements are unfunded with the cost of benefits met by monies voted each year. The majority of existing members of the classic, premium, classic plus and nuvos pension arrangements also moved to alpha from that date. Members who on 1 April 2012 were within 10 years of their normal pension age did not move to alpha and those who were within 13.5 years and 10 years of their normal pension age were given a choice between moving to alpha on 1 April 2015 or at a later date determined by their age. Alpha is 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 is 2.32%.

New entrants joining can choose between membership of alpha or joining a '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 also a 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%.

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). From April 2011, pensions payable under classic, premium, and classic plus are reviewed annually in line with changes in the cost of living. New entrants joining on or after 1 October 2002 and before 30 July 2007 could choose between membership of premium or joining the partnership pension account.

All pension benefits are reviewed annually in line with changes in 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 2018 was 2.4% and HM Treasury has announced that public service pensions will be increased accordingly from April 2019.

Employee contribution rates for all members for the period covering 1 April 2019 to 31 March 2020 are as follows:

Annualised rate of Pensionable Earnings (Salary Bands)		% Contribution rate for all members
From	To	
£0	£23,500.99	4.60%
£23,501.00	£54,500.99	5.45%
£54,501.00	£150,000.99	7.35%
£150,001.00 and above		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 their scheme pension age, or immediately on ceasing to be an active member of the scheme if they are at or over pension age. Scheme Pension age is 60 for members of **classic**, **premium**, and **classic plus** and 65 for members of **nuvos**. The normal scheme 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 2015 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)**

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. 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.

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 the accrued pension benefits of NILGOSC for pensioners and deferred members will remain in NILGOSC.

Current members of LSA staff were 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. Final amounts payable to both NILGOSC and NICS pension schemes were agreed during 2017-18 and payments were made to settle all remaining liabilities. This bulk transfer process is now completed.

Further details regarding the closure of the NILGOSC Scheme and bulk transfer to NICS pension arrangements are contained in Notes 1.16 and 12 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	2018-19 £000 Total	2017-18 £000 Total
Wages and salaries		3,274	549	<b>3,823</b>	3,337
Social security costs		303	-	<b>303</b>	293
Other pension costs		688	-	<b>688</b>	651
Pension provision	12	-	-	-	213
<b>Total Gross Costs</b>		<b>4,265</b>	<b>549</b>	<b>4,814</b>	<b>4,494</b>
Less recoveries in respect of outward secondments		-	-	-	-
<b>Total Net Costs</b>		<b>4,265</b>	<b>549</b>	<b>4,814</b>	<b>4,494</b>

The Northern Ireland Civil Service main pension schemes are unfunded multi-employer defined benefit schemes but the Agency is unable to identify its share of the underlying assets and liabilities. The most up to date actuarial valuation was carried out as at 31 March 2012. This valuation is then reviewed by the Scheme Actuary and updated to reflect current conditions and rolled forward to the reporting date of the DoF Superannuation and Other Allowances Annual Report and Accounts as at 31 March 2019.

For 2018-19, employers' contributions of £761,164 were payable to the NICS pension arrangements (2017-18: £695,240) 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 2019-20, the rates will range from 28.7% to 34.2% and the salary bands differ. The contribution rates are set to meet the cost of the benefits accruing during 2019-20 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 (2017-18: 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% (2017-18: 8% to 14.75%) of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £Nil, 0.5% (2017-18: £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.

No individuals (2017-18: one person) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £Nil (2017-18: £7,508).

### Average number of persons employed

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

*[Audited information]*

	2018-19	2017-18
Operational staff	122	104
Staff engaged on capital projects	16	12
<b>Total</b>	<b>138</b>	<b>116</b>

### Staff composition

The number of persons employed at 31 March 2019 was as follows:

	Female staff	Male staff	Total Staff
LSA Board	3	4	7
Senior Civil Service	1	1	2
LSA Employees	98	63	161

### Managing attendance

The average days lost per whole time equivalent member of staff for 2018-19 has been projected as 11.5 days (2017-18: 17.0 days). Official finalised figures will be available on publication of the "Sickness Absence in the Northern Ireland Civil Service 2018-19" report later this year.

## **Staff policies**

### **Staff wellbeing, equal opportunities and diversity**

During 2018-19 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 Agency availed of a full programme of Chest Heart and Stroke 'Well Mind' workshops, and held a number of Health Check road shows facilitated by Occupational Health Service and representatives from NICSSA. A volunteering fair was also facilitated, in addition to awareness seminars highlighting bowel cancer.

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.

### **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 Inspire, 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.

## Pay policy

Under the *Civil Service (NI) Order 1999*, DoF is responsible for the pay arrangements of NICS civil servants (apart from those agencies, non-ministerial government departments and other bodies with an agreed pay delegation). The pay award system aims to:

- be a system which will help to recruit, retain and motivate staff to perform efficiently the duties required of them;
- encourage staff to improve their individual performance by providing a direct and regular link between satisfactory performance and pay;
- ensure equity of treatment in respect of pay in accordance with legal requirements and the equal opportunities policy of the NICS;
- secure the confidence of staff that their pay will be determined fairly;
- secure the confidence of the public and their representatives in the system for determining the pay of the staff; and
- enable the Government to reconcile its responsibilities for the control of public expenditure with its responsibilities as an employer.

## Learning and development

All staff completed a Personal Development Plan which identified training needs for 2018-19. 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.

In preparation of the programme of change and in support of staff undergoing that change, the focus of SMT was on a capability skills assessment. The aim of this assessment was to identify any gaps and to put in place plans which would provide staff with the necessary skills to cope with change. To that end learning and development provided by CAL was reviewed and appropriate training identified to support staff. The types of training identified had a greater focus on leadership skills and change management and this was highlighted to staff in presentations during the year. It is planned that the training will take place in the next financial year.

## **Career development**

As part of the NICS, the Agency recognises the importance of having skilled and engaged employees and continues to invest in learning and development. The NICS Centre for Applied Learning (CAL) is responsible for development and delivery of all generic staff training. It offers a variety of learning delivery channels to enable flexible access to learning, blending different learning solutions into coherent learning pathways that are aligned to both corporate need and the NICS Competency Framework.

The NICS offers a wide range of career development opportunities through mentoring, secondment and interchange opportunities, elective transfers, temporary promotion, job rotation and job shadowing. Talent Management is a key theme of the NICS People Strategy and work is underway to develop a more corporate approach to managing talent across 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 team meetings to communicate with staff, receive feedback, and gave staff the opportunity to raise any issues for the attention of senior management. Directors were responsible for ensuring that team briefings were held in their Directorate and provided an overview of the key points at the monthly Board meetings.

Senior management held a number of staff presentations which provided updates to staff on all the programmes of change within LSA. The sessions included question and answer opportunities.

During 2018-19 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.

Throughout the 2018-19 financial year LSA has delivered reforms and changes to staff behaviours and values. This exercise has reflected how staff are treated, how we interact with each other, and how we engage with our customer base. Significant progress has been made in delivering transformational changes in this area.

This work has resulted in the development of a set of Values and Behaviours which have been agreed and issued to all staff; both permanent staff and staff employed through recruitment agencies. The standards expected of staff are also reflected at the Agency Board, and Audit and Risk Committee (ARC). All Board and Committee members, including the Non-Executive Directors, have committed to operating against the same standards that are expected of staff. Value and Behaviours has now become a formal agenda item for LSA Board and ARC meetings and each meeting records how the members adhered to the agreed set of Values and Behaviours throughout the meeting.



Several information sessions, 'show and tells' were carried out for staff by the project team responsible for the digitisation of Legal Aid. The sessions gave staff an overview of the progress and question and answer opportunities.

Under the DoJ Staff Engagement Strategy a Staff Forum was established comprising of representatives, from each Directorate and Agency. LSA had two 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 several meetings and working groups throughout the year to feed back on the views of the LSA staff. They worked closely with colleagues from other business areas to develop a response and a prioritised action plan. A further staff attitude survey was issued in October 2017, the results of which will be analysed and will be part of the work of the new Forum membership which will start in April 2018.

### Expenditure on consultancy

The LSA incurred no expenditure on consultancy during 2017-18 or 2018-19.

### Off-payroll payments

The LSA made no off-payroll payments in 2017-18 or 2018-19.

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

*[Audited information]*

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	2018-19 Total number of exit packages by cost band	2017-18 Total number of exit packages by cost band
below £10,000	-	-	-	1
£10,000 - £25,000	-	-	-	1
£25,000 - £50,000	-	2	2	-
£50,000 - £100,000	-	-	-	-
£100,000 - £150,000	-	-	-	-
£150,000 - £200,000	-	-	-	-
over £200,000	-	-	-	-
<b>Total number of exit packages</b>	-	<b>2</b>	<b>2</b>	<b>2</b>
<b>Total resource cost £</b>	-	<b>£67,637</b>	<b>£67,637</b>	<b>£28,335</b>

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme (Northern Ireland), a statutory scheme made under the Superannuation (Northern Ireland) Order 1972. Exit costs are accounted for in full in the year of departure. Where the Department has agreed early retirements, the additional costs are met by the Department and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

**ASSEMBLY ACCOUNTABILITY AND AUDIT REPORT****ASSEMBLY ACCOUNTABILITY DISCLOSURES****Regularity of expenditure*****Losses and special payments***

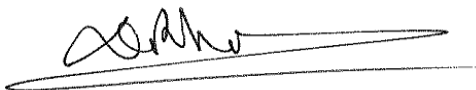
The value of trade receivable balances written-off during 2018-19 was £231,069 (2017-18: £769,095).

***Statutory charges***

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.

**Remote contingent liabilities**

There were no contingent liabilities requiring disclosure under Assembly reporting requirements. The Agency had no significant remote contingent liabilities during 2018-19 that require disclosure. Note 16 provides further details regarding the contingent liabilities that are included within the financial statements.

**ACCOUNTABILITY REPORT**

**Paul Andrews**  
**Chief Executive and Accounting Officer**  
**3 July 2019**

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

### Qualified opinion on financial statements

I certify that I have audited the financial statements of the Legal Services Agency Northern Ireland for the year ended 31 March 2019 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 including significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

In my opinion, except for any possible effects of the matter described in the Basis for qualified opinion section of my certificate, 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 2019 and of its net operating expenditure for the year then ended; and
- have been properly prepared in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and Department of Finance directions issued thereunder.

### Qualified opinion on regularity

In my opinion, except for the matters described in the Basis for qualified opinions section of my certificate 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 opinions

Provision for legal aid liabilities totalling £135.8 million has been made in the financial statements for the estimated expenditure 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 this provision. Consequently, I was unable to determine the full extent of the adjustments necessary to the provision for legal aid liabilities and the resulting adjustment to the legal aid expenditure for the year.

My examination found material weaknesses in controls over fraud and error prevention and detection in respect of legal aid costs totalling £84.3 million:

- Preliminary statistics produced by the Agency estimated £5.5 million of overpayments and £0.4 million of underpayments of legal aid costs were made in the year due to official error. The Agency is required to pay legal aid costs in accordance with legislation. Where official error results in overpayments and underpayments the transactions have not been processed in accordance with the applicable legislation. The expenditure is therefore irregular.

- The Agency was unable to provide sufficient evidence to enable me to conclude that a material amount of legal aid expenditure had not been fraudulently claimed or subject to claimant error. 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 unable to form an opinion on whether all of the remaining balance of expenditure on legal aid was in accordance with the purposes intended by the Assembly and that these financial transactions conformed to the authorities which governed them.

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of this certificate. My staff and I are independent of Legal Services Agency Northern Ireland in accordance with the ethical requirements of the Financial Reporting Council's Revised Ethical Standard 2016, and have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified opinions.

### **Other information**

The Accounting Officer is responsible for the other information included in the annual report. The other information comprises the information included in the annual report other than the financial statements, the parts of the Accountability Report described in the report as having been audited, and my audit certificate and report. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

### **Opinion on other matters**

In my opinion:

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

### **Responsibilities of the Accounting Officer for the financial statements**

As explained more fully in the Statement of Accounting Officer 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.

## Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001.

My objectives are to obtain 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website:

[www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my certificate.

In addition, 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.

## 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 practitioners referred to above; and the appropriateness of certain assumptions used in the calculation of legal aid provisions.

Adequate accounting records have not been kept in relation to the calculation of legal aid provisions.

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 Accountability Report to be audited are not in agreement with the accounting records; or
- the Governance Statement does not reflect compliance with the Department of Finance's guidance.

My report on those matters subject to qualification is included on pages 91 to 99 of the financial statements.



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

5 July 2019

**FINANCIAL STATEMENTS****Statement of Comprehensive Net Expenditure****For the year ended 31 March 2019**

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	2018-19 £000	2017-18 £000
Revenue from contracts with customers	5	-	-
Other operating income	5	(2,632)	(2,798)
<b>Total operating income</b>		<b>(2,632)</b>	<b>(2,798)</b>
Staff costs	3	4,814	4,494
Purchase of goods and services	3	4,006	4,146
Depreciation and amortisation charges	3	16	59
Provisions expense	3	84,330	68,757
Grants	3	21	21
<b>Total operating expenditure</b>		<b>93,187</b>	<b>77,477</b>
<b>Net operating expenditure</b>		<b>90,555</b>	<b>74,679</b>
Finance expense	3	3	3
<b>Net expenditure for the year</b>		<b>90,558</b>	<b>74,682</b>
<b>Other comprehensive net expenditure</b>			
Items that will not be reclassified to Net operating expenditure:			
- net (gain)/loss on revaluation of property, plant and equipment	6	-	-
- net (gain)/loss on revaluation of intangibles	7	-	-
- actuarial (gain)/loss on pension liability	12	-	-
<b>Comprehensive net expenditure for the year</b>		<b>90,558</b>	<b>74,682</b>

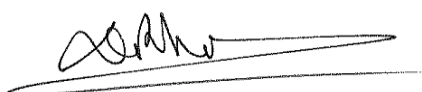
The notes on pages 62 to 90 form part of these Accounts.

## Statement of Financial Position

As at 31 March 2019

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	2019 £000	2018 £000
<b>Non-current assets</b>			
Property, plant and equipment	6	54	9
Intangible assets	7	7,708	5,566
Trade and other receivables	10	1	1
<b>Total non-current assets</b>		<b>7,763</b>	<b>5,576</b>
<b>Current assets</b>			
Trade and other receivables	10	1,694	1,545
Cash and cash equivalents	9	58	14
<b>Total current assets</b>		<b>1,752</b>	<b>1,559</b>
<b>Total assets</b>		<b>9,515</b>	<b>7,135</b>
<b>Current liabilities</b>			
Cash and cash equivalents	9	-	(1,525)
Trade and other payables	11	(2,212)	(2,387)
Provisions	12	(70,008)	(65,010)
<b>Total current liabilities</b>		<b>(72,220)</b>	<b>(68,922)</b>
<b>Total assets less current liabilities</b>		<b>(62,705)</b>	<b>(61,787)</b>
<b>Non-current liabilities</b>			
Provisions	12	(65,800)	(70,722)
<b>Total non-current liabilities</b>		<b>(65,800)</b>	<b>(70,722)</b>
<b>Total assets less total liabilities</b>		<b>(128,505)</b>	<b>(132,509)</b>
<b>Taxpayers' equity and other reserves</b>			
General fund		(128,505)	(132,510)
Revaluation reserve		-	1
<b>Total equity</b>		<b>(128,505)</b>	<b>(132,509)</b>



**Paul Andrews**  
Chief Executive and Accounting Officer

**3 July 2019**

The notes on pages 62 to 90 form part of these Accounts.

## Statement of Cash Flows

### For the year ended 31 March 2019

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	2018-19 £000	2017-18 £000
<b>Cash flows from operating activities</b>			
Net expenditure for the year		(90,558)	(74,682)
Adjustment for non-cash transactions	4	86,295	70,862
(Increase)/decrease in trade and other receivables	10	(149)	(45)
<i>Movement in receivables relating to items not passing through the SCNE</i>	10	(1,112)	(819)
Decrease / ( Increase) in trade and other payables	11	(175)	714
<i>Movement in payables relating to items not passing through the SCNE</i>	11	161	(304)
Use of provisions	12	(84,254)	(84,033)
<b>Net cash outflow from operating activities</b>		<b>(89,792)</b>	<b>(88,307)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(53)	-
Purchase of intangible assets		(2,310)	(2,615)
<b>Net cash outflow from investing activities</b>		<b>(2,363)</b>	<b>(2,615)</b>
<b>Cash flows from financing activities</b>			
Net Assembly Funding		93,724	90,989
<b>Net financing</b>		<b>93,724</b>	<b>90,989</b>
<b>Net (decrease)/increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>		<b>1,569</b>	<b>67</b>
Receipts due to the Consolidated Fund which are outside the scope of the Agency's activities		-	-
Payments of amounts due to the Consolidated Fund		-	-
<b>Net (decrease)/increase in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>		<b>1,569</b>	<b>67</b>
<b>Cash and cash equivalents at the beginning of period</b>	9	<b>(1,511)</b>	<b>(1,578)</b>
<b>Cash and cash equivalents at the end of period</b>	9	<b>58</b>	<b>(1,511)</b>

The notes on pages 62 to 90 form part of these Accounts.



## Statement of Changes in Taxpayers' Equity

### For the year ended 31 March 2019

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
<b>Balance at 31 March 2017</b>		<b>(149,831)</b>	<b>1</b>	<b>(149,830)</b>
Net Assembly Funding		90,989	-	<b>90,989</b>
Comprehensive net expenditure for the year		(74,682)	-	<b>(74,682)</b>
Auditor's remuneration	3	65	-	<b>65</b>
Other notionals	3	949	-	<b>949</b>
Transfer between reserves		-	-	-
<b>Balance at 31 March 2018</b>		<b>(132,510)</b>	<b>1</b>	<b>(132,509)</b>
Net Assembly Funding		93,724	-	<b>93,724</b>
Comprehensive net expenditure for the year		(90,558)	-	<b>(90,558)</b>
Auditor's remuneration	3	65	-	<b>65</b>
Other notionals	3	773	-	<b>773</b>
Transfer between reserves		1	(1)	-
<b>Balance at 31 March 2019</b>		<b>(128,505)</b>	<b>-</b>	<b>(128,505)</b>

The notes on pages 62 to 90 form part of these Accounts.

## Notes to the Accounts

### 1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2018-19 *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:

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

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

## 1.7 Realised element of depreciation from Revaluation reserve

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

## 1.8 Value Added Tax

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

## 1.9 Provisions

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

Further details are contained in Notes 1.22 and 12 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 19).

## 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

#### Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the Agency is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Agency: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

#### *Sale of goods and services*

Revenue from the sale of goods is recognised either:

- at the point in time when the customer obtains control of the goods, which is generally at the time of delivery; or
- over time as the services are rendered based on either a fixed price or an agreed rate.

#### Other operating income

Other operating income is income which relates directly to the operating activities of the Agency. It includes both income classified as Accruing Resources and income due to the Consolidated Fund, which in accordance with the *FReM*, is treated as operating income.

#### *Rental income*

Rent revenue from properties is recognised on a straight-line basis over the lease term.

#### *Other income*

Other revenue is recognised when it is received or when the right to receive payment is established.

### **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.

### **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 12 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***

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 - this specifically relates to Civil legal aid certificates and cases that are concluded with a Direct Authority designation. These are cases where the legally aided party wins the case and their legal costs are met by the non-legally aided party and not by the legal aid fund. An analysis of historical data determines a percentage reduction covering the expected incidence of Direct Authority cases 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 2018-19 for the first time

There were two accounting initiatives issued and effective in 2018-19 for the first time.

<b>Standard</b>	IFRS 9 <i>Financial Instruments</i>
<b>Effective date</b>	1 January 2018 (EU endorsed 22 November 2016)
<b><i>FReM</i> application</b>	2018-19
<b>Description of revision</b>	IFRS 9 includes several improvements, and introduces substantially greater disclosure requirements, to the previous IAS 39 which includes: <ul style="list-style-type: none"> <li>• a single approach to classification and measurement</li> <li>• a new forward-looking 'expected loss' impairment model; and</li> <li>• a revised approach to hedge accounting.</li> </ul>
<b>Comments</b>	IFRS 9 will affect all public-sector bodies that have any financial Instruments (including trade receivables, lease receivables, loan commitments and contract assets).

<b>Standard</b>	IFRS 15 <i>Revenue from Contracts with Customers</i>
<b>Effective date</b>	1 January 2018 (EU endorsed 31 October 2017)
<b><i>FReM</i> application</b>	2018-19
<b>Description of revision</b>	IFRS 15 introduces a new five stage model for assessing and recognising revenue from contracts with customers. It also introduces substantially greater disclosure requirements to address the shortcomings of the previous Standards (IAS 1 and IAS 18).
<b>Comments</b>	IFRS 15 will affect all public-sector bodies.

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

The Agency has considered those new Standards, interpretations and amendments to existing Standards which have been published and are mandatory for the Agency's accounting periods beginning on or after 1 April 2019 or later periods, but which the Agency has not adopted early. Other than as outlined below, the Agency considers that these Standards are not relevant or material to its operations.

<b>Standard</b>	IFRS 16 <i>Leases</i> (replaces IAS 17 <i>Leases</i> and related interpretations)
<b>Effective date</b>	January 2019 (EU endorsed 31 October 2017)
<b><i>FReM</i> application</b>	2020-21
<b>Description of revision</b>	<p>The IASB issued IFRS 16 in January 2016 with an effective date for annual periods beginning on or after 1 January 2019. Early application is permitted for those entities applying IFRS 15.</p> <p>IFRS 16 represents a significant change in lessee accounting by largely removing the distinction between operating and finance leases and introducing a single lessee accounting model. A lessee is required to recognise assets and liabilities for all leases, unless they qualify for low value or short-term exemptions. In addition, there are updated disclosure requirements.</p> <p>The lessor accounting model is generally unchanged from IAS 17 but entities should be aware of the introduction and impacts of IFRS 9 <i>Financial Instruments</i>, enhanced disclosure requirements and that a sub-lessor now determines whether a lease is finance or operating based on the right of use asset it subleases.</p>
<b>Comments</b>	IFRS 16 <i>Leases</i> replaces IAS 17 <i>Leases</i> and is effective with EU adoption from 1 January 2019. In line with the requirements of the <i>FReM</i> , IFRS 16 will be implemented, as interpreted and adapted for the public sector, with effect from 1 April 2020.

### 1.25 Financial reporting - future developments

The Agency 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 Expenditure 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.

			<b>2018-19</b>
	<b>Civil Legal</b>	<b>Criminal</b>	<b>£000</b>
	<b>Services</b>	<b>Legal Aid</b>	<b>Total</b>
Gross expenditure	46,723	46,467	93,190
Income	(2,622)	(10)	(2,632)
<b>Net expenditure</b>	<b>44,101</b>	<b>46,457</b>	<b>90,558</b>

			<b>2017-18</b>
	<b>Civil Legal</b>	<b>Criminal</b>	<b>£000</b>
	<b>Services</b>	<b>Legal Aid</b>	<b>Total</b>
Gross expenditure	43,048	34,432	77,480
Income	(2,798)	-	(2,798)
<b>Net expenditure</b>	<b>40,250</b>	<b>34,432</b>	<b>74,682</b>

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

	2018-19 £000		
	Civil Legal Services	Criminal Legal Aid	Total
Total net expenditure reported for Operating Segments	44,101	46,457	90,558
Reconciling items	-	-	-
<b>Total net expenditure per Statement of Comprehensive Net Expenditure</b>	<b>44,101</b>	<b>46,457</b>	<b>90,558</b>

	2017-18 £000		
	Civil Legal Services	Criminal Legal Aid	Total
Total net expenditure reported for Operating Segments	40,250	34,432	74,682
Reconciling items	-	-	-
<b>Total net expenditure per Statement of Comprehensive Net Expenditure</b>	<b>40,250</b>	<b>34,432</b>	<b>74,682</b>

## 2.2 Reconciliation between Operating Segments and 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. Programme expenditure

		2018-19	2017-18
	Note	£000	<i>Restated</i> £000
<b>Staff costs*</b>			
Wages and salaries		3,823	3,337
Social security costs		303	293
Other pension costs		688	651
Pension provision	12	-	213
		<b>4,814</b>	<b>4,494</b>
<b>Purchase of goods and services</b>			
Staff related costs		44	32
Rentals under operating leases		426	381
Accommodation costs, maintenance and utilities		321	311
IT, communications and office services		166	165
Contracted out and managed services		584	376
Professional costs		156	161
Appeals Panel and Board member costs		123	117
Other costs		237	770
		<b>2,057</b>	<b>2,313</b>
<b>Non-cash items:</b>			
Auditor's remuneration and expenses		65	65
Notional charges		486	613
Intra-departmental notional charges		287	336
(Decrease)/increase in impairment of trade receivables	10	1,111	819
		<b>1,949</b>	<b>1,833</b>
		<b>4,006</b>	<b>4,146</b>
<b>Depreciation and amortisation charges</b>			
Depreciation	6	8	10
Amortisation	7	8	49
		<b>16</b>	<b>59</b>
<b>Provisions expense</b>			
Provided in year	12	90,770	88,374
Written back in year	12	(6,440)	(19,617)
		<b>84,330</b>	<b>68,757</b>
<b>Grants</b>			
		<b>21</b>	<b>21</b>
<b>Finance expense</b>			
		<b>3</b>	<b>3</b>
<b>Total programme expenditure</b>			
		<b>93,190</b>	<b>77,480</b>

\*Further analysis of Staff costs is located in the Staff Report within the Accountability Report.

**4. Non-cash costs**

	Note	2018-19 £000	2017-18 £000
Pension provision	12	-	213
Purchase of goods and services	3	1,949	1,833
Depreciation and impairment charges	6, 7	16	59
Other provisions expense	12	84,330	68,757
		<b>86,295</b>	<b>70,862</b>

**5. Income**

	2018-19 £000	2017-18 £000
<b>Revenue from contracts with customers</b>	-	-
<b>Other operating income</b>		
Contributions and statutory charges	<b>2,632</b>	<b>2,798</b>
<b>Total operating income</b>	<b>2,632</b>	<b>2,798</b>

## 6. Property, plant and equipment

	2018-19		
	Plant and Machinery £000	Information Technology £000	Total £000
<b>Cost or valuation</b>			
At 1 April 2018	1,177	7	1,184
Additions	-	53	53
Disposals	-	-	-
Revaluation released to SCNE	-	-	-
Revaluation	-	-	-
<b>At 31 March 2019</b>	<b>1,177</b>	<b>60</b>	<b>1,237</b>
<b>Depreciation</b>			
At 1 April 2018	1,168	7	1,175
Charged in year	6	2	8
Disposals	-	-	-
Revaluation released to SCNE	-	-	-
Revaluation	-	-	-
<b>At 31 March 2019</b>	<b>1,174</b>	<b>9</b>	<b>1,183</b>
<b>Carrying amount at 31 March 2019</b>	<b>3</b>	<b>51</b>	<b>54</b>
<b>Carrying amount at 31 March 2018</b>	<b>9</b>	<b>-</b>	<b>9</b>
<b>Asset financing:</b>			
Owned	3	51	54
<b>Carrying amount at 31 March 2019</b>	<b>3</b>	<b>51</b>	<b>54</b>



**6. Property, plant and equipment (continued)**

	<b>Plant and Machinery £000</b>	<b>Information Technology £000</b>	<b>2017-18 Total £000</b>
<b>Cost or valuation</b>			
At 1 April 2017	1,177	7	1,184
Additions	-	-	-
Disposals	-	-	-
Revaluation released to SCNE	-	-	-
Revaluation	-	-	-
<b>At 31 March 2018</b>	<b>1,177</b>	<b>7</b>	<b>1,184</b>
<b>Depreciation</b>			
At 1 April 2017	1,161	4	1,165
Charged in year	7	3	10
Disposals	-	-	-
Revaluation released to SCNE	-	-	-
Revaluation	-	-	-
<b>At 31 March 2018</b>	<b>1,168</b>	<b>7</b>	<b>1,175</b>
<b>Carrying amount at 31 March 2018</b>	<b>9</b>	<b>-</b>	<b>9</b>
<b>Carrying amount at 31 March 2017</b>	<b>16</b>	<b>3</b>	<b>19</b>
<b>Asset financing:</b>			
Owned	9	-	9
<b>Carrying amount at 31 March 2018</b>	<b>9</b>	<b>-</b>	<b>9</b>

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

## 7. Intangible assets

				2018-19
	Software licences £000	Software £000	Assets Under Construct- ion £000	Total £000
<b>Cost or valuation</b>				
At 1 April 2018	641	387	5,558	<b>6,586</b>
Additions	-	-	2,150	<b>2,150</b>
Disposals	-	-	-	-
Revaluation released to SCNE	-	-	-	-
Revaluation	-	-	-	-
<b>At 31 March 2019</b>	<b>641</b>	<b>387</b>	<b>7,708</b>	<b>8,736</b>
<b>Amortisation</b>				
At 1 April 2018	641	379	-	<b>1,020</b>
Charged in year	-	8	-	<b>8</b>
Disposals	-	-	-	-
Revaluation released to SCNE	-	-	-	-
Revaluation	-	-	-	-
<b>At 31 March 2019</b>	<b>641</b>	<b>387</b>	<b>-</b>	<b>1,028</b>
<b>Carrying amount at 31 March 2019</b>	<b>-</b>	<b>-</b>	<b>7,708</b>	<b>7,708</b>
<b>Carrying amount at 31 March 2018</b>	<b>-</b>	<b>8</b>	<b>5,558</b>	<b>5,566</b>
<b>Asset financing:</b>				
Owned	-	-	7,708	7,708
<b>Carrying amount at 31 March 2019</b>	<b>-</b>	<b>-</b>	<b>7,708</b>	<b>7,708</b>

## 7. Intangible assets (continued)

				2017-18
	Software licences £000	Software £000	Assets Under Construct- ion £000	Total £000
<b>Cost or valuation</b>				
At 1 April 2017	641	385	2,639	3,665
Additions	-	-	2,919	2,919
Disposals	-	-	-	-
Revaluation released to SCNE	-	-	-	-
Revaluation	-	2	-	2
<b>At 31 March 2018</b>	<b>641</b>	<b>387</b>	<b>5,558</b>	<b>6,586</b>
<b>Amortisation</b>				
At 1 April 2017	641	328	-	969
Charged in year	-	49	-	49
Disposals	-	-	-	-
Revaluation released to SCNE	-	-	-	-
Revaluation	-	2	-	2
				-
<b>At 31 March 2018</b>	<b>641</b>	<b>379</b>	<b>-</b>	<b>1,020</b>
<b>Carrying amount at 31 March 2018</b>	<b>-</b>	<b>8</b>	<b>5,558</b>	<b>5,566</b>
<b>Carrying amount at 31 March 2017</b>	<b>-</b>	<b>57</b>	<b>2,639</b>	<b>2,696</b>
<b>Asset financing:</b>				
Owned	-	8	5,558	5,566
<b>Carrying amount at 31 March 2018</b>	<b>-</b>	<b>8</b>	<b>5,558</b>	<b>5,566</b>

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

## 8. 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 10) and cash and cash equivalents (Note 9). The LSA's financial liabilities comprise trade and other payables and accruals and deferred income (Note 11). 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 3.

### ***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 10).

### ***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.

**9. Cash and cash equivalents**

	<b>2018-19</b> <b>£000</b>	<b>2017-18</b> <b>£000</b>
Balance at 1 April	(1,511)	(1,578)
Net change in cash and cash equivalent balances	1,569	67
<b>Balance at 31 March</b>	<b>58</b>	<b>(1,511)</b>

The following balances at 31 March are held at:

Commercial banks and cash in hand	58	(1,511)
<b>Balance at 31 March</b>	<b>58</b>	<b>(1,511)</b>

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

	<b>2018-19</b> <b>£000</b>	<b>2017-18</b> <b>£000</b>
Current assets	58	14
Current liabilities	-	(1,525)
<b>Total</b>	<b>58</b>	<b>(1,511)</b>

**10. Trade receivables, financial and other assets**

	<b>2018-19</b> <b>£000</b>	<b>2017-18</b> <b>£000</b>
<b>Amounts falling due within one year:</b>		
Trade receivables	1,379	1,459
Other receivables	10	4
Prepayments and accrued income	214	52
VAT	91	30
	<b>1,694</b>	<b>1,545</b>
<b>Amounts falling due after more than one year:</b>		
Other receivables	<b>1</b>	<b>1</b>
<b>Total</b>	<b>1,695</b>	<b>1,546</b>

Trade receivables are stated net of the following impairment:

	<b>2018-19</b> <b>£000</b>	<b>2017-18</b> <b>£000</b>
At 1 April	6,953	6,134
Increase in impairment during the year	1,849	1,740
Decrease in impairment during the year	(738)	(921)
<b>Balance at 31 March</b>	<b>8,064</b>	<b>6,953</b>

**11. Trade payables, financial and other liabilities**

	<b>2018-19</b> <b>£000</b>	<b>2017-18</b> <b>£000</b>
<b>Amounts falling due within one year:</b>		
Trade payables	1,006	1,293
Other payables	416	380
Accruals and deferred income	790	714
	<b>2,212</b>	<b>2,387</b>

**12. Provisions for liabilities and charges**

					2018-19 £000
	Civil Legal Services	Criminal Legal Aid	Pension liability	Legal claims	Total
At 1 April 2018	96,188	39,477	-	67	135,732
Provided in the year	43,183	47,550	-	37	90,770
Provisions not required written back	(888)	(5,549)	-	(3)	(6,440)
Provisions utilised in the year	(47,304)	(36,926)	-	(24)	(84,254)
<b>Balance at 31 March 2019</b>	<b>91,179</b>	<b>44,552</b>	<b>-</b>	<b>77</b>	<b>135,808</b>

					2017-18 £000
	Civil Legal Services	Criminal Legal Aid	Pension liability	Legal claims	Total
At 1 April 2017	98,838	47,218	4,500	239	150,795
Provided in the year	45,264	43,095	1,548	15	89,922
Provisions not required written back	(6,919)	(12,599)	(1,335)	(99)	(20,952)
Provisions utilised in the year	(40,995)	(38,237)	(4,713)	(88)	(84,033)
<b>Balance at 31 March 2018</b>	<b>96,188</b>	<b>39,477</b>	<b>-</b>	<b>67</b>	<b>135,732</b>

**Analysis of expected timing of discounted flows**

					2018-19 £000
	Civil Legal Services	Criminal Legal Aid	Pension liability	Legal claims	Total
Not later than one year	32,412	37,519	-	77	70,008
Later than one year and not later than five years	50,565	7,033	-	-	57,598
Later than five years	8,202	-	-	-	8,202
<b>Balance at 31 March 2019</b>	<b>91,179</b>	<b>44,552</b>	<b>-</b>	<b>77</b>	<b>135,808</b>

					2017-18 £000
	Civil Legal Services	Criminal Legal Aid	Pension liability	Legal claims	Total
Not later than one year	34,816	30,127	-	67	65,010
Later than one year and not later than five years	52,292	9,335	-	-	61,627
Later than five years	9,080	15	-	-	9,095
<b>Balance at 31 March 2018</b>	<b>96,188</b>	<b>39,477</b>	<b>-</b>	<b>67</b>	<b>135,732</b>

**12.1 Civil Legal Services and Criminal Legal Aid: £135.731m (2017-18: £135.665m)**

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 2019 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.



**12.2 Pension liability: £Nil (2017-18: £Nil)**

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 were 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. Final amounts payable to both NILGOSC and NICS pension schemes were agreed during 2017-18 and payments were made to settle all remaining liabilities. This bulk transfer process is now completed and a contingent liability disclosure in Note 16 is no longer required.

	2018-19 £000		
	NILGOSC - cessation payment	NICS - shortfall payment	Total
At 1 April 2018	-	-	-
Provided in the year	-	-	-
Actuarial loss/(gain)	-	-	-
Provisions not required written back	-	-	-
Provisions utilised in the year	-	-	-
<b>Balance at 31 March 2019</b>	-	-	-

	2017-18 £000		
	NILGOSC - cessation payment	NICS - shortfall payment	Total
At 1 April 2017	1,100	3,400	<b>4,500</b>
Provided in the year	1,548	-	<b>1,548</b>
Actuarial loss/(gain)	-	-	-
Provisions not required written back	-	(1,335)	<b>(1,335)</b>
Provisions utilised in the year	(2,648)	(2,065)	<b>(4,713)</b>
<b>Balance at 31 March 2018</b>	-	-	-

**Reconciliation of value of assets**

	<b>2018-19</b> <b>£000</b>	<b>2017-18</b> <b>£000</b>
At 1 April	-	32,002
Expected return	-	-
Actuarial gains/(losses)	-	-
Bulk transfer payment to NICS pension scheme	-	(2,477)
Adjustment for final settlement	-	(3,735)
Employer contributions	-	2,648
Benefits paid	-	-
Value of assets on exit	-	(28,438)
<b>Closing value of assets</b>	<b>-</b>	<b>-</b>

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

	<b>2018-19</b> <b>£000</b>	<b>2017-18</b> <b>£000</b>
At 1 April	-	33,102
Interest cost	-	-
Actuarial losses/(gains) - financial assumptions	-	-
Actuarial losses/(gains) - demographic assumptions	-	-
Adjustment for final settlement	-	(4,664)
Benefits paid	-	-
Value of liabilities on exit	-	(28,438)
<b>Closing defined benefit obligation</b>	<b>-</b>	<b>-</b>

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

	<b>2018-19</b> <b>£000</b>	<b>2017-18</b> <b>£000</b>
Bulk transfer payment to NICS pension scheme	-	2,477
Settlement	-	(929)
Interest charged/(credited) in respect of defined benefit liability/(asset)	-	-
<b>Total</b>	<b>-</b>	<b>1,548</b>

### 13. Leases

#### Operating leases

£0.426m (2017-18: £0.381m) was included as an expense on operating leases in the Statement of Comprehensive Net Expenditure.

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

	2018-19 £000	2017-18 £000
<b>Obligations under operating leases comprise:</b>		
<i>Land and buildings</i>		
Not later than one year	421	421
Later than one year and not later than five years	982	1,403
Later than five years	-	-
<b>Total</b>	<b>1,403</b>	<b>1,824</b>

### 14. Capital commitments

	2018-19 £000	2017-18 £000
Contracted capital commitments at 31 March not otherwise included in these financial statements:		
Property, plant and equipment	-	-
Intangible assets	56	301
<b>Total</b>	<b>56</b>	<b>301</b>

### 15. Other financial commitments

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

	2018-19 £000	2017-18 £000
Not later than one year	-	-
Later than one year and not later than five years	-	-
Later than five years	-	-
<b>Total</b>	<b>-</b>	<b>-</b>

## 16. 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.

### *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.

On 17 June 2019 the Court of Appeal ruled in respect of Northern Ireland Industrial Tribunal's November 2018 decision on cases taken against the PSNI on backdated Holiday Pay. It is recognised that the final detail remains to be determined by the Industrial Tribunal who will be guided by the Court of Appeal's judgment.

This is an extremely rare and complex case with a significant number of issues that still need to be resolved, including further legal advice with regards to the judgment; the scope; timescales; process of appeals and engagement with Trade Unions. The legal issues arising from this judgment and the implications for the Northern Ireland Civil Service (NICS) and wider public sector will need further consideration. The Department of Finance (DoF) is leading a piece of work across the NICS, reviewing the implications for each of the major staffing groups across the public sector.

Until there is further clarity when this work has concluded, and based on the inherent uncertainties in the final decision that will be made, a reliable estimate cannot be provided at this stage.

## 17. 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 Department of Finance (DoF).

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

## 18. Fraud and error

Throughout 2018-19 the Agency has been working with the Standards Assurance Unit (SAU), in the Department for Communities, to establish a formal level of official error in relation to legal aid payments. This year has been used to test methodologies across a number of key payment areas with a view to developing robust testing criteria to formalise official error rates from January 2019 onwards. Through a phase of testing, learning and refining, this “shadow year” has supported the development of criteria against which to analyse official error across four main areas:

- internal staff error;
- error against the Civil Legal Services Remuneration (NI) Order 2015;
- Court of Appeal Taxed Payments; and
- Legal Aid Assessment Office errors.

The ongoing work in this developmental year has been an iterative process whereby each quarter has seen deemed errors, identified in the preceding quarter(s), removed as those issues are addressed and therefore the estimate of in-year error has been subject to change and volatility across each quarter. The current figure, based on the provisional work undertaken up to the end of Quarter Three, suggests an overall estimated error rate of 10.4%, which equates to an estimate of £5.9m. These figures are designated experimental statistics and should not be misinterpreted as finalised official statistics. They reflect an in-year snapshot showing the cumulative estimate of error across the four areas detailed above. In addition, certain data validation exercises can only be carried out at year-end, so have not been undertaken or applied in the production of these Quarter Three estimates.

The Agency fully expects this in-year error rate to reduce by year-end as the exploratory work, including finalised outcomes for all cases selected within the full year’s sample, is completed. Work is already ongoing to bring forward legislative amendments to address the deemed errors associated with the Remuneration Order; the Legal Aid Assessment Office functions have been brought into the Agency to allow greater control of this work; and there are ongoing discussion with the Taxing Master’s Office in relation to the detail supplied to SAU regarding the Judicial decision taken by the Master. In addition detailed desk guidance has been drafted for all staff undertaking payment assessments in LSA to ensure a consistency of approach across all areas.

## 19. 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 2019 was as follows:

	<b>2018-19</b> <b>£000</b>	<b>2017-18</b> <b>£000</b>
At 1 April	312	682
Damages received	609	687
Interest received	-	-
	<hr/> 921	<hr/> 1,369
Less:		
Sums repaid to assisted persons	(574)	(768)
Damages retained	(56)	(289)
<b>Balance at 31 March</b>	<hr/> <b>291</b>	<hr/> <b>312</b>

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.

## 20. 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 2019.

## 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 was not effective. The LSANI's counter fraud strategy was not comprehensive or embedded in day-to-day management. Internal controls had been established but were inadequate to prevent and detect fraud and the LSANI was dependent upon third parties to identify suspected fraud.
  - The LSANI did not have an effective method to predict future legal aid expenditure. In partnership, the LSANI and Department sought to develop a new model for forecasting. Despite commendable effort, there remained a number of significant weaknesses, which compromised the model's ability to predict future expenditure reliably.
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 NILSC and LSANI managed the legal aid budget over a number of years. The January 2017 PAC report contained five recommendations for improving the management of legal aid.
4. 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 of provisions for legal aid liabilities in the annual accounts. Whilst progress has been made by the Agency on these issues, further work will be needed to resolve them. Consequently, I am qualifying my audit opinion on the 2018-19 financial statements of LSANI.

### 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 explains the background to my qualifications on the LSANI Account for the year ended 31 March 2019.

7. I have qualified my opinion on the financial statements due to:
- i. incorrect legal aid expenditure, which based on the best audit evidence available to me, is estimated at £5.9 million during the year, as a consequence of official error; and
  - ii. limitations in the scope of my work due to insufficient evidence available to:
    - o satisfy myself that material fraud and error by legal aid claimants and legal practitioners did not exist within eligibility assessments of legal aid applicants and in expenditure from legal aid funds; and
    - o support the assumptions and judgements used in the determination of the year end provision for legal aid liabilities of £135.8 million at 31 March 2019; and the resulting adjustments required to the annual legal aid expenditure.

### **Qualified audit opinion on irregular legal aid expenditure**

8. Legal aid expenditure during 2018-19 totalled £84.3 million. There are a number of reasons why this expenditure may not be applied for the purposes intended by the Assembly or conform to the authorities which govern them:
- Official error - where an error can be attributed to the actions or inactions of the Agency;
  - Errors made by legal aid claimants and legal practitioners; and
  - Fraud.
9. As I noted in my report on the 2017-18 LSANI financial statements, the Agency has been working with the Department for Communities (DfC) to develop an estimate of the levels of fraud and error within legal aid expenditure. This work has a number of different strands and will take time to develop. However work undertaken to date has enabled the Agency to provide me with an estimate of the level of official error in this expenditure for the first time.
10. DfC's Standards Assurance Unit (SAU) selected a sample of 739 payments made between April 2017 and December 2017 and tested whether they had been processed in accordance with legislation. The Agency has used this information to estimate the level of official error in 2018-19 legal aid payments. I am satisfied that the approach is reasonable. Whilst the Agency, in line with advice from the Northern Ireland Statistics and Research Agency, views the statistics produced to date to be experimental and advises that they should be interpreted with caution, they nonetheless represent the best audit evidence available to me at this time.
11. The estimated level of overpayments in this expenditure resulting from official error is £5.5 million, whilst the estimated level of underpayments is £0.4 million. All overpayments are considered irregular as the expenditure has not been applied in accordance with the purposes intended by the Assembly. Underpayments resulting from official error are not considered to have conformed to the authorities which govern them as the corresponding transactions have not been processed in accordance with the applicable legislation. Therefore the expenditure is considered to be incorrect in 2018-19.



12. These estimates include deemed errors of £4.9 million, where further information was required to reach a conclusion on the appropriateness of the payment. If this information subsequently becomes available an adjustment is made to the error calculation in the next quarterly report. The Agency aims to produce a final report on official error for the year ended 31 March 2017 by early July 2019, which includes adjustments for deemed errors where the information required had subsequently been produced. Since this report is not available at present I have based my audit findings on the Quarter Three report instead.
13. The types of error identified in this testing included:
- i. deemed errors of £2.5 million in respect of Court of Criminal Appeal legal aid certificates where testing could not be completed due to outstanding information;
  - ii. inconsistencies between court records and items billed by legal practitioners;
  - iii. travel expenses being paid on the basis of standard mileage rather than actual mileage;
  - iv. items not being paid in accordance with the Civil Legal Services; (Remuneration) Order (Northern Ireland) 2015; and
  - v. simple calculation errors.

I asked the LSANI what actions it was taking to address these issues. It told me *“LSA staff have continued to work with the SAU throughout this developmental year to rectify issues raised. This exploratory work will enable the Agency to report a comprehensive estimate of official error and establish a work programme to address this. The introduction of LAMS should significantly reduce the level of error in mileage claims. In addition, updated desk instructions have also been issued to all staff which will ensure a consistency of approach across all payment areas.*

*Amendments to the Civil Legal Services (Remuneration) (Amendment) Order (Northern Ireland) 2019 came into operation on 1 July 2019. Further legislative changes to address other long standing queries are currently beyond the Department’s regulation making powers and cannot be advanced in the absence of the Assembly.”*

**Limitation in scope arising from insufficient evidence that material fraud and claimant and legal practitioner error did not exist within legal aid expenditure**

14. Until the Agency progresses other aspects of its work with DfC it cannot provide me with an estimate of the level of fraud and overpayments arising from errors made by claimants and practitioners in legal aid expenditure.
15. There are two aspects to the limitation in scope in respect of fraud and errors made by claimants and legal practitioners. 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**

16. Whilst some assurance was gained by LSANI from the SAU's testing on official errors made in eligibility assessments, consideration of other aspects still need to be addressed. 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 information from the Legal Aid Assessment Office (LAO)<sup>1</sup> on the level of the applicant's income or that they are 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 income or what benefits are being claimed.
17. In civil cases, solicitors and the LAO assess eligibility. 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.
18. The LSANI has invested considerable resources to develop a robust strategy to counter fraud and error, working with the DfC to develop an estimate of the levels of fraud and error in the system. The interview and review of claimant applications is the next significant part of the DfC review. Initial work has already commenced to develop the methodology.

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<sup>1</sup> The Legal Aid Assessment Office was part of the Working Age Group in the Department for Communities but transferred to the LSANI on 4 March 2019.

**Payments to legal practitioners**

19. 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 overpayments made to legal practitioners resulting from fraud and error by claimants or practitioners.
20. Under the current legislation the Agency does not have any powers to carry out inspections in the offices of legal practitioners involved in legal aid cases. This is a critical gap in the counter fraud arrangements. Powers to address this will become available on the introduction of the Statutory Registration Scheme for the providers of legal services. This is an essential element of ensuring that publicly funded legal services deliver value for money and its absence undermines the LSANI's ability to implement a robust quality assurance process. The Access to Justice Order 2003 provided for the introduction of such a scheme. It is concerning that over 16 years later the scheme is still not in place.
21. 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 but that the draft legislation cannot be progressed further in the absence of an Assembly. In addition, an online registration facility has been developed as part of the implementation of the Legal Aid Management System (LAMS) on 1 July 2019. This will support the roll-out of the registration scheme once the legislation is passed.
22. I have limited the scope of my audit opinion on the regularity of expenditure in 2018-19 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 by claimants and legal practitioners.

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

23. 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.
24. 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**

	<b>At 31 March 2019 £ million</b>	<b>At 31 March 2018 £ million</b>	<b>At 31 March 2017 £million</b>	<b>At 31 March 2016 £million</b>
<b>Criminal</b>	<b>44.6</b>	39.5	47.2	46.3
<b>Civil</b>	<b>91.2</b>	96.2	98.8	80.5
<b>Total</b>	<b>135.8</b>	135.7	146.0	126.8

*Source: Legal Services Agency*

25. 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.
26. The annual legal aid expenditure is the total predicted cost for all new certificates issued during the year. When the legal aid claims are paid errors and differences are identified between the original estimate and the amounts actually paid. The annual expenditure has been adjusted this year by £6.4 million (£19.5 million 2017-18) for these differences. The adjustment is one indication of the level of error in the previous year's provisions estimate.

**Legal Aid Annual Expenditure**

	<b>At 31 March 2019 £ million</b>	<b>At 31 March 2018 £ million</b>	<b>At 31 March 2017 £million</b>	<b>At 31 March 2016 £million</b>
Provided in the year - includes predicted cost of new certificates issued in year <sup>2</sup>	<b>90.7</b>	88.3	127.9	147.4
Provisions not required written back - includes errors in previous years provision	<b>(6.4)</b>	(19.5)	(26.3)	(48.8)
<b>Total annual expenditure</b>	<b>84.3</b>	68.8	101.6	98.6

*Source: Legal Services Agency*

27. The level of error in the estimated provisions has reduced considerably over the last four years, but it remains materially inaccurate. It is not possible to assess the level of error in the provisions until the Agency makes the legal aid payments in the following year.
28. 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 has progressed considerably and was used to inform the provision for legal aid liabilities in the last three years' financial statements. However, it is limited by specific concerns about:
- the accuracy and completeness of the numbers of legal aid certificates; and
  - the quality of management information used in the provisions valuations.
29. The introduction of the new case management system on 1 July 2019 should help address these issues in the future. I have qualified my audit opinion on the truth and fairness of the amount provided for legal aid liabilities at 31 March 2019 due to insufficient evidence to support the current provisions methodologies and the judgements made when calculating provisions.

<sup>2</sup> These figures are disclosed by LSANI at page 83 of the annual accounts as provisions "Provided in the year" and provisions "not required written back". These amounts include a complex range of financial transactions.

## Reforms to the legal aid system

30. In my report on the LSANI's 2017-18 financial statements I noted my concern that not all of the Public Accounts Committee's recommendations to improve the legal aid system had been actioned. By way of update the Agency told me that:
- a. The review of the scope of considering savings from contracting out legal aid services has now been concluded, and its recommendation was accepted by the Department. However formal endorsement would require Ministerial engagement and this cannot be progressed in the absence of the Assembly.
  - b. The recommendation on a capability review of the leadership team and governance arrangements in place with the Department has been progressed. The Agency will reorganise from three to two Directorates in the coming months. Recruitment processes for directors and senior legal staff are underway.
  - c. Further progress on reviewing how expenditure currently adjudicated by the Taxing Master is brought under the purview of the LSANI Accounting Officer would require legislation. This is beyond the Department's regulation making powers and cannot be advanced in the absence of the Assembly.

## Conclusions

31. The Agency continues to work with the DfC to estimate the levels of fraud and error in legal aid expenditure and to develop an effective counter fraud strategy. Significant progress has been made during the course of the year and a realistic timetable established to progress other elements of this work. There remains insufficient evidence to determine the level of claimant or practitioner fraud or error regarding the eligibility of legal aid payments or payments to legal practitioners in 2018-19. The Agency has estimated £5.9 million of legal aid expenditure was irregular during 2018-19 due to official error. I expect this to decrease in future years as the Agency works to address the issues identified.
32. The Department and the Agency have built a revised methodology for determining legal aid provisions. This provides a more robust estimation of legal aid liabilities but the accuracy is limited by the quality of management information provided. The existing management information systems provide poor information and as a result, there remains insufficient audit evidence to support the completeness and accuracy of the provision. This situation should improve in future years with the implementation of the new case management system on 1 July 2019.
33. The Public Accounts Committee took evidence on my report on the Management of Legal Aid on 29 June 2016 and reported its findings on 11 January 2017. I accept that there are significant constraints in some areas on the progress that can be made without a Minister and a legislative Assembly. Even so, I am disappointed by the slow progress that has been made by the Department and the Agency.

34. I will continue to keep the implementation of the Committee's recommendations under review.



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*5 July 2019*