

Legal Services Board

Report and Accounts

for the three month period

1 January to 31 March 2009

Legal Services Board

**Report and Accounts
for the three month period
1 January to 31 March 2009**

**Presented to Parliament pursuant to
section 6(4) of the Legal Services Act 2007**

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Legal Services Board Members' Report

Format of Accounts

The accounts have been prepared in a form directed by the Lord Chancellor and Secretary of State for Justice with approval of HM Treasury and in accordance with the Legal Services Act 2007.

Brief history of the Legal Services Board and principal activities

The Legal Services Board (LSB) is a new Non-Departmental Public Body, created by the Legal Services Act 2007 (LSA 2007).

From early 2010 the LSB will be responsible for overseeing all Approved Regulators of legal services in England and Wales. It is independent of Government and of the legal profession. The LSB will also oversee the new organisation being established to handle consumer complaints about lawyers, the Office for Legal Complaints (OLC).

The LSB has eight regulatory objectives, set out prominently in the Act. These are:

- protecting and promoting the public interest
- supporting the constitutional principle of the rule of law
- improving access to justice
- protecting and promoting the interests of consumers
- promoting competition in the provision of services in the legal sector
- encouraging an independent, strong, diverse and effective legal profession
- increasing public understanding of citizens' legal rights and duties
- promoting and maintaining adherence to the professional principles of independence and integrity; proper standards of work; observing the best interests of the client and the duty to the court; and maintaining client confidentiality.

The Legal Services Act received Royal Assent on 30 October 2007. Work is now underway to implement its provisions including a further commencement order, which will be laid towards the end of the calendar year. This order will commence the final powers required for the LSB to 'go live' in January 2010.

To date, the provisions of the Legal Services Act that have already been commenced include:

- the provision which sets out the regulatory objectives to which the LSB and the Office for Legal Complaints, the Approved Regulators and Licensing Authorities must have regard when exercising their functions;

- the provisions which establish the LSB and set out the LSB's duty to promote the regulatory objectives, its governance and annual report requirements, and supplementary powers;
- the provisions which establish the OLC;
- the provisions which permit the Lord Chancellor to modify the functions of Approved Regulators on the recommendation of the LSB; and
- the provisions which provide for the Lord Chancellor to pay the LSB and the OLC monies for the purpose of meeting the expenditure of the LSB and the OLC.

Corporate Governance

LSB members are appointed by the Lord Chancellor in consultation with the Lord Chief Justice. They were appointed on the 1 September 2008 and met as a shadow board until 1 January 2009 when the LSB became fully constituted and took on the first tranche of its powers according to the provisions of the Legal Services Act 2007.

The Chairman, David Edmonds was appointed on 1 May 2008. In accordance with the LSA 2007 the Board has a lay majority.

LSB Board Members

The Board comprises ten non-executives (including the Chairman) and the Chief Executive. The Chairman was appointed on 1 May 2008 and took part in the process of recruiting the other members. The Board met in shadow form five times during the period September to December 2008.

	Meeting Attendance	
	Jan to Mar 2009	Sep to Dec 2008
David Edmonds (Chairman)	3/3	5/5
Terry Connor (member)	3/3	5/5
Steve Green (member)	3/3	4/5
Rosemary Martin (member)	3/3	4/5
William Moyes (member)	3/3	5/5
Michael Napier (member)	2/3	5/5
Barbara Saunders (member)	3/3	5/5
Nicole Smith (member)	2/3	5/5
Andrew Whittaker (member)	2/3	4/5
David Wolfe (member)	3/3	5/5
Chris Kenny (Chief Executive)+	3/3	4/5

+Chris Kenny was appointed as Chief Executive Designate in October 2008 and took up his official role when the LSB was fully constituted on 1 January 2009.

Register of members' interests

A register of the outside interests of the LSB's members is maintained on the LSB's public website: www.legalservicesboard.org.uk

Details of the backgrounds of individual board members are published on the LSB's public website: www.legalservicesboard.org.uk

Board Committees

The Board has established two committees. The terms of reference are available on our website www.legalservicesboard.org.uk

The Audit and Risk Committee met once in shadow form and once in January 2009 and the Remuneration and Nominations Committee met twice in shadow form. Membership and attendance records are given below:

Audit and Risk Committee

	Meeting Attendance	
	Jan-Mar 2009	Sept-Dec 2008
William Moyes (Chairman)	1/1	1/1
Steve Green	1/1	1/1
Rosemary Martin	0/1	1/1

Remuneration and Nomination Committee

The first informal meeting of the Committee comprised Terry Connor (Chairman), David Edmonds, Steve Green, Michael Napier and David Wolfe.

The permanent membership of the Committee is Terry Connor (Chairman), Nicole Smith and Andrew Whittaker, all of whom attended the second informal meeting.

Code of Practice

The LSB is committed to good governance. The Board has agreed a Code of Practice that sets out the responsibilities of the Board collectively and the standards of behaviour expected from individual Board members.

Details of this Code of Practice are published on the LSB's public website: www.legalservicesboard.org.uk . This document also contains terms of reference for the LSB's two Board committees as well as details of its Expenses, Conflicts of Interest and Disciplinary Policies.

LSB Management Statement

The LSB is accountable to Parliament through the Lord Chancellor and is sponsored by the Ministry of Justice (MoJ). The relationship between the LSB and the MoJ is detailed in the *Management Statement*, which sets out the principles and strategic framework for how the relationship between the LSB and the MoJ will operate. The Statement looks at how both parties will:

- meet their responsibilities;
- ensure regular contact and communicate with one another;
- undertake proper planning and ensure accountability; and
- support each other

An additional document, the *Financial Memorandum*, complements the *Management Statement* and sets out the financial relationship and accountabilities which exist between the MoJ and the LSB.

Both of these documents are published on the LSB's public website: www.legalservicesboard.org.uk

Financial Results

The LSB is financed by grant-in-aid from the MoJ. In accordance with the LSA 2007 its costs will be recouped by means of a levy which it will collect from Approved Regulators on behalf of HM Treasury.

Grant in aid for the period from 1 January 2009 to 31 March 2009 when the LSB was directly accountable for its own expenditure was £790k and a capital grant of £86k.

In line with HM Treasury guidance grant in aid is shown as a movement in its reserves. This treatment results in an annual deficit, which is taken to the Income and Expenditure Reserve that appears in the Balance Sheet.

The deficit for the period was £754k. This is consistent with the target level of spending in the LSB's published budget.

Financial performance measure

The MoJ reviews the LSB's expenditure on the basis of departmental expenditure limits (DEL). The LSB initial DEL allocation will be in line with the LSB's period of implementation and will run until 31 December 2009.

Payment of creditors

The LSB is committed to pay all supplier invoices by the due date or within 30 days of receipt if no due date has been agreed. The LSB has contracted with the Competition Commission through a shared services agreement to meet this target as part of its financial transaction processing service.

Pension Liabilities

The LSB is in the process of establishing a defined contribution group personal pension scheme in which the LSB will make fixed contributions but will have no other liabilities.

Equal opportunities and employee involvement

The LSB is committed to equality of opportunity in employment and advancement. This is on the basis of ability to do the job, irrespective of race, nationality, colour, ethnic or national origins, sex, marital status, disability, sexual orientation, age, gender reassignment, work pattern, or membership / non-membership of a trade union. All staff are entitled to be treated with respect in an environment free from discrimination, harassment, victimisation and bullying.

The LSB maintains an open management style and involves staff in the management of change. It holds regular staff meetings and staff are consulted on matters affecting their employment.

Auditor

Internal Audit services for the period of this report were provided to the LSB by the MoJ.

The LSB's annual financial statements are audited externally by the Comptroller and Auditor General (C&AG) in accordance with LSA 2007, Schedule 1, paragraph 25(4)(a). For the period ended 31 March 2009 the C&AG has estimated that the cost of work performed would be £15,000 and this amount has been provided for in the financial statements. The audit services provided by the C&AG's staff related only to statutory audit work.

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

Chris Kenny
Accounting Officer
Date: 24 June 2009

Management Commentary

Future Developments

The LSB has a challenging programme of work ahead as it moves to full establishment, takes on its full range of powers and embarks on its work programme to deliver the eight regulatory objectives. The LSB's Business Plan for 2009/10, consulted on in January 2009 and published in April 2009, describes the programme, and the context in which it will be undertaken.

The immediate priorities for 2009/10 are two-fold. First, to ensure that the LSB has all of the necessary people and processes in place to allow it to fulfil all of the regulatory functions it is required to deliver from 1 January 2010. Secondly, to work with the Approved Regulators, alongside all who have an interest in a well-functioning legal services market, to begin the programme of radical reforms anticipated by Parliament in passing the Legal Services Act 2007.

Its policy programme includes eight strands of work:

- putting the consumer and public interest at the heart of regulation. This includes recruitment of members for the independent Consumer Panel and jointly agreeing research priorities;
- widening access to the legal market. An early priority will be to develop a licensing regime for alternative business structures;
- improving service by resolving complaints efficiently. Working closely with the soon to be established Office for Legal Complaints, the LSB will work with Approved Regulators to ensure lawyers embed best practice in complaints handling into their services;
- developing excellence in legal services regulation. This includes developing an agreed methodology to review the effectiveness of Approved Regulators;
- securing independent regulation. An early priority will be to make sure that the relevant Approved Regulators have appropriate internal governance rules in place to deliver independent, public interest focussed regulation, separate from representative interests;
- promoting access to a diverse legal profession. Working with a range of partners, the LSB intends to undertake a central co-ordinating role of the wide range of work already underway to promote professional diversity;
- developing research and public legal education strategies. This is a long-term activity and in its first year of operation the LSB will be looking to map the ground and develop its strategic direction.

All of the Board's work will be underpinned by a commitment to better regulation principles and delivering value for money.

The LSB and its external environment

The LSB was formally constituted as a Non Departmental Public Body on 1 January 2009. It was established by the Legal Services Act 2007 to be the oversight regulator for the legal services profession in England and Wales. During its first year of operation, its primary function is to prepare itself for assuming its full range of statutory powers and duties on 1 January 2010.

From early 2010 the LSB will be responsible for overseeing all Approved Regulators, each of whom has primary responsibility for direct regulation of one of the eight different branches of the legal profession. The Act allows for the LSB to designate additional bodies as Approved Regulators, on application and providing compliance with rules issued by the LSB for the purpose. As an oversight regulator, the LSB expects to deliver the eight regulatory objectives assigned to it by the Act, through partnership working with the Approved Regulators, who also have a duty to deliver the regulatory objectives, consumer groups and other stakeholders.

The LSB's employees

As at 31 March 2009, the LSB had three employees, four secondees and two part time contractors. 33% of the complement as at 31 March 2009 were women and 0% were from ethnic minorities. In steady state it is expected that the organisation will have no more than 35 full-time equivalent staff working across the Board's work programme. The Board is committed to diversity and is undertaking open recruitment seeking the highest quality candidates from across the public and private sector.

Environmental matters

The LSB is committed to working closely with the Competition Commission, as its landlord and supplier of its IT, facilities and financial transactional processing services, to ensure that it takes proper account of the impact of all of its activities on the environment.

Social and community issues

Social and community issues, broadly defined, are at the heart of the LSB's mission. It will continue to be sensitive to the differing needs of different parts of the community as its work on issues, in particular access to justice and public legal education, progresses.

Key Performance Indicators

The LSB will conduct itself in an open and transparent way to allow for public scrutiny. As it takes on its full powers, it will develop and set out clear indicators of progress against each of its regulatory objectives. It expects to publish its progress against these on its website and in future Annual Reports.

Objectives and strategy for achieving them

The LSB's Business Plan was published in April 2009 and is available on its website (www.legalservicesboard.org.uk). This document sets out in detail its objectives for the year ahead, the medium term implications for its work and the way in which it intends to deliver them.

Significant features of the development and performance of the organisation in the financial period

The LSB was formally constituted on 1 January 2009 and became accountable for its spending at that time. In the three months covered by this report, the Board:

- issued its draft Business Plan for 2009/10 for consultation;
- appointed six members of the Office for Legal Complaints to work alongside its Chair (Elizabeth France);
- contributed to the Government's Panel on Fair Access to the Professions;
- issued its proposals for ensuring independence in regulation.

The main trends and factors that the LSB considers likely to impact on future prospects

The LSB is acutely aware that the prevailing economic climate is likely to have a major impact on the legal services market, but believes that this intensifies the need for reform to protect the interests of consumers and citizens and also the health of the legal services industry itself. It intends to work for the long-term, being sensitive to the current climate, but ensuring that its agenda focuses on future opportunities rather than present difficulties.

It will also be sensitive to broader policy issues arising in the law – for example, the progress of legal aid reform and the experience of similar regulatory reform programmes in other jurisdictions – and more widely – for example, in the elaboration of the Better Regulation agenda.

The LSB's resources and how they are managed

The LSB finances its operating costs through grant-in-aid from the MoJ.

The LSB's consultation paper, *The Levy: funding legal services regulation*, published in April 2009, sets out its proposals for the apportionment of its implementation and operating costs between the Approved Regulators in accordance with sections 173-4 of LSA 2007.

The principal risks and uncertainties facing the LSB and the approach to them

The LSB has appointed an Audit and Risk Committee, the remit of which includes ensuring a consistent Board overview of the effectiveness of management action to identify and mitigate risk. At this early stage of the Board's life, attention has focused on key corporate risks to the operation of the organisation in terms of securing and maintaining resource, accommodation and such matters. The risk management approach is now being broadened to capture and assess risks in relation to all key policy delivery and operational areas.

Remuneration Report

Remuneration Policy

Remuneration of the Chairman and Non Executive Board members is set by the Secretary of State for Justice. The remuneration of the Chief Executive is determined following a recommendation to the Board by the Board's Remuneration and Nominations Committee.

Appointments

The Chairman and members of the Board are appointed by the Secretary of State for Justice for a fixed term of three to five years and members may apply for one subsequent term of office.

Termination

There is no compensation payable for loss of office before the expiry of the term of appointment.

The Chief Executive's contract of employment provides for six months notice on either side.

	Date Appointed	Date Appointment Ends
David Edmonds (Chairman)	01 May 2008	30 April 2011
Terry Connor (member)	01 September 2008	31 August 2011
Steve Green (member)	01 September 2008	31 August 2011
Rosemary Martin (member)	01 September 2008	31 August 2011
William Moyes (member)	01 September 2008	31 August 2011
Michael Napier (member)[‡]	01 September 2008	31 August 2011
Barbara Saunders (member)	01 September 2008	31 August 2011
Nicole Smith (member)	01 September 2008	31 August 2011
Andrew Whittaker (member)	01 September 2008	31 August 2011
David Wolfe (member)	01 September 2008	31 August 2011
Chris Kenny (Chief Executive)	01 January 2009	(see termination note above)

[‡] Resigned from the LSB with effect from 28 May 2009

Chairman and Board Members remuneration

The remuneration of the Chairman and Board members is shown in the table below and has been subject to audit. There were no benefits in kind.

	Remuneration	
	Annual Rate	Jan to March 2009
David Edmonds (Chairman)	63,000	[∞] 19,125
Terry Connor (member) ⁺⁺	15,000	3,750
Steve Green (member)*	15,000	3,750
Rosemary Martin (member)*	15,000	3,750
William Moyes (member) ^{**}	15,000	3,750
Michael Napier (member)	15,000	3,750
Barbara Saunders (member)	15,000	3,750
Nicole Smith (member) ⁺	15,000	3,750
Andrew Whittaker (member) ⁺	15,000	3,750
David Wolfe (member)	15,000	3,750
Chris Kenny (Chief Executive)	160,000	[†] 45,000

⁺⁺Chairman of Remuneration and Nominations Committee

⁺ Member of Remuneration and Nominations Committee

^{**} Chairman of Audit and Risk Committee

^{*}Member of Audit and Risk Committee

[∞] includes an additional payment in the first year to reflect additional time required to recruit the Board Members

[†] includes an additional payment to compensate for pension contributions as scheme not set up as at 31 March 2009

Chris Kenny
Accounting Officer
Date: 24 June 2009

Statement of Accounting Officer's Responsibilities

The accounts direction given to the LSB by the Lord Chancellor and the Secretary of State for Justice, with the approval of the HM Treasury, in accordance with the LSB's financial memorandum, requires the Accounting Officer to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the LSB and of its income and expenditure, recognised gains and losses and cash flows for the period.

In preparing those financial statements, the Accounting Officer is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to assume that the LSB will continue in business.

The Accounting Officer is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the LSB and enable them to ensure that the financial statements are prepared to comply with the directions made by the Secretary of State for Justice and HM Treasury's Financial Reporting Manual (FRoM); the Accounting Officer is also responsible for safeguarding the assets of the LSB and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Accounting Officer for the MoJ has appointed the Chief Executive of the LSB as Accounting Officer. His relevant responsibilities as accounting officer, including responsibility for the propriety and regularity of the public finances and for keeping proper records, are set out in the Accounting Officer Memorandum issued by the HM Treasury.

Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have the responsibility for maintaining a sound system of internal control that supports the achievement of the LSB's policies, aims and objectives, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the LSB for the period ended 31 March 2009 and up to the date of approval of the Annual Report and Accounts and accords with HM Treasury guidance.

Capacity to handle risk

The LSB Board met five times in shadow form in 2008 and three times in the period January to March 2009 to consider the plans and the overall strategic direction of the LSB. In this period of start-up the Audit and Risk Committee, on behalf of the main LSB Board has considered issues of risk in detail. The Audit and Risk Committee reviewed the Risk Register and took advice from Internal Audit to determine the way risk or change in risk has been identified, evaluated and controlled.

Together with my colleagues I was responsible for initially identifying the major risks, which were set out in the Risk Register, and for implementing a system to continuously assess and monitor them. All staff within LSB are required to manage risk in their own areas of responsibility taking appropriate action to mitigate, anticipate or exploit the threats or opportunities that arise. In the context of agreeing the ambition of the Business Plan, the Board discussed the level of risk appetite (the level of risk remaining after internal controls have been exercised and which they deemed to be acceptable and justifiable). Risks of doing and not doing particular work were considered in all proposals and at each level of drafting the LSB business plan, which was circulated for consultation in accordance with the Legal Services Act 2007.

Risk and Control Framework

The system of internal control is based on a framework of regular management information, administrative procedures including the segregation of duties, and system of delegation and accountability.

In particular, in the period covered by this report, it included:

- comprehensive budgeting systems with an annual budget which is reviewed and agreed by the Board;
- regular reviews by the Board of periodic and annual financial reports which indicates financial performance against the forecasts;
- scrutiny by the Audit and Risk Committee; and
- as appropriate, formal project management disciplines.

The system is now being developed further to include the setting of targets to measure financial and other performance.

All staff are required to be trained on the Information Assurance e-learning package made available through the MoJ. Staff are required to maintain familiarity with the way information is handled on an on-going basis. This comprises, but is not limited to, assurance that

- Information is handled securely (with confidentiality protected)
- Information is as accurate as possible (with integrity maximised)
- Information is made available to the right people, at the right time, for the right reasons.

All of the LSB's electronic data and access to this data is managed securely through using the services of the Competition Commission IT Department, who also provide advice to ensure that the LSB implements guidance on protection and security of its IT, physical and data assets from CESG (the National Technical Authority for Information Assurance), Cabinet Office and Centre for the Protection of the National Infrastructure (CPNI).

During the period there were no reported security data incidents at the LSB.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of my senior colleagues within the LSB who have responsibility for the development and maintenance of the internal control framework, by comments made by the MoJ internal auditors in their review of the risk management control and other reports and comments made by the external auditors in their Management Letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by MoJ Internal audit and the Audit and Risk Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Chris Kenny
Accounting Officer
Date: 24 June 2009

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

I certify that I have audited the financial statements of Legal Services Board for the period ended 31 March 2009 under the Legal Services Act 2007. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Legal Services Board, the Accounting Officer and Auditor

The Legal Services Board and Chief Executive as Accounting Officer are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Legal Services Act 2007, the accounts direction issued by the Lord Chancellor and the Secretary of State for Justice, with the approval of HM Treasury, and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the remuneration report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Legal Services Act 2007 and the accounts direction issued by the Lord Chancellor and the Secretary of State for Justice, with the approval of HM Treasury. I report to you whether, in my opinion, the information, which comprises the Management Commentary and the section entitled Financial Results, included in the Legal Services Board Members' Report is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Legal Services Board has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Legal Services Board's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Legal Services Board's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Legal Services Board Members' Report, other than the section entitled Financial Results, and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of

evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Legal Services Board and Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Legal Services Board's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Legal Services Act 2007 and the accounts direction issued by the Lord Chancellor and the Secretary of State for Justice, with the approval of HM Treasury, of the state of the Legal Services Board's affairs as at 31 March 2009 and of its deficit, recognised gains and losses and cash flows for the period then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Legal Services Act 2007 and the accounts direction issued by the Lord Chancellor and the Secretary of State for Justice, with the approval of HM Treasury; and
- information, which comprises the Management Commentary, and the section entitled Financial Results, included within the Legal Services Board Members' Report, is consistent with the financial statements.

Opinion on Regularity

In my opinion, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Report

I have no observations to make on these financial statements.

*Amyas C E Morse
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London
SW1W 9SS
Date: 29 June 2009*

Income and Expenditure Account for the three month period ended 31 March 2009

	Note	£'000
Expenditure		
Staff remuneration	3	301
Accommodation costs	4	146
Depreciation	7	25
Other operating charges	4	<u>282</u>
Operating deficit		754
Notional cost of capital	6	<u>4</u>
Deficit for the period		758
Notional cost of capital reversal	6	<u>(4)</u>
Retained deficit for the period	10	<u>754</u>

During the year there were no other recognised gains or losses.

All operations are continuing.

The notes on pages 22 to 29 are part of the financial statements

Balance Sheet as at 31 March 2009

	Note	£'000
Fixed assets		
Tangible fixed assets	7	<u>400</u>
		400
Current assets		
Cash at bank and in hand	8	<u>134</u>
		134
Current liabilities		
Creditors: amounts falling due within 1 year	9	<u>(73)</u>
Net current assets		61
		<u>461</u>
Total assets less current liabilities		461
Creditors: amounts due after more than 1 year		-
		<u>461</u>
Total net assets		461
		<u>461</u>
Financed by:		
Income and Expenditure Reserve	10	<u>461</u>
		461

Chris Kenny
Accounting Officer
Date: 24 June 2009

Opening Balances and comparative figures have not been shown as the LSB was not formally constituted until 1 January 2009.

The notes on pages 22 to 29 are part of the financial statements

Cash flow statement for the period ended 31 March 2009

	Note	£'000
Net cash outflow from operating activities	17 (i)	(656)
Capital expenditure		(86)
Financing – revenue	2	790
Financing – capital	2	86
Increase in cash	17 (ii)	<u>134</u>

The notes on pages 22 to 29 are part of the financial statements

Notes to the financial statements

1. Accounting policies

(a) Accounting convention

These financial statements have been prepared in accordance with the Government Financial Reporting Manual (FReM). The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

As permitted by the FReM depreciated historical cost is used as a proxy for current value as this realistically reflects consumption of the assets. Revaluations would not cause a material difference.

(b) Income

The net cash needs of the LSB are financed by grant-in-aid from MoJ, which, in line with the FReM, cannot be shown as income.

(c) Fixed Assets

Expenditure on fixed assets is capitalised. Fixed assets comprise software licences, information technology equipment such as servers, PCs, and printers as well as office fixtures and fittings and office leasehold improvements. The capitalisation threshold limits and depreciation policy are explained below and at note (d).

Expenditure on major information technology projects is capitalised. This includes expenditure directly incurred on hardware, software and appropriate consultants' installation costs.

Fixed assets are capitalised where the cost is £1,500 or over. However, for grouped purchases of IT equipment, IT software or fixtures and furniture, individual items with a cost of £200 or greater are capitalised where the total grouped purchase is £1,500 or more.

Consultants' expenditure is generally charged to the Income and Expenditure Account when incurred. However, where the level of expenditure is over £100,000 and creates a distinct asset for the LSB which has a life of more than one year, consultants' costs that are directly attributable to the asset are capitalised.

Assets in the course of construction are capitalised at purchase cost and then depreciated from the date that they become operational.

(d) Depreciation

Depreciation is charged in respect of all capitalised fixed assets (nothing in the month of purchase but a full month in the month of disposal) and charged to the Income and Expenditure Account at rates calculated (less any estimated residual value) for each asset on a straight line basis over their expected useful life as follows:

Tangible fixed assets:

Information Technology	3 years
Fixtures & Furniture	5 years

(e) Notional Cost of Capital

In accordance with HM Treasury requirements, a notional charge on capital of 3.5 per cent a year is levied on the LSB on the average net capital employed.

(f) Taxation

Costs shown for capitalised fixed assets include related Value Added Tax (VAT). Expenditure in the Income and Expenditure Account is also shown inclusive of VAT, which is irrecoverable for the LSB.

(g) Going concern

The LSB receives funding from the MoJ for its operating costs. The MoJ has confirmed that they will continue to finance the LSB through grant-in-aid. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

2. Government Grant in Aid

	£'000
Received for revenue expenditure	790
Received for capital expenditure	86
	<hr/>
Grant in aid drawn down	876
	<hr/>

3 Staff

a) Remuneration

	£'000		£'000		£'000		£'000	
	<i>LSB</i>	<i>Staff</i>	<i>LSB Board</i>	<i>OLC Board</i>	<i>Other</i>	<i>Staff</i>	<i>Total</i>	
Salaries		88	53	17		126	284	
National Insurance costs		11	5	1		-	17	
Total		99	58	18		126	301	

The remuneration of the Chief Executive is included in LSB staff remuneration.

(b) Number of Staff

The average number of full time equivalent staff were:

Permanent staff	3
Other staff	4
Total	<u>7</u>

4. Accommodation costs and other operating charges

£'000

a) Accommodation costs - Victoria House 146

This figure includes operating lease costs for land and buildings of £93,510.

b) Other operating charges

£'000

Service costs 55

Consultants' fees 31

Staff & Board recruitment 127

Legal costs 19

IT support & maintenance 9

Audit fees for statutory audit work 15

Other administration 26

Total other operating charges 282

Other administration charges include catering, telecommunications, expenses and other accountancy fees.

5. MoJ Spending

The MoJ incurred expenditure up to 31 December 2008 in connection with the establishment of the LSB (referred to as Lord Chancellor's Expenditure in the LSA 2007). The MoJ have informed the LSB that this is in the region of £1.1m.

6. Cost of Capital

	£'000
Notional cost of capital	<u>4</u>

7. Tangible Fixed Assets

	£'000	£'000	£'000
	Information Technology	Fixtures and Fittings	Total
Cost			
At 1 Jan 2009	-	-	-
Additions at cost	316	109	425
At 31 March 2009	316	109	425
Depreciation			
At 1 Jan 2009	-	-	-
Provision for the year	20	5	25
At 31 March 2009	20	5	25
Net Book Value			
At 31 March 2009	296	104	400
At 1 January 2009	-	-	-

Included within tangible fixed assets additions are £339k of assets transferred from the MoJ.

8. Cash at bank and in hand

	31 March 2009
	£'000
HM Paymaster General's Office	<u>134</u>

The LSB's bank account is a current account with the HM Paymaster General's Office.

9. Creditors: amounts falling due within one year

31 March 2009

£'000

Trade Creditors	59
Give As You Earn	3
Deferred income	7
Other creditors	4
	<hr/>
	73
	<hr/>

Trade creditors include £20k owed to other central government bodies.
All other balances were with bodies external to government.

10. Income and Expenditure Reserve

£'000

Balance at 1 January 2009	-
Grant-in-Aid - Revenue	790
Grant-in-Aid - Capital	86
Transfer of assets from MoJ	339
Deficit for the year	(754)
	<hr/>
Balance at 31 March 2009	461
	<hr/>

11. Operating leases

At the 31 March 2009 the LSB was committed to making the following payments (before VAT) during the next year in respect of operating leases:

£000

Leases that expire within 1 - 5 years	271
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The LSB has a 5 year Memorandum Of Terms Of Occupation (MOTO) with the Competition Commission for the use of office space in Victoria House, Southampton Row, London, WC2. The MOTO start date was the 1st November 2008 and is for a total space of 5,969 square feet.

12. Contingent liabilities

There are no contingent liabilities to report.

13. Capital commitments

There are no capital commitments.

14. Post balance sheet events

In accordance with the requirements for FRS 21, post balance sheet events are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General. There are no post balance sheet events to report.

15. Related party transactions

The LSB is a Non-Departmental Public Body (NDPB) sponsored by the MoJ and funded by a grant-in-aid from that department. MoJ is regarded as a related party. During the period, the LSB had various material transactions with MoJ all of which were conducted at arm's length prices.

None of the LSB members or key managerial staff undertook any material transactions with the LSB during the period, except for remuneration paid for their services and, in the case of members, reimbursement of home to office travel expenses.

16. Financial instruments

Financial Reporting Standard 29-*Financial Instruments: Disclosures* requires disclosure of the role financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities.

As the cash requirements of the LSB are met through grant-in-aid paid by MoJ, financial instruments play a more limited role in creating risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts to buy non-financial items in line with the LSB's expected purchases and usage requirements and the LSB is therefore exposed to little credit, liquidity or market risk.

17. Notes to the cash flow statement

(i) Reconciliation of deficit for the period to operating cash flows

	£'000
Retained deficit for the period	(754)
<u>Movements not involving cash:</u>	
Depreciation	25
Increase in creditors	73
Net cash outflow from operating activities	<u>(656)</u>

(ii) Analysis of changes in net funds

	At 1 Jan 2009	Cashflow for period	At 31 March 2009
	£'000	£'000	£'000
Cash at bank and in hand	-	134	134



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