



Financial Statement of OLSCC

The maintenance and integrity of the OLSCC's website is the responsibility of the Commissioner; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Financial Statement of OLSCC

Statement of Accounting Officer's and Commissioner's Responsibilities

HM Treasury has appointed the Permanent Secretary of the Department for Constitutional Affairs (DCA) as Principal Accounting Officer. The Principal Accounting Officer's responsibilities are defined in the Accounting Officer's Memorandum, issued by HM Treasury and published in Government Accounting.

The Accounting Officer has responsibility for the regularity and propriety of the public finances for which he is answerable, for keeping proper records, and for safeguarding the DCA's assets. He is also responsible for preparing the accounts of the DCA and for transmitting them to the Comptroller and Auditor General.

The Secretary of State for Justice and Lord Chancellor has appointed the Legal Services Complaints Commissioner for England and Wales (Commissioner) to oversee the day to day operations of Office of the Legal Services Complaints Commissioner (OLSCC). Details of the division of responsibilities

are set out in a Memorandum of Understanding between DCA and OLSCC. This appointment does not detract from the Permanent Secretary's overall responsibility as Accounting Officer for these accounts.

Under the Access to Justice Act 1999, the Secretary of State and Lord Chancellor have directed the Commissioner to produce accounts for the financial year ending 31 March 2007.

These accounts are prepared on an accrual basis. They must give a true and fair view of the state of affairs of OLSCC and the income and expenditure outturn and cashflow for the financial year.

In preparing the accounts, the Commissioner is required to comply with the requirements of the Government Financial Reporting Manual (FRoM) and in particular to:

- (a) observe the Accounts Direction issued by the DCA, including the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis;



- (b) make judgements and estimates on a reasonable basis;
- (c) state whether applicable accounting standards, as set out in the Government Financial Reporting Manual (FRoM) have been followed and disclose and explain any material departures in the accounts; and
- (d) Prepare the accounts on a going concern basis, unless it is inappropriate to presume that OLSCC will continue in operation.

Statement on internal control

Scope of responsibility

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

As Accounting Officer, I agree with Ministers, the DCA plans and allocation of resources to the DCA's business

areas. OLSCC, as an Associate Office, operates as a business entity of the DCA. I delegate financial authority, together with corresponding internal control and risk management responsibilities, to the Commissioner via the Director General, Legal and Judicial Services Group, in line with the requirements detailed in the Memorandum of Understanding between the DCA and OLSCC.

A system of internal control operates in DCA headquarters. This includes the monitoring of OLSCC's performance and compliance with the Memorandum of Understanding through the Director General, Legal and Judicial Services Group. To the extent that the document delegates control to the Commissioner, I place reliance upon the Statements of Internal Control submitted by the Commissioner to the Director General, Legal and Judicial Services Group, at the DCA.

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 DCA 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 OLSCC for the year ended 31 March 2007, and up to the date of approval of the Annual Report and Accounts, and accords with HM Treasury guidance.

Capacity to handle risk

As Accounting Officer I acknowledge my overall responsibility for the effective management of risk throughout the DCA.

The DCA Risk Management Policy and Framework document, approved by the DMB (formerly Executive Committee) was published in June 2002 and is available to all staff on the DCA Intranet. This sets out the DCA attitude to risk in the achievement of its policies and objectives, and provides guidance on the process of identifying, assessing and managing risk.

Risk management is incorporated into OLSCC's day-to-day activities and forward planning. Significant risks to and arising from the work of OLSCC are reported to the Director General, Legal and Judicial Services Group on a quarterly basis. Where necessary, such risks and the actions to mitigate are escalated and incorporated into the Corporate Risk Register for consideration by the DMB.

The risk and control framework

The key elements of OLSCC risk management strategy to be fully implemented for identifying, evaluating and controlling risk are as follows:

- OLSCC system of analysis and reporting (based on DCA policy and framework) that identifies risk to objectives, risk impact and likelihood, current and planned mitigating action, risk status, risk judgement or appetite and individual risk owners, which forms the basis of the Risk Register and is escalated quarterly to the Legal and Judicial Services Group;
 - OLSCC Senior Management Team meetings with risk management on the standard agenda, and planning workshops for all staff to assist with the identification and evaluation of risks to objectives;
 - OLSCC Risk Register covering all activity and reviewed by the OLSCC Senior Management Team. Legal and Judicial Services Group then review the register, escalating any significant risks for inclusion in the DCA Corporate Risk Register;
 - Quarterly certification by the Commissioner to the Director General, Legal and Judicial Services Group of risk management in OLSCC;
 - Head of Corporate Services as risk co-ordinator in the OLSCC Senior Management Team;
 - Risk identification, evaluation and management as an integral part of the OLSCC planning process for delivery of its objectives.
- Other key elements in the OLSCC control systems are regular management information, financial regulations, administrative procedures including segregation of duties, and a system of delegation and accountability. In particular it includes:
- business planning, which is agreed and reviewed by the Director General, Legal and Judicial Services Group;
 - comprehensive budgeting systems with an annual budget, which are reviewed and agreed by the DMB;
 - regular reviews by the DMB of periodic and annual financial reports, which are prepared to indicate financial performance against the forecasts;
 - target setting to measure financial and other performance;
 - a formal system of financial compliance controls, consisting of core control checks with an audit trail of evidence, and a review and reporting mechanism to provide assurances from the Operations Manager (as Budget Holder), on a quarterly basis, that internal financial controls are in place and operating effectively;

- a published DCA fraud policy, with effective capability to investigate incidents of fraud, including a cadre of trained staff;
- a DCA whistle-blowing policy for confidential reporting of staff concerns;
- a Business Continuity Plan for OLSCC, which continues to be refined to ensure that key activities can continue effectively following a disruption;
- compliance with ISO17799, the International Standard for Information Security Management, to assist with achievement of the standard across the DCA.

In addition to the developments in risk management, DCA continues to take steps to improve its corporate governance arrangements. OLSCC has encompassed co-ordinated team briefing, and the performance management and recognition and reward systems.

During 2006/07 OLSCC has also engaged in influencing the performance of LCS and SRA to improve their handling of consumer complaints through:

- actively monitoring and evaluating LCS and SRA's progress against their Plan and the targets the Commissioner set.
- defining further clear and reasonable performance targets for the 2007/08 year and assessing the draft Law Society Plan for that year to gain an understanding of LCS and SRA performance;
- a continuing programme of audits by the OLSCC Research and Investigations team. These have assisted the Commissioner in setting targets and recommendations around quality improvements for LCS and SRA for next year;
- production of an Annual Report detailing the Commissioner's conclusions about LCS and SRA performance; and
- the Advisory Board and Legal Services Consumer Board, which continue to gain a better understanding of the needs and perceptions of users of legal services and their representatives, and actively canvass their views.

Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors and the executive managers within the DCA who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. My review is also informed by the work of the Commissioner and her senior management team.

The key elements of the system of internal control are set out in the previous section and contribute to my review of the system's effectiveness. In addition, the following bodies also inform my review:

- **Ministerial Executive Board (MEB) and the Departmental Management Board (DMB)** – These Boards approved the DCA Framework and Policy Document and have been involved in the development and monitoring of the Corporate Risk Register.

- **Corporate Audit Committee** – The Committee is a continuing source of advice and assurance on the effectiveness of the risk management process.

The Committee meets a minimum of four times each year and has a non-executive Chairman who reports directly to the MEB and Accounting Officer twice a year. It receives regular reports on the development of risk management and internal control and considers internal and external audits on the system of internal control and any material weaknesses.

- **Risk Co-ordinators** – A network of Risk Co-ordinators has been established within DCA headquarters, Agencies, Non-Departmental Public Bodies (NDPBs) and Associate Offices, to co-ordinate the reporting and management of risk and control issues within business areas and for DCA in reporting to the DMB and Audit Committee.

- **Internal Audit** – DCA has an Internal Audit Division that operates to the Government Internal Audit Standards. It submits regular reports, which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of DCA internal controls together with recommendations for improvement.

I can confirm that no significant control issues as defined by HM Treasury guidance have been highlighted.

This statement applies to OLSCC. The Statement on Internal Control for DCA as a whole will be available from the Stationery Office when DCA 2006/07 Accounts are published later this year.

Alex Allan
Accounting Officer
Date: 25 June 2007

Zahida Manzoor CBE
Legal Services Complaints Commissioner
Date: 27 June 2007

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Office of the Legal Services Complaints Commissioner (OLSCC) for the year ended 31 March 2007 under the Access to Justice Act 1999. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement 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 the report as having been audited.

Respective responsibilities of the Accounting Officer, Commissioner and Auditor

The Accounting Officer is responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the schedule 8 of the Access to Justice Act 1999 and directions made thereunder by the Secretary of State and Lord Chancellor with the approval of the HM Treasury, and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's and Commissioner'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 Access to Justice Act 1999 and directions made thereunder by the Secretary of State and Lord Chancellor with the approval of HM Treasury. I report to you whether, in my opinion, certain information given in the Annual 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 OLSCC 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 OLSCC'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 OLSCC'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. 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 opinion

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 judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the OLSCC'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

Audit Opinion

In my opinion:

- *the financial statements give a true and fair view, in accordance with the Access to Justice Act 1999 and directions made there under by the Secretary of State and Lord Chancellor with the approval of HM Treasury, of the state of the OLSCC's affairs as at 31 March 2007 and of its income, expenditure and cash flows for the year then ended;*
- *the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Access to Justice Act 1999 and directions made there under by the Secretary of State and Lord Chancellor with the approval of the Treasury; and*
- *information given within the Annual Report which comprises the Foreword, the Executive Summary and Chapter 5 is consistent with the financial statements.*

Audit 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.

John Bourn

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

2 July 2007

Operating cost statement for the year ended 31 March 2007

| | Notes | 2006-07 £ | 2005-06 £ |
|------------------------------|-------|------------------|------------------|
| Income | 2 | (1,089,643) | (1,038,076) |
| Staff costs | 3 | 866,638 | 812,881 |
| Other direct costs | 4 | 254,890 | 260,093 |
| Accommodation costs | 5 | 183,934 | 161,740 |
| Departmental overhead charge | | 301,219 | 254,298 |
| Other non cash costs | 6 | 23,288 | 17,083 |
| Total costs | | 1,629,969 | 1,506,095 |
| Net operating cost | | 540,326 | 468,019 |

All Income and expenditure is derived from continuing operational activities. There are no other gains or losses for the year.

The notes on pages 80 to 87 form part of these accounts.

Balance Sheet. As at 31 March 2007

| | Notes | 2006-07 £ | 2005-06 £ |
|--|-------|-----------------|-----------------|
| Fixed Assets | | | |
| Tangible fixed assets | 7 | 93,266 | 74,713 |
| Current Assets | | | |
| Debtors | 8 | 1,149,172 | 947,148 |
| Current Liabilities | | | |
| Creditors | 9 | (1,165,891) | (1,031,493) |
| Net Current Liabilities | | (16,719) | (84,345) |
| Total Assets Less Current Liabilities | | 76,547 | (9,632) |
| Taxpayers Equity | | | |
| General Fund | 11 | 76,547 | (9,632) |
| | | 76,547 | (9,632) |

The notes on pages 80 to 87 form part of these accounts

Alex Allan
Accounting Officer
Date: 25 June 2007

Zahida Manzoor CBE
Legal Services Complaints Commissioner
Date: 27 June 2007

1. Cash flow statement. Year ended 31 March 2007

| | Notes | 2006-07 £ | 2005-06 £ |
|--|-------|--------------|--------------|
| Net cash outflow from operating activities | 10 | (283,445) | (241,986) |
| Capital expenditure | | (30,170) | (12,968) |
| Finance from Department for Constitutional Affairs | | 313,615 | 254,954 |
| Increase in cash | | 0 | 0 |

The notes on pages 80 to 87 form part of these accounts

Notes to the Accounts

1. Accounting Policies

Basis of accounting

These accounts for the Office of the Legal Services Complaints Commissioner (OLSCC) have been prepared in accordance with the Financial Reporting Manual (FRM) issued by HM Treasury with the exception that historical cost accounting has been used in place of modified historical cost accounting because of the immaterial difference between the two for OLSCC. The accounting policies used to prepare these statements are consistent with those used to prepare accounts for DCA. The Departmental accounts give greater detail on accounting policies.

Going concern

The accounts are prepared on a going concern basis as DCA settles all of OLSCC's financial transactions with funds voted by Parliament.

The 2006 Queen's Speech introduced the Legal Services Reform Bill into the 2006/07 session. If the Bill receives Royal Assent it will fundamentally change the way that legal services will be regulated in England and Wales including the formation of the Office for Legal Complaints, and consequent closure of OLSCC. However it is not anticipated that OLSCC will close before 2010/11 and so there is no immediate threat to its existence.

Income

OLSCC does not recover its costs through charging fees though it recovers certain expenditure from the Law Society under the provision of the Access to Justice Act 1999. The expenditure that is recoverable relates to staff costs (with the exception of the Commissioner's salary) and other direct costs.

Staff costs

Staff costs are made up of:

- salary and associated costs (including pensions obligations) of staff employed at OLSCC;
- fees paid to the self-employed; and
- amounts paid to agencies with respect to temporary staff.

Other direct costs

These are costs other than staff costs, where the expenditure is authorised by OLSCC.

Accommodation costs

These are costs directly attributable to OLSCC where the expenditure is authorised by DCA. These are rental and other costs associated with the Leeds office building.

Departmental overhead charge

This charge relates to support services provided to OLSCC by DCA. Departmental costs are apportioned on a systematic basis to all the Department's Associated Offices including OLSCC. Departmental costs does not include OLSCC's share of the costs under contracts that have been awarded by the Department under the Government's Private Finance Initiative (PFI) for the provision of accounting and IT services. The PFI contract is managed centrally by DCA, and included in the Resource Accounts.

Other non-cash costs

Non-cash costs are included to show the full cost of operating OLSCC. The audit fee is an amount agreed with the National Audit Office. The cost of capital charge reflects the cost of capital utilised by OLSCC and is calculated at the Government's standard rate of 3.5% of average net assets less liabilities over the year.

The amounts on the expenditure statement are net of recoverable VAT but include irrecoverable VAT. Recoverable VAT is received centrally by DCA from HM Revenues & Customs and any amount receivable is not shown as a debtor on the OLSCC Balance Sheet.

DCA holds the operating lease on the property used by OLSCC and also has legal ownership of the non-leased tangible fixed assets used by that Office.

Fixed assets

Tangible assets primarily comprise IT equipment, developed software and furniture. IT equipment and software

development costing more than £1,000 are capitalised and then depreciated over 3-5 years. All furniture is pooled, then depreciated over 20 years. All depreciation is calculated on a straight line basis.

Pensions

Past and present employees of OLSCC are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS). The defined benefit schemes are unfunded and are non-contributory except in respect of dependant's benefits. The Department recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employee's services by payment to the PCSPS of amounts, calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the Department recognises the contributions payable for the year.

Income

The Commissioner levied a fine of £220,000 on the Law Society during the 2006-07 financial year. The Commissioner and her office derive no benefit from this receipt, since it is surrendered to the Lord Chancellor immediately under the provisions of Section 52(7) of the Access to Justice Act 1999 and ultimately surrendered to the Consolidated Fund. This fine is therefore reflected in the 2006-07 Resource Accounts of the Department for Constitutional Affairs, and is not included in these accounts. The full amount shown as income in these accounts therefore relates to the direct funding of the Commissioner's expenditure by the Law Society.

2. Income

| | 2006-07 | 2005-06 |
|--------------------------------------|------------------|------------------|
| | £ | £ |
| Recharge of costs to the Law Society | 1,089,643 | 1,038,076 |
| Total | 1,089,643 | 1,038,076 |

3. Staff Costs

| | Employees | Self-employed | Agency staff | 2006-07 Total | 2005-06 Total |
|--------------------------|----------------|---------------|--------------|------------------|------------------|
| | £ | £ | £ | £ | £ |
| Wages, salaries and fees | 672,988 | 1,740 | 71 | 674,799 | 638,989 |
| Social security costs | 58,526 | – | – | 58,526 | 54,714 |
| Other pension costs | 133,313 | – | – | 133,313 | 119,178 |
| | 864,827 | 1,740 | 71 | 866,638 | 812,881 |

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined scheme but OLSCC is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk)

For 2006/07 contributions of £133,313 (2005-06 £119,178) were paid to the PCSPS on behalf of employees at rates determined by the Government Actuary and advised by HM Treasury. These rates were in the range 17.1% to 25.5% (2005/06 16.2% to 24.6%) of pensionable pay, based on salary bands. From 2007/08 the salary bands will be revised but the rates will remain the same.

4. Other Direct Costs

| | 2006-07 | 2005-06 |
|---|----------------|----------------|
| | £ | £ |
| Rentals under operating leases, hire of plant and machinery | 16,721 | 16,361 |
| Travel and subsistence | 99,476 | 70,880 |
| External consultancy | 34,941 | 37,368 |
| Office supplies | 12,488 | 14,394 |
| Printing and reprographics | 36,037 | 55,252 |
| Distribution, postage & Telecommunication | 9,292 | 7,511 |
| Other | 45,935 | 58,327 |
| Total | 254,890 | 260,093 |

All OLSCC's staff are employees of DCA and further details of their pension scheme are given in the DCA resource accounts.

The average number of whole time equivalent persons employed during the year was 18.83 employees and 0.02 self-employed (2005-06 18.09 in total).

Staff costs include the Commissioner's salary and pension contributions made on her behalf. Zahida Manzoor CBE held the post during 2006-07. Please refer to Remuneration Report for further details.

5. Accommodation Costs

| | 2006-07 | 2005-06 |
|-------------------------|----------------|----------------|
| | £ | £ |
| Rent and service charge | 138,757 | 121,579 |
| Rates | 37,956 | 32,922 |
| Other property costs | 7,221 | 7,239 |
| Total | 183,934 | 161,740 |

6. Other non-cash Costs

| | 2006-07 | 2005-06 |
|---------------------|---------------|---------------|
| | £ | £ |
| Depreciation | 11,617 | 5,919 |
| Cost of capital | 1,171 | (1,203) |
| Impairment of asset | – | 2,867 |
| External audit fees | 10,500 | 9,500 |
| Total | 23,288 | 17,083 |

The auditors received no remuneration for non-audit work.

7. Tangible fixed assets

| | Furniture £ | Computer and Other Equipment £ | Total £ |
|--------------------------|----------------|-----------------------------------|------------|
| Cost or valuation | | | |
| At 1 April 2006 | 66,881 | 14,731 | 81,612 |
| Additions | | | |
| At 31 March 2007 | 66,881 | 44,901 | 111,782 |
| Depreciation | | | |
| At 1 April 2006 | 4,082 | 2,817 | 6,899 |
| Charge for the year | 3,344 | 8,273 | 11,617 |
| At 31 March 2007 | 7,426 | 11,090 | 18,516 |
| Net book value | | | |
| At 31 March 2007 | 59,455 | 33,811 | 93,266 |
| At 31 March 2006 | 62,799 | 11,914 | 74,713 |

8. Debtors

8(a) Analysis by type

| | 2006-07 £ | 2005-06 £ |
|---------------------------|------------------|----------------|
| Accrued Income | 1,109,375 | 947,092 |
| Accommodation prepayments | 35,474 | - |
| Other prepayments | 4,323 | 56 |
| | 1,149,172 | 947,148 |

8(b) Intra-Government Balances

| | 2006-07 £ | 2005-06 £ |
|---|------------------|----------------|
| Balances with other central government bodies | - | - |
| Balances with bodies outside central government | 1,149,172 | 947,148 |
| | 1,149,172 | 947,148 |

9. Creditors

9(a) Analysis by type

| | 2006-07 | 2005-06 |
|---------------------------|------------------|------------------|
| | £ | £ |
| Law Society Income to DCA | 1,109,375 | 947,092 |
| Accommodation accruals | 45,251 | 52,939 |
| Other Accruals | 11,265 | 31,462 |
| | 1,165,891 | 1,031,493 |

9(b) Intra-Government Balances

| | 2006-07 | 2005-06 |
|---|------------------|------------------|
| | £ | £ |
| Balances with other central government bodies | 1,109,375 | 947,092 |
| Balances with bodies outside central government | 56,516 | 84,401 |
| | 1,165,891 | 1,031,493 |

10. Reconciliation of operating cost to operating cash flows

| | Notes | 2006-07 | 2005-06 |
|--|-------|------------------|------------------|
| | | £ | £ |
| Net operating cost | | (540,326) | (468,019) |
| Departmental overhead charge | | 301,219 | 254,298 |
| Other non cash costs | 6 | 23,288 | 17,083 |
| Increase in debtors | | (202,024) | (940,398) |
| Increase in creditors | | 134,398 | 895,050 |
| Net cash outflow from operating activities | | (283,445) | (241,986) |

11. General fund

| | 2006-07 | 2005-06 |
|----------------------------------|---------------|----------------|
| | £ | £ |
| Net expenditure for year | (540,326) | (468,019) |
| Financing from DCA | 313,615 | 254,954 |
| DCA Departmental overhead charge | 301,219 | 254,298 |
| Cost of capital | 1,171 | (1,203) |
| Auditor's remuneration | 10,500 | 9,500 |
| Net increase in General Fund | 86,179 | 49,530 |
| General Fund at start of year | (9,632) | (59,162) |
| General Fund at end of year | 76,547 | (9,632) |

12. Commitments under leases

At 31 March 2007 DCA was committed to making the following payments during the year in respect of operating leases on assets used by OLSCC expiring:

| | 2006-07 | | 2005-06 | |
|-------------------|------------------|---------------|------------------|---------------|
| | Land & Buildings | Other | Land & Buildings | Other |
| | £ | £ | £ | £ |
| Within one year | – | 15,233 | – | – |
| Two to five years | – | 721 | – | 15,954 |
| After five years | 143,637 | – | 96,079 | – |
| | 143,637 | 15,954 | 96,079 | 15,954 |

13. Contingent liabilities

There are no contingent liabilities.

14. Related parties

DCA is a related party with which OLSCC had various material transactions during the year. OLSCC staff have not entered into any material transactions with OLSCC or DCA.

Zahida Manzoor CBE, the Legal Service Complaints Commissioner, also holds the role of the Legal Services Ombudsman. There have not been any material transactions between the two Offices.

15. Capital commitments

There are no capital commitments.

16. Post balance sheet events

In accordance with the requirements of FRS21, post balance sheet events are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date the accounts are laid before Parliament. These accounts will be laid before Parliament on 10 July 2007.

On 9 May 2007, a new Ministry of Justice was established. The new Ministry performs the functions and activities of the Department for Constitutional Affairs. In addition, the National Offender Management Service, including the

Prison and Probation Services has transferred from the Home Office. The new Ministry also has lead responsibility for criminal law and sentencing policy. The Ministry of Justice will be responsible for policy on the overall criminal, civil, family and administrative justice system, including sentencing policy, as well as the courts, tribunals, legal aid and constitutional reform.

OLSCC is an Associated Office of the Ministry of Justice. No change to the working arrangements with OLSCC, nor any financial effect, is envisaged

17. Liquidity risk

OLSCC's has no borrowings, and its net resource requirements are met from resources voted annually by Parliament to DCA. DCA then settles all OLSCC's financial transactions irrespective of when the income from the Law Society is received and remitted to DCA. OLSCC is not, therefore, exposed to significant liquidity risk.

Also, OLSCC has no deposits, as cash at bank is held in DCA's bank accounts and not included in these accounts. All material assets and liabilities are denominated in sterling, so it is not exposed to interest rate risk or currency risk.

Remuneration Report

Auditable Sections

In accordance with the requirements of schedule 7A of the Companies Act 1985 (as amended), only certain sections of the Remuneration Report have been subject to full external audit. These comprise the paragraphs on salary and pension entitlements.

Remuneration Policy

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

The Legal Services Complaints Commissioner (the Commissioner), though not a civil servant, receives salary increases annually in line with the average award to Senior Civil Service (SCS) employees.

As an independent Office Holder, the Commissioner is not subject to performance pay arrangements, although she discusses her annual appraisal with the Permanent Secretary of the Ministry of Justice.

In reaching its recommendations, the Review Body has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;

- the funds available to departments as set out in the Government’s departmental expenditure limits;
- the Government’s inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Further information about the work of the Review Body can be found at www.ome.uk.com.

Service Contracts

Civil Service appointments are made in accordance with the Civil Service Commissioners’ Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made. Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk.

The Commissioner is a statutory appointee. She holds the position, concurrently with that of the Legal Services Ombudsman, for a period of 3 years from appointment which currently expires on 2 March 2009. Both posts will be renewable on this date for further 3-year terms at the mutual discretion of the office holder and the Secretary of State.

Her contract does give the Secretary of State discretion to make a compensatory payment in the event of early termination ‘should he consider there are special circumstances which make it right that the Office Holder should receive compensation’.

Remuneration

| | 2006-07 ‘000 | 2005-06 ‘000 |
|--------------------|-----------------|-----------------|
| Members | | |
| Zahida Manzoor CBE | 40-45 | 40-45 |

Pension Benefits

| Name | Accrued pension at age 60 as at 31/03/07 £'000 | Real increase in pension at age 60 £'000 | CETV at 31/03/07 £'000 | CETV at 31/03/06 £'000 | Real increase in CETV £'000 |
|--------------------|---|---|---------------------------|---------------------------|--------------------------------|
| Zahida Manzoor CBE | 5-10 | 0-2.5 | 108 | 80 | 22 |

Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of the Commissioner.

Salary

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

Pension Benefits

The figures shown on the pension benefit relates to her role as both the Ombudsman and Commissioner, as it has not been possible to separate her pension entitlements. Zahida Manzoor CBE is a member of the PCS Premium / C1 Plus part of the Principal Civil Service Pension Scheme (PCSPS).

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. 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 in the same way as in classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. 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 0.8% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement).

Further details about the Civil Service pension arrangements can be found in the resource accounts of the Cabinet Office: Civil Superannuation at www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

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 Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. 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 within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

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.

Zahida Manzoor CBE
Legal Services Complaints Commissioner
for England and Wales



Date: 27 June 2007

Alex Allan
Accounting Officer
Date: 25 June 2007