

Statement of accounts

FOR THE YEAR ENDED 31 MARCH 2003



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BOARD MEMBERS

	Date appointed
Jean Couper (Chairman: from 1998).....	April 1994
Ellen Morton.....	December 2002
Graeme McKinstry.....	April 2002
Peter L Gray.....	September 2002
William Gallagher.....	April 2000
Sheriff Alexander Jessop.....	April 1996
Nick Kuenssberg.....	April 1996
David J C Nicol.....	April 2002
Yvonne Osman.....	April 1996
Professor Ian Percy CBE.....	April 2000
Margaret Scanlan.....	September 1997
Malcolm Thomson QC.....	April 1998
Alexander Wylie QC.....	to September 2002

AUDITORS

Audit Scotland

BANKERS

Royal Bank of Scotland

Statement of accounts FOR THE YEAR ENDED 31 MARCH 2003

FOREWORD

Principal activities

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

Background

The Board presents its accounts for the financial year ended 31 March 2003. The accounts have been prepared in a form directed by Scottish Ministers in accordance with section 5 (2) of the Legal Aid (Scotland) Act 1986, as amended by the Public Finance and Accountability (Scotland) Act 2000, and in accordance with the Executive Non-Departmental Public Bodies Annual Reports and Accounts Guidance 2002/03.

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

Scottish Legal Aid Fund

The Income and Expenditure account shows the income and net cost of operations, excluding notional charges, transferred to the General Fund is £2.555M (2002 reformatted - £0.102m). This includes the estimated value of work done on legal aid certificates outstanding as at 31 March 2003. The basis of preparation for the annual accounts (the "accruals basis") results in a number of accounting adjustments, including certain notional charges, depreciation, accruals and pre-payments. Whilst the accounts that follow indicate a surplus on the Income and Expenditure Account, this should not be taken as an indication of surplus cash balances. Where Income has been accrued, as it is received, it will be offset against the grant funding for that year.

Scottish Legal Aid Board – administration expenditure (grant in aid)

The Income and Expenditure account on an accruals basis shows the income and net cost of operations, excluding notional charges, but including pension costs, transferred to the General Fund is £0.073m (2002 reformatted - £(0.194m)).

Communication

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

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

Creditor payment policy

The Board's payment policy with regard to suppliers in respect of grant-in-aid expenditure is to agree payment terms when orders for goods and services are placed and, whenever necessary, ensure that suppliers are aware of the Board's terms of payment. The Board aims to comply with these terms subject to satisfactory performance by the supplier. The Board adheres to "The Better Payment Practice Code". The target turnaround time for invoices is 30 days. In 2002/03, the Board met this target in 97% of cases (2001/02 96%).

Audit

Audit Scotland carried out the audit of the Board's accounts for the 2002/03 financial year.

Equal opportunities

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

Lindsay Montgomery
Chief Executive and Accountable Officer
 8 July 2003

STATEMENT OF BOARD'S AND CHIEF EXECUTIVE'S RESPONSIBILITIES

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

In preparing the accounts the Board is required to:

- observe the accounts direction issued by Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Board will continue in operation.

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

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

Lindsay Montgomery
Chief Executive and Accountable Officer
 8 July 2003

STATEMENT ON THE SYSTEM OF INTERNAL CONTROL

1. ACCOUNTABLE OFFICER

As Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Scottish Legal Aid Board (SLAB) policies, aims and objectives, whilst safeguarding the public funds and assets for which I am responsible, in accordance with the responsibilities assigned to me in Government Accounting. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

2. THE BOARD AND EXECUTIVE TEAM

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

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

3. SYSTEM OF INTERNAL FINANCIAL CONTROL

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

In particular, it includes:

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

4. SYSTEM OF INTERNAL CONTROL

The wider system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of SLAB policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 March 2003 and up to the date of approval of the annual report and accounts and accords with appropriate guidance and best practice. As Accountable Officer, I also have responsibility for reviewing the effectiveness of the system of internal control and the following framework is in place:

4.1 The Board

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

4.2 The Executive team

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

4.3 The Remuneration and Appointments Committee

The Committee considers and makes recommendations to the Board on remuneration and related matters including the annual staff pay remit submitted to the Scottish Executive, remuneration and terms and conditions for the Chief Executive and Executive Directors, and pensions policies and related matters.

4.4 The Audit Committee

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

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

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

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

4.5 Internal audit

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

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

4.6 Risk management framework

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

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

My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the departments 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.

Lindsay Montgomery
Chief Executive and Accountable Officer
 8 July 2003

INDEPENDENT AUDITOR'S REPORT

To The Members Of The Scottish Legal Aid Board, The Scottish Parliament and the Auditor General for Scotland

I have audited the financial statements on pages 8 to 26 under the Legal Aid (Scotland) Act 1986. The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 13 and 14.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by Audit Scotland, dated July 2001.

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

As described on page 3 the Scottish Legal Aid Board and the Chief Executive are responsible for the preparation of the financial statements and for ensuring the regularity of expenditure and receipts. The Scottish Legal Aid Board and the Chief Executive are also responsible for the preparation of the Foreword and other contents of the Annual Report. My responsibilities, as independent auditor, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance.

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

I review whether the statement on pages 4 and 5 complies with Scottish Executive guidance on statements on the system of internal control. I report if, in my opinion, it does not comply with the guidance, or if the statement is misleading or inconsistent with other information I am aware of from my audit. I am not required to consider whether the statement covers all risks and controls, or form an opinion on the effectiveness of the Scottish Legal Aid 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 financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinions

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

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

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

Opinions

Financial statements

In my opinion the financial statements give a true and fair view of the state of affairs of the Scottish Legal Aid Fund and the Scottish Legal Aid Board at 31 March 2003 and of the surpluses, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Legal Aid (Scotland) Act 1986 and directions made thereunder.

Regularity

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

Fiona Kordiak CPFA, Chief Auditor
Audit Scotland - Audit Services (East Region)
Osborne House, 1/5 Osborne Terrace
Edinburgh EH12 5HG

9 July 2003

INCOME AND EXPENDITURE ACCOUNT for the SCOTTISH LEGAL AID FUND
For the year ended 31 March 2003

a) Scottish Legal Aid Fund	<i>Notes</i>	2003 £'000	2002 £'000 <i>Reformatted</i>
Income			
Grant income	<i>10a</i>	135,534	124,100
Movement in accrued grant income	<i>10a</i>	(15,705)	16,104
Operating income	<i>2a</i>	<u>11,418</u>	<u>8,565</u>
		<u>131,247</u>	<u>148,769</u>
Expenditure			
Operating costs	<i>3a i)</i>	129,216	148,420
Bad debt (net of movement in provision)	<i>3a ii)</i>	(507)	266
		<u>128,709</u>	<u>148,686</u>
Surplus before interest		2,538	83
Interest receivable	<i>3b v)</i>	17	19
Interest on capital (notional)	<i>3b vi)</i>	(2)	(2)
Surplus after interest		2,553	100
Add back notional charges		<u>2</u>	<u>2</u>
Surplus on operations excluding notional charges transferred to general fund	<i>10a</i>	<u><u>2,555</u></u>	<u><u>102</u></u>

STATEMENT OF RECOGNISED GAINS AND LOSSES
For the year ended 31 March 2003

a) Scottish Legal Aid Fund	2003 £'000	2002 £'000
Surplus/(deficit) on operations	2,555	102
Unrealised surplus/(deficit) on revaluation of tangible fixed assets less supplementary depreciation	<u>1</u>	<u>-</u>
Total recognised gains and losses relating to the year	<u><u>2,556</u></u>	<u><u>102</u></u>

BALANCE SHEET
As at 31 March 2003

a) Scottish Legal Aid Fund	<i>Notes</i>	2003 £'000	2002 £'000
Fixed assets			
Tangible assets	<i>4a</i>	<u>9</u>	<u>17</u>
Current assets			
Debtors	<i>6a</i>	66,662	80,142
Cash at bank and in hand	<i>7a</i>	<u>7,352</u>	<u>8,097</u>
		74,014	88,239
Creditors: amounts falling due within one year	<i>8a</i>	<u>(53,524)</u>	<u>(71,063)</u>
Net current assets		<u>20,490</u>	<u>17,176</u>
Total assets less current liabilities		20,499	17,193
Creditors: amounts falling due after more than one year	<i>8a</i>	<u>(13,643)</u>	<u>(12,893)</u>
NET ASSETS		<u>6,856</u>	<u>4,300</u>
Represented by:			
General fund	<i>10a</i>	6,855	4,300
Revaluation reserve	<i>12a</i>	<u>1</u>	<u>-</u>
TAXPAYERS EQUITY		<u>6,856</u>	<u>4,300</u>

The notes on pages 13 to 26 form part of these accounts and should be read in conjunction with the statements above.

Lindsay Montgomery
Chief Executive and Accountable Officer
8 July 2003

INCOME AND EXPENDITURE ACCOUNT for the SCOTTISH LEGAL AID BOARD'S GRANT-IN-AID
For the year ended 31 March 2003

b) Scottish Legal Aid Board		2003	2002
		£'000	£'000
			<i>reformatted</i>
	<i>Notes</i>		
Income			
Grant-in-aid	2b	9,283	9,158
Pension receipts		250	180
Amortisation of government grant	11	300	174
		<u>9,833</u>	<u>9,512</u>
Expenditure			
Staff costs	3b i)	6,276	5,896
Operating costs	3b iii)	2,646	2,717
Depreciation	4b & 4.1	389	305
Permanent diminution in value of fixed assets	4b & 4.1	51	368
Total expenditure		<u>9,362</u>	<u>9,286</u>
Surplus before interest		471	226
Interest received	3b v)	6	6
Interest on capital (notional)	3b vi)	(97)	(95)
Surplus before pension costs		<u>380</u>	<u>137</u>
Pension costs		<u>404</u>	<u>426</u>
Deficit after pension costs		(24)	(289)
Add back notional charges	3b vi)	97	95
Surplus/(Deficit) on operations excluding notional charges and including pension costs transferred to general fund	10b	<u>73</u>	<u>(194)</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 March 2003

	2003	2002
	£'000	£'000
Surplus/(deficit) on operations	73	(194)
Unrealised surplus/(deficit) on revaluation of tangible fixed assets less supplementary depreciation	14	2
Total recognised gains and losses relating to the year	<u>87</u>	<u>(192)</u>

BALANCE SHEET
As at 31 March 2003

b) Scottish Legal Aid Board	<i>Notes</i>	2003	2002
		£'000	£'000
Fixed assets			
Tangible assets	<i>4b</i>	1,497	968
Intangible assets	<i>4.1</i>	<u>134</u>	<u>117</u>
		<u>1,631</u>	<u>1,085</u>
Current assets			
Stock	<i>5</i>	28	31
Debtors	<i>6b</i>	270	229
Cash at bank and in hand		<u>216</u>	<u>324</u>
		514	584
Creditors: amounts falling due within one year	<i>8b</i>	<u>(96)</u>	<u>(189)</u>
Net current assets		<u>418</u>	<u>395</u>
Total assets less current liabilities		2,049	1,480
Deferred income	<i>9</i>	<u>(130)</u>	<u>(182)</u>
NET ASSETS		<u>1,919</u>	<u>1,298</u>
Represented by:			
Government grant	<i>11</i>	1,299	765
General fund	<i>10b</i>	605	532
Revaluation reserve	<i>12b</i>	<u>15</u>	<u>1</u>
TAXPAYERS EQUITY		<u>1,919</u>	<u>1,298</u>

The notes on pages 13 to 26 form part of these accounts and should be read in conjunction with the statements above.

Lindsay Montgomery
Chief Executive and Accountable Officer
8 July 2003

CASH FLOW STATEMENTS
For the year ended 31 March 2003

a) Scottish Legal Aid Fund	<i>Notes</i>	2003 £'000	2002 £'000 <i>reformatted</i>
Net cash outflow from operating activities	13a	<u>(745)</u>	<u>(130)</u>
Increase / (decrease) in cash in the year		<u>(745)</u>	<u>(130)</u>
Reconciliation of movement in cash to movement in net funds			
Opening cash at bank and in hand		8,097	8,227
Closing cash at bank and in hand		<u>7,352</u>	<u>8,097</u>
Movement in net funds		<u>(745)</u>	<u>(130)</u>
b) Scottish Legal Aid Board	<i>Notes</i>	2003 £'000	2002 £'000 <i>reformatted</i>
Net cash inflow from operating activities	13b	30	208
Capital expenditure:			
Payments to acquire fixed assets	4b & 4.1	(972)	(305)
Financed by government grant	2b	<u>834</u>	<u>226</u>
Increase / (decrease) in cash in the year		<u>(108)</u>	<u>129</u>
Reconciliation of movement in cash to movement in net funds			
Opening cash at bank and in hand		324	195
Closing cash at bank and in hand		<u>216</u>	<u>324</u>
Movement in net funds		<u>(108)</u>	<u>129</u>

NOTES TO THE ACCOUNTS

For the year ended 31 March 2003

1. Accounting policies

1.1 Basis of accounting

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

The requirement to show grant-in-aid on the face of the Income & Expenditure account as detailed in "Executive NDPBs: Annual Reports and Accounts Guidance" has resulted in the reformatting of the 2001/02 figures for comparison purposes.

1.2 Continuing activities

The results reported in this statement of accounts are derived from continuing activities of the Scottish Legal Aid Board. The Public Defence Solicitors' Office (PDSO) opened on 1 October 1998, the costs of which are charged to the Scottish Legal Aid Fund. The PDSO pilot was originally to run for five years. The Criminal Justice Scotland Act 2003 allows for the continuation of the Edinburgh pilot beyond October 2003 and the creation of a small number of additional offices.

1.3 Fixed assets

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

1.4 Depreciation

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

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

1.5 Stocks

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

1.6 Notional costs

In accordance with Government Accounting, a notional charge for interest on capital is included in the Income and Expenditure Account (note 4vi). An accounting entry reversing this notional charge is also included in the Income and Expenditure Account.

1.7 Operating leases

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

1.8 Accruals and accrued funding

The liability to pay accounts resulting from work in progress as at 31 March 2003 on outstanding legal aid certificates is recognised within the Fund. An accrued liability is established based on the number of outstanding certificates and estimates of cost and the time since the certificate was issued. This liability will be funded in full from a number of possible sources including contributions from assisted persons, expense recoveries, and losses recovered from damages. The government meets the balance. Accordingly a debtor balance, representing accrued funding, is established to match the total of the accrued liability and amounts due by the Fund to solicitors and advocates.

There has been a significant change to the methodology used to calculate this estimate. This is now based on lifetime average case costs and is calculated at the level of Aid type, category code and court type combinations. This change in the basis of the average case cost calculation has reduced the accrual by £10m. In addition, the accrual calculation now incorporates 'enddates' for the receipt of an account based

on historic trend data, which results in a further reduction in the accrual of £6m. This compares to previous years where it was assumed that in an arbitrary percentage of cases an account would never be received.

1.9 Pension costs

Pensions and other benefits are payable out of the grant-in-aid and are met as they fall due, with the exception of the PDSO staff whose pension payments are made from the Legal Aid Fund. They are made in accordance with the Legal Aid (Scotland) Pension Scheme 1988, which is a salary scheme based on a normal retirement age of 60 for staff who joined after 1 April 1987. Staff scheme members pay a contribution of 6% of salary. Pension increases are made as if the pensions were 'official pensions' as defined and specified in the Pensions (Increase) Act 1971. The Pension Scheme is not a funded scheme and the Board does not make any direct contributions to a fund. The Scheme is in accordance with guidance contained in "NDPB – A Guide for departments". Any future liability for pensions will be met by the Scottish Executive. As specified in its accounts direction, the Board is exempted from the requirements of SSAP 24.

1.10 Deferred income

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

1.11 Capital expenditure

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

2. Income

a) Scottish Legal Aid Fund	2003	2002
	£'000	£'000
Net Income		
Contributions by assisted persons	2,241	1,412
Expenses recovered	7,523	6,022
Other income	354	25
Losses recovered from damages	1,300	1,106
Total	11,418	8,565

Adjustments to contribution income arise primarily because:

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

These adjustments may mean that the assisted person has paid more than the amount due. In these cases, the excess is refunded. The net amounts refunded were **£325,000 (2002 - £272,000)**.

Adjustments to expenses recovered arise primarily because the legal aid account has been taxed (re-assessed) by the auditor of court. Expenses refunded during 2002/03 were **£11,000 (2002 - £8,000)**. These are incorporated in the operating income table above.

Under certain circumstances, the Board will securitise assets such as property until the debts are repaid. Any outstanding sum will attract interest at 8% per annum, unless the rate is adjusted by an Act of Sederunt, until the balance is settled. The total value of securitised assets for 2002/03 including accrued interest is **£352,000 (2002 - £407,000)**.

b) Scottish Legal Aid Board

General

The Scottish Legal Aid Board is financed by a grant-in-aid from the government. This covers both revenue and capital items. The revenue grant has been credited to the Income and Expenditure Account and the capital grant has been credited directly to the government grant Reserve (note 11).

Grant-in-aid

Under the Board's pension arrangements (note 1.9), receipts, of employees' contributions and net transfer values for the Pension Scheme, greater than £250,000, are surrendered to the Scottish Executive Justice Department as a Scottish Consolidated Fund receipt. The amount surrendered for 2002/03 is **£171,000 (2002 - £83,000)**.

The amounts were -	2003	2002
	£'000	£'000
Grant-in-aid (Revenue)	9,283	9,158
Government grant (Capital)	834	226
Pension receipts	250	180
Funding	10,367	9,564

3. Operating costs

a) *Scottish Legal Aid Fund*

i) Operating costs

	2003 £'000	2002 £'000
Advice and assistance (A&A)		
Solicitors' charges	22,444	30,631
Counsel's fees	275	16
Solicitor Advocates' fees	14	2
Outlays	<u>2,557</u>	<u>2,403</u>
	<u>25,290</u>	<u>33,052</u>
Civil Legal Aid		
Solicitors' charges	12,372	20,778
Counsel's fees	3,228	3,279
Solicitor Advocates' fees	1	8
Outlays	<u>7,553</u>	<u>9,679</u>
	<u>23,154</u>	<u>33,744</u>
Expenses paid to successful unassisted persons	<u>44</u>	<u>107</u>
	<u>23,198</u>	<u>33,851</u>
Criminal Legal Aid		
Solicitors' charges	59,929	64,663
Counsel's fees	7,803	7,824
Solicitor Advocates' fees	1,592	1,464
Outlays	<u>4,363</u>	<u>4,311</u>
	<u>73,687</u>	<u>78,262</u>
Legal Aid for Children		
Solicitors' charges	5,478	1,922
Counsel's fees	883	644
Solicitor Advocates' fees	0	0
Outlays	<u>244</u>	<u>261</u>
	<u>6,605</u>	<u>2,827</u>
Contempt of court		
Solicitors' charges	43	33
Counsel's fees	10	2
Solicitor Advocates' fees	5	4
Outlays	<u>1</u>	<u>1</u>
	<u>59</u>	<u>40</u>
Public Defence Solicitors' Office		
Criminal defence costs – outlays	33	29
Salaries and wages	196	209
Social security costs	16	17
Accommodation	55	63
Audit fees	2	2
Depreciation	6	10
Revaluation/Permanent diminution in value of fixed assets	3	6
Other operating costs	<u>33</u>	<u>21</u>
	<u>344</u>	<u>357</u>
Other		
Repayable bank interest (note 3 b v)	17	19
Miscellaneous Costs	<u>16</u>	<u>12</u>
	<u>33</u>	<u>31</u>
Total operating costs - legal aid	<u>129,216</u>	<u>148,420</u>

Operating costs include estimates for work done as a matter of special urgency. Some of this work will not lead to a grant of full legal aid and may be paid under determination by the Scottish Ministers under section 4(2)(c) of the Legal Aid (Scotland) Act 1986. The expenditure under this scheme was £386,000 (2002 - £474,000).

Operating costs also include payments to account made to solicitors and advocates under regulation 11 of the Civil Legal Aid (Scotland) (Fees) Regulations 1989. The expenditure under this scheme was £1,429,254 (2002 - £1,399,526).

The PDSO office opened on 1 October 1998. 6.8 people (2002 – 8) were employed by the PDSO during the year. One member of the PDSO staff received remuneration within the band £50,000 - £59,999 (2002 - 1). PDSO pensions and other benefits are payable out of the Scottish Legal Aid Fund account.

ii) Fund – Bad Debt (Net of changes in provisions)	2003	2002
	£'000	£'000
Irrecoverable contributions from assisted persons	(234)	(28)
Irrecoverable expenses	(277)	294
Irrecoverable other income	4	-
	<u>(507)</u>	<u>266</u>

The sums written off during the year were **£470,000 (2002 - £626,000)**.

b) Scottish Legal Aid Board

i) Staff costs	2003	2002
	£'000	£'000
		<i>reformatted</i>
Board members' emoluments	99	102
Staff salaries and wages	5,727	5,283
Social security costs	388	369
Agency/temporary staff	62	142
Total	<u>6,276</u>	<u>5,896</u>

Under the Board's pension arrangements (note 3 b iv), the Board makes no employer's pension contribution.

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

	2003	2002
	Number	Number
Nil - £4,999	1	1
£5,000 - £9,999	<u>10</u>	<u>10</u>

The Chairman's emolument for the year was £25,769 (pay award pending) (2002 - £25,769). The Chairman and the Board members are appointed for a fixed term and receive emoluments and expenses only. Board members are not members of the Board's pension scheme.

The Chief Executive's total remuneration for 2002/03 was £80,000 (2001/02 - £77,867) The Chief Executive has a permanent contract effective from 1 July 1999 and is entitled to participate as an ordinary member of the Board's pension scheme.

Higher paid staff (inc. Directors) received remuneration in the following bands:

	2003	2002
	Number	Number
£35,000 - £39,999	6	3
£40,000 - £44,999	2	2
£45,000 - £49,999	2	-
£50,000 and above	3	2
	<hr/>	<hr/>

ii) Staff numbers

	2003	2002
	WTE	WTE
Operations and legal services	192	208
Administration and support functions	115	92
Agency/temporary	-	-
Total	307	300
	<hr/> <hr/>	<hr/> <hr/>

iii) Other operating costs

	2003	2002
	£'000	£'000
Accommodation	943	899
Audit fee	33	31
Other administrative costs	1,670	1,787
	<hr/>	<hr/>
	2,646	2,717
	<hr/> <hr/>	<hr/> <hr/>

iv) Pension costs, pay and accrued pension

FRS17 Retirements benefits disclosures are detailed below.

a) The Scottish Legal Aid Board (SLAB) operates a defined benefit (final salary) pension scheme whereby pensions and other benefits are payable out of the grant-in-aid and are met when they fall due. PDSO staff are also eligible to be members of the scheme with the same entitlements to benefits, except payments are payable from the Legal Aid Fund.

b) The Legal Aid (Scotland) Pension Scheme 1988 sets out the conditions for entitlement and determines the rate at which benefits are payable. The scheme is set up under paragraph 8(3) of Schedule 1 to the Legal Aid (Scotland) Act 1986 which gives the Scottish Legal Aid Board power to make rules to provide pensions, allowances or gratuities for its employees. The scheme is administered on behalf of the Board by the Scottish Public Pensions Agency, an Executive Agency of Scottish Ministers.

c) There is no pensions fund as such. Scheme benefits, including cost-of-living increases (pensions increases) are met on a pay as you go basis out of the grant-in-aid.

d) A full revised actuarial valuation was carried out at 31 March 2003 by the Government Actuary's Department (GAD). The liability for future pension payments was estimated to be £15.2m (1999 £10.1m). The major assumptions used by GAD were:

	31 March 2003	31 March 1999
Rate of increase in salaries	6.9%	6.9%
Rate of increase in pensions in payment	5.3%	5.3%
Discount rate	9%	9%

e) Staff scheme members pay a contribution of 6% of salary £254k (2002 £232k). As there is no scheme fund, these amounts are used to offset grant-in-aid expenditure. Any excess receipts are surrendered to the Scottish Executive and any excess expenditure on pensions, over and above that estimated for the year is met by the Scottish Executive.

GAD estimated a notional employer's contribution of 9.6%. Last year we estimated a notional employer's contribution of 7.35% using information available from the Principal Civil Service Pension Scheme.

Total emoluments of the Chief Executive and Directors:

	Chief Executive	Director of Legal Services	Director of Corporate Services and Accounts	Director of Corporate Services and Accounts	Director of Audit and Compliance
	L Montgomery	T Murray	A Menzies*	J Edgar*	I Middleton
Age	50	51	39	42	53
Total emoluments in year (£k)	80	58	5	43	45
Pension increase (net of inflation) (£k)	2.7	1.7	-	-	1.3
Accrued pension at 31/3/03 (£k) including transfers in.	32.4 pa	12.2 pa	-	14.2 pa	12.7 pa

*J Edgar resigned from the Scottish Legal Aid Board on 17 January 2003 and is therefore no longer a Director. A Menzies joined the Scottish Legal Aid Board on 3 March 2003.

v) Interest receivable

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

vi) Notional costs

A notional charge for interest on capital is included in the Income and Expenditure Account. This is calculated at 6% (2001/02 6%) of the average value of total assets less total liabilities (note 1.6). The notional charge included in the Fund Income and Expenditure Account relates to the assets of the PDSO.

4. Tangible fixed assets

a) Scottish Legal Aid Fund

	Office Furniture and Fittings £'000	Office Equipment £'000	PC/ computer hardware £'000	Total £'000
Cost or valuation				
Balance at 1 April 2002	5	5	44	54
Additions	-	-	-	-
Disposals	-	-	-	-
Revaluation	-	1	-	1
Permanent diminution	-	-	(11)	(11)
As at 31 March 2003	5	6	33	44
Depreciation				
Balance at 1 April 2002	2	2	33	37
Provided during year	-	1	5	6
Disposals	-	-	-	-
Backlog	-	-	-	-
Permanent diminution	-	-	(8)	(8)
As at 31 March 2003	2	3	30	35
Net book value at 31 March 2003	3	3	3	9
Net book value at 31 March 2002	3	3	11	17

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

b) Scottish Legal Aid Board

	Office Furniture and Fittings £'000	Office Equipment £'000	PC/ computer hardware £'000	Total £'000
Cost or valuation				
Balance at 1 April 2002	119	158	1,486	1,763
Additions	-	66	854	920
Disposals	-	(71)	(188)	(259)
Revaluation	16	9	-	25
Permanent diminution in value	-	-	(74)	(74)
As at 31 March 2003	135	162	2,078	2,375
Depreciation				
Balance at 1 April 2002 (Restated)	91	92	612	795
Provided during year	12	25	319	356
Disposals	-	(71)	(188)	(259)
Backlog	6	5	-	11
Permanent diminution in value	-	-	(25)	(25)
As at 31 March 2003	109	51	718	878
Net book value at 31 March 2003	26	111	1,360	1,497
Net book value at 31 March 2002 (restated)	28	66	874	968

4.1 Intangible fixed assets

Scottish Legal Aid Board	Software £'000	Total £'000
Cost or valuation		
Balance at 1 April 2002	192	192
Additions – cash	52	52
Additions – trade in	78	78
Disposals	(139)	(139)
Revaluation	-	-
Permanent diminution in value	(3)	(3)
As at 31 March 2003	180	180
Depreciation		
Balance at 1 April 2002	75	75
Provided during year	33	33
Disposals	(61)	(61)
Backlog	-	-
Permanent diminution in value	(1)	(1)
As at 31 March 2003	46	46
Net book value at 31 March 2003	134	134
Net book value at 31 March 2002	117	117

5. Stocks	2003 £'000	2002 £'000
Publications and consumables	28	31

6. Debtors

a) Scottish Legal Aid Fund	2003 £'000	2002 £'000 <i>reformatted</i>
Accrued funding	60,232	75,937
Contributions due from assisted persons	3,155	1,774
Expenses to be recovered	2,788	2,093
AP Debtor	341	-
Securitized Assets	62	50
Other	-	277
Prepayments	84	11
	66,662	80,142

Under the Legal Aid (Scotland) Act 1986, all sums properly due from the Legal Aid Fund will be met by the Government except where funds are recovered from third parties. Accrued funding is an estimate of the sums due arising from the value of outstanding legal aid cases at 31 March 2003. This accrued funding has been fully attributed to the Government.

Amounts falling due after more than one year included above are:	2003	2002
	£'000	£'000
Accrued funding	13,643	12,893
Contributions due from assisted persons	1,609	1,066
Expenses to be recovered	2,398	1,801
	<u>17,650</u>	<u>15,760</u>

b) Scottish Legal Aid Board	2003	2002
	£'000	£'000
Intercompany debtors	2	2
Prepayments	268	227
	<u>270</u>	<u>229</u>

7. Cash at bank and in hand

a) Scottish Legal Aid Fund

i) Cash at bank and in hand	2003	2002
	£'000	£'000
Cash at bank and in hand	495	404
Principal sums	6,744	7,421
Funds held under arrestment	113	272
	<u>7,352</u>	<u>8,097</u>

ii) Principal sums

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

	£'000	2003	2002
		£'000	£'000
Balance as at 1 April 2002		7,421	7,695
Received during the year	14,180		20,127
Interest received during year	231		288
		14,411	<u>20,415</u>
Less:			
Sums repaid to assisted persons	13,602		19,325
Interest paid to assisted persons	186		258
Losses recovered from damages	1,300		1,106
		<u>15,088</u>	<u>20,689</u>
Balance as at 31 March 2003		<u>6,744</u>	<u>7,421</u>

8. Creditors

a) Scottish Legal Aid Fund	2003	2002
	£'000	£'000
Accruals (note 1.8)	56,994	72,853
Amounts due to solicitors and advocates	3,225	3,244
Bank Interest held	54	37
	<u>60,273</u>	<u>76,134</u>
Refunds due to assisted persons	30	125
Principal sums (note 7 ii)	6,744	7,421
Arrestments	113	272
PDSO	7	4
	<u>67,167</u>	<u>83,956</u>

Amounts falling due after more than one year (included in above)

	2003	2002
	£'000	£'000
Accruals	<u>13,643</u>	<u>12,893</u>

(These represent the estimated value of certificates at 31 March 2003, that are due to be settled after more than one year).

b) Scottish Legal Aid Board	2003	2002
	£'000	£'000
Accruals	75	89
Trade creditors	20	17
Pension refund	1	83
	<u>96</u>	<u>189</u>

9. Deferred income

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

10. General fund

a) Scottish Legal Aid Fund	2003	2002
	£'000	£'000
Balance at 1 April 2002	4,300	4,198
Government grant	135,534	124,100
Government grant – movement in accrued funding	(15,705)	16,104
Net cost of operations (excluding notional charges)	(117,274)	(140,102)
Surplus on operations	<u>2,555</u>	<u>102</u>
Balance as at 31 March 2003	<u>6,855</u>	<u>4,300</u>

b) Scottish Legal Aid Board	2003	2002
	£'000	£'000
Balance at 1 April 2002	532	726
Surplus on operations (excluding notional charges)	73	(194)
Balance as at 31 March 2003	605	532

11. Government grant reserve (Scottish Legal Aid Board)	2003	2002
	£'000	£'000
Balance at 1 April 2002	765	714
Government grant	834	225
Government grant amortisation	(300)	(174)
Balance as at 31 March 2003	1,299	765

12. Revaluation reserve		
a) Scottish Legal Aid Fund	2003	2002
	£'000	£'000
Balance at 1 April 2002	-	-
Revaluation of cost	1	-
Backlog depreciation	-	-
Balance as at 31 March 2003	1	-

b) Scottish Legal Aid Board	2003	2002
	£'000	£'000
Balance at 1 April 2002	1	3
Revaluation of cost	25	(2)
Backlog depreciation	(11)	-
Balance as at 31 March 2003	15	1

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

a) Scottish Legal Aid Fund	2003	2002
	£'000	£'000
Net cost of operations	(117,274)	(140,102)
Government grant - movement in accrued funding	(15,705)	16,104
Indent from Scottish Executive	135,534	124,100
Surplus/(deficit) on operations	2,555	102
Depreciation charges	6	10
Permanent diminution in value of fixed assets	3	6
(Increase) / decrease in debtors	13,480	(15,767)
Increase / (decrease) in creditors	(16,789)	15,519
Net cash outflow from operating activities	(745)	(130)

b) Scottish Legal Aid Board

	2003 £'000	2002 £'000
Net cost of operations excluding notional charges	(10,044)	(9,578)
Indent from Scottish Executive	<u>10,117</u>	<u>9,384</u>
Surplus/(deficit) on operations	73	(194)
Deferred income	(52)	(52)
Depreciation charges	389	305
Permanent diminution of fixed assets	51	368
Amortisation of government grant	(300)	(174)
(Increase) / decrease in debtors	(41)	92
(Increase) / decrease in stock	3	2
Increase / (decrease) in creditors	<u>(93)</u>	<u>(139)</u>
Net cash inflow from operating activities	<u>30</u>	<u>208</u>

14. Ex-Gratia payments

There are cases where in good faith a solicitor or counsel provides advice for which the Board cannot make payment under the letter of the Act or Regulations. There are also cases where as a result of the Board's fault a party is prejudiced. In such cases the Board may make an ex gratia payment without prejudice by way of compensation up to an agreed limit. In this year the value of payments made was £12,000 (2002 - £6,000).

15. Capital commitments

During 2003-04, the Board will continue its commitment to implementing the "Electronic Delivery of Legal Aid". Contractual commitments to expenditure continue to be made as the project progresses.

16. Operating leases

Annual commitments under operating leases are as follows:	2003		2002	
	Land and Buildings £'000	Other £'000	Land and Buildings £'000	Other £'000
Leases expiring				
in one year or less	-	-	-	-
between one and five years	-	18	-	18
in five years or more	562	-	562	-
	<u>562</u>	<u>18</u>	<u>562</u>	<u>18</u>

Committed expenditure for operating leases during 2003/04 will be similar to the charges in 2002/03.

17. Related party transactions

The Scottish Executive Justice Department is regarded as a related party. During the year, the Scottish Legal Aid Board has had various material transactions with The Scottish Executive Justice Department, essentially the payment of the grant-in-aid (see note 2 b).

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

	2003	2002
	£'000	£'000
Brian Adair	-	64
Jack Adair	-	113
Jill Adair	-	33
Graeme Jessop	2	21
Derek O'Carroll	-	2
Maurice O'Carroll	-	1
Margaret Scanlan	12	12
Michael Scanlan	4	4
Alexander Wylie	-	10
Graeme McKinstry	32	-
Peter Gray	115	-
David J C Nicol	33	-

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

18. Post balance sheet date events

No events occurred between 1 April 2003 and the time these accounts were signed that would materially affect the information provided.

19. Contingent liability

A civil action has been raised against the Board relating to an employment matter.