

Law Society of Scotland

Financial statements for the year ended 31 October 2017

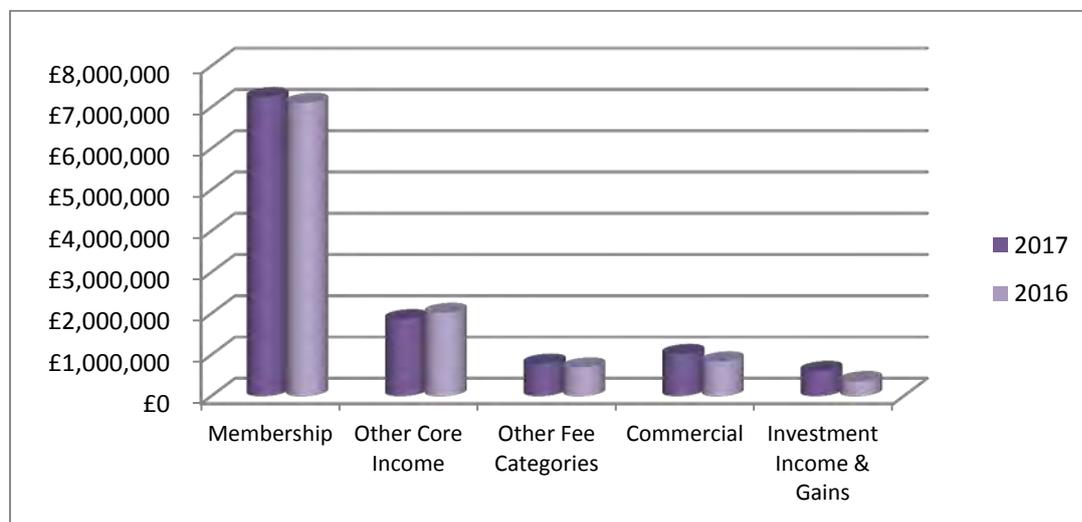
Review of financial year

Overview

The Group reports a deficit of income over expenditure (prior to the actuarial charge to the Society's closed final salary pension scheme) of £119,000 for the financial year ended 31 October 2017 (2016 - £33,000 surplus). The actuarial surplus in respect of the scheme was £805,000 (2016 – £1,495,000 charge), giving a total recognised surplus for the year of £686,000 (2016 – recognised deficit of £1,462,000).

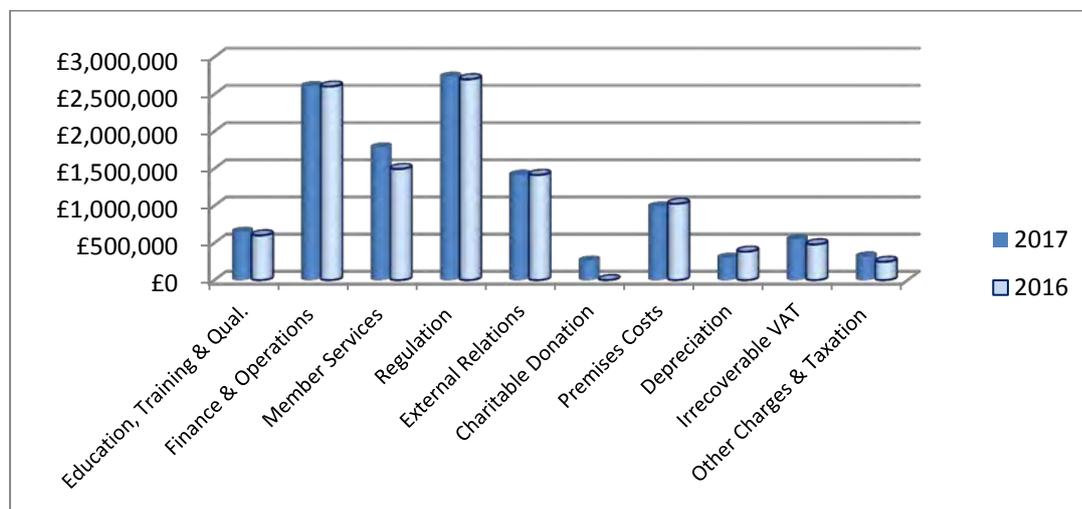
Income

The Group's income in the year amounted to £11.50 million, an increase of 5.1% from last year. Income sources were as follows:



Expenditure

The Group's expenditure (excluding actuarial charge to the closed pension scheme) was £11.62 million, an increase of 6.1% from last year. Expenditure was split as follows:



Review of financial year (ctd.)

Investments

The Society's investment portfolio performed strongly, showing unrealised gains of £252,000 and realised gains of £25,000.

The Society's wholly-owned subsidiary company, Law Society of Scotland (Services) Limited, undertakes certain commercial opportunities on behalf of the Law Society of Scotland. It holds an investment in Altis Legal Limited, and also had a shareholding in Legal Post (Scotland) Limited which was sold during the year. Within the group accounts a provision has been made to reduce the valuation of Altis Legal Limited. In its first full year of operation Altis failed to meet its sales volume targets; as a consequence a provision of £58,000 has been made, calculated with reference to both anticipated sales over the next three years and current asset values, leaving a remaining value of £23,000.

Following a takeover, the shareholding in Legal Post (Scotland) Limited was sold. The Council determined that proceeds from the final distribution from Legal Post (£261,585) were donated to the Law Society of Scotland Educational Foundation, a charity registered in Scotland.

Cash

Cash balances at the year-end were £11.29 million, an increase of £559,000 from 2016. The principal factors were the receipt of the final instalment from the premises sale (£1.25m) and a reduction in creditors of £314,000. Subscription income received in advance of 1 November 2017 was £7.10 million.

Pension debt & actuarial movement

The Society is responsible for a defined benefit pension scheme which was closed to future accrual from 1 May 2010. The most recent full actuarial valuation was carried out at 31 March 2016 by a qualified actuary, independent of the scheme's sponsoring employer. The next triennial valuation date is 31 March 2019.

The overall deficit shown by this valuation was £1,722,000 with the value of assets covering 78% of the value of the liabilities. A deficit recovery repayment plan has been agreed with the scheme trustees which has resulted in a contribution of £219,000 on 31 March 2017, and £170,000 per annum thereafter. The Society will also pay £1,000,000 to the Scheme by 31 March 2018. These contributions are designed to remove the deficit by 31 March 2021. The liability is reflected in these accounts using Financial Reporting Standard 102, which involves less prudent assumptions than those applied in the triennial actuarial valuation as explained in note 19.

At 31 October 2017 there was a scheme deficit for financial reporting purposes of £277,000. This compares to a deficit of £1,267,000 at the previous review date. This change is mainly due to higher than expected returns on the Scheme's assets, changes in demographic assumptions in line with the most recent actuarial valuation and the annual employer contributions paid into the Scheme. This has been partially offset by a fall in corporate bond yields which increased the value of the liabilities as at 31 October 2017.

Reserves

The Society's reserves policy is to hold between three and six months' average expenditure. Reserves for this purpose are defined as net current assets plus realisable investments, less pension scheme deficit (from the most recent valuation less recovery plan payments made subsequently).

At 31 October 2017 this figure amounted to £4.94 million, which is between four and five months' average expenditure. The committee regards this level as satisfactory. In monitoring reserves the committee recognises the remaining operating lease commitment for the rent of the Society's premises (note 26).

Review of financial year (ctd.)

Annual report

The Society's annual report includes the president's introduction, chief executive's overview of the year, sections measuring progress made against the corporate plan, a report on governance arrangements, the accounts of the Guarantee Fund and a summary of work on equality and diversity. It is available on the Society's website.

The Society remains committed to achieving continual improvement in its financial performance through:

- achieving efficiencies and cost savings across the business
- improved financial forecasting
- growth of non-subscription incomes
- maintenance of reserves at an appropriate level
- managing historic final salary pension scheme liabilities through close liaison with the scheme's trustees

Key risks

The Society carries out ongoing monitoring and management of the risks it faces. Risks are also considered for each activity within the Society's strategic objectives and annual plan. The risk register is reviewed monthly by the Society's executive team and subject to additional scrutiny by the Audit Committee, Board and internal auditors. Key risks include:

- the independent review of the regulation of legal services established by the Scottish Government, the purpose of which is to make independent recommendations to reform and modernise the framework for the regulation of legal services and complaints handling.
- the remaining liability on the closed final salary pension scheme and exposure to market risk
- GDPR, which provides both commercial and compliance risks
- failure to deliver the Society's strategic objectives

The effectiveness of controls to mitigate every risk on the risk register is continually monitored by the senior leadership team and reported to Audit Committee and Board quarterly.

Financial year 2017/18

The budget approved by the Council for 2016/17 left the cost of the practising certificate unchanged at £550. The retention fee and non-practising member fee also remained unchanged at £100 and £200 respectively.

John Mulholland
Treasurer

2 March 2018

Statement of the Council's responsibilities

The constitution of the Society requires the Council to prepare accounts for each financial year. In preparing those accounts, the Council has undertaken to:

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

The Council has considered the position for the next 12 months and concluded the use of the going concern basis of accounting is appropriate because there are no material uncertainties related to events or conditions that may cast doubt about the ability of the Society to continue as a going concern.

The Council has overall responsibility to prepare annual financial statements for each financial year, which give a true and fair view of the state of affairs of the Society and of the surplus or deficit for that period.

The Council has delegated to the Board its responsibility for the day-to-day operations, including:

- keeping adequate accounting records, which disclose with reasonable accuracy the financial position of the Society
- safeguarding its assets
- taking reasonable steps for the prevention and detection of fraud and other irregularities

The Council is responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in Scotland governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

Finance Committee – Convener’s report

Committee members

John Mulholland (Convener and Treasurer)
Suzanne Dawson (until 31 May 2017)
Graham Matthews (until 31 May 2017)
David Newton
David Preston
Mark Sim
Ken Tudhope (Executive Director of Finance & Operations; Secretary to the committee)

Governance and financial control

The Treasurer chairs the Finance Committee which generally meets four times a year, as well as taking between-meeting decisions remotely. The aim of the Finance Committee is to ensure that annually the Society meets its corporate objectives supported by the effective and efficient use of finances and resources.

In order to achieve this, the Finance Committee will:

- review and finalise the annual budget, in consultation with the Board, Audit Committee and senior management team, for presentation to the Council
- review and, where appropriate, put forward proposals for the alteration of practising certificate fees and subscription levels and bandings
- review quarterly management accounts and make appropriate recommendations
- prepare the Society’s annual accounts and, subject to scrutiny by the Audit Committee and audited by the external auditors, approve them for submission to the Council
- keep under review the level and nature of the Society’s own banking arrangements, investments, borrowings and insurance cover (excluding that relating to insurance of the profession) and take action where necessary or desirable
- determine financial controls and sound financial management
- maintain a register of key risks in relation to finance and resources
- set policy and supervise the procurement process of the Society, including approving the individual award of contracts above a certain threshold amount
- provide advice on any other matters referred to it by the Board, Audit Committee, senior leadership team, or Council

Financial strategy

The financial strategy of the Society is to:

- ensure best value for members’ subscriptions. Best value means value for money can be achieved and demonstrated.
- provide financial resources to support the strategic and annual plans. Prioritisation for financial resources takes place to ensure the most important objectives are achieved. All budget holders receive monthly income and expenditure accounts for their cost centres to enable performance against budget to be continuously monitored.
- maintain reserves at an acceptable level. An acceptable level has been determined to be between three and six average months’ expenditure.

Finance Committee – Convener’s report (ctd.)

Overview

The Committee approved a break-even budgeted for the year to 31 October 2017 prior to actuarial adjustments, with subscription levels frozen. Non-subscription income grew, particularly from investment gains and commercial activity, which counter-balanced additional costs including the Scottish Legal Complaints Commission case, the Scottish Solicitors’ Discipline Tribunal and irrecoverable VAT.

Looking ahead, principal member fee levels were once again frozen for 2017/18 and a break-even budget targeted. The Committee continues to seek stability in fee levels, whilst prudently managing expenditure and monitoring budgets to enable the Society to meet its strategic goals.

The Society is actively seeking partnership opportunities in 2017/18 aimed at providing both a valuable service to members and increase income from source outwith member subscriptions.

John Mulholland
Convener and Treasurer

2 March 2018

Audit Committee – Convener’s report

Committee members

Liam McCabe (Convener)
Simon Brown – resigned 1 September 2017
Abigail Clark
David Mair – appointed 1 June 2017
Amanda Millar – resigned 30 November 2017
Susan Murray – appointed 1 January 2018
Sara Scott
Richard Spilsbury
Eileen Sumpter
Deborah Wilson - appointed 1 January 2018
David Cullen (Secretary)

Governance and membership

The Committee’s membership has changed with the resignations of solicitor Council members Simon Brown and Amanda Miller, and the appointments of solicitor Council members David Mair, Susan Murray and Deborah Wilson.

The Committee’s reporting procedure remained the same as in previous years. The full committee minute is reported to the Society’s Board, with a one page summary report of each committee meeting being given to the Society’s Council. The committee convener also formally reports on the committee’s work at the annual general meeting of the Society. The Secretary to the Committee is the Society’s registrar.

Responsibilities

The work of the Committee is to review and report on the effectiveness of the Society’s arrangements for audit, internal control and risk management. The Committee oversees the appointment of and monitors the work carried out by the Society’s internal and external auditors. Informed by its consideration of the work of the auditors, the Committee comments and makes recommendations on the appropriateness, practical application and effectiveness of the Society’s financial policies and procedures, management controls and its arrangements to identify and manage risk.

The Committee reviews the following at each of its meetings:

- progress by the Society against its corporate plan objectives especially in relation to their financial impact on the Society; and
- the Society’s risk register with emphasis on changes in the risk profile and actions taken to mitigate key strategic risks

Through that regular review the Committee will question the actions and judgements of the Society’s senior leadership team, Board and office bearers in relation to the Society’s financial stewardship, safeguarding of the Society’s assets and the extent to which the Society achieves best value in the acquisition and use of resources.

The Committee oversees the Society’s relations with the external auditors. To this end it receives and comments on the Society’s annual financial statements prior to their approval by Council and receives the report from the Society’s external auditors on their work in forming their opinion on the financial statements.

Audit Committee – Convener’s report (ctd.)

The Committee also commissions and oversees the delivery of an agreed programme of work from its appointed internal auditors. It will also follow up to ensure that recommendations contained in internal audit reports are implemented appropriately and within a reasonable timeframe.

The Committee will from time to time carry out reviews into or report on ad hoc matters as it may consider appropriate or as it is requested to do by Council or the Society’s office bearers in accordance with the Society’s protocols on such matters.

Overview

The Committee met on five occasions this year. The work of the Committee should be seen within the context of the Society’s overall approach to good governance as the Committee plays a key role in holding the Society’s office bearers, Council and senior leadership team to account for the management of risk and the effective operation of all risk management systems. To this end the committee can report that the internal audit system (by Wylie and Bisset an external firm of accountants) completed its third full year of operation. A total of five internal audits were carried out in the year. The internal auditors’ reviews covered the following areas of the Society’s operations:

- Business development and commercial activity
- Confidentiality compliance
- Financial compliance
- Follow-up review of all internal audit recommendations
- Review of Regulatory Subcommittee decision processes

The Committee was satisfied with the overall conclusion of the internal auditors which was that the Society does have adequate and effective risk management controls and governance processes in place to help achieve and in support of the Society’s long term objectives.

The Committee reviews the performance of the Society’s auditors in terms of their performance, cost and independence. A tender exercise was completed just after the financial year end for the position of external auditors to the Society. The Committee will make its recommendation following this tender to members at the Annual General Meeting in May 2018. An overhaul of the principal risk register was carried out to ensure that the principal risks identified are better married to the Society’s five year strategy.

I conclude my report by thanking all committee members for their contributions over the course of this year.

Liam McCabe
Convener

2 March 2018

Independent auditors' report to the members of the Law Society of Scotland

Opinion

We have audited the financial statements of the Law Society of Scotland (the 'Society') for the year ended 31 October 2017 which comprise the consolidated statement of income and retained earnings, the group and society balance sheets, the group cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the group and Society's affairs as at 31 October 2017 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the members of councils' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the members of council have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group or Society's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Members of council are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the Society and its environment obtained in the course of the audit, we have not identified material misstatements in the annual report.

We have nothing to report in respect of the following matters where we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of members of council

As explained more fully in the Statement of Council's Responsibilities, members of council are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the members of council determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, members of council are responsible for assessing the group and the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the members of council either intend to liquidate the group or the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

This report is made solely to the Society's members, as a body, in accordance with relevant legal and regulatory requirements. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Henderson Loggie
Chartered Accountants
Statutory Auditors

2 March 2018

34 Melville Street
Edinburgh
EH3 7HA

Group income and expenditure account

for the year ended 31 October 2017

	Note	2017 £000	2016 £000
INCOME			
Membership	2	7,241	7,097
Other Core Income	3	1,859	2,010
Other Fee Categories	4	781	685
Commercial	5	1,017	832
Other Income	6	604	357
Total Income		11,502	10,981
EXPENDITURE			
Education, Training & Qualifications	7	650	601
Finance & Operations	8	2,610	2,604
Member Services	9	1,687	1,434
Regulation	10	2,736	2,701
External Relations	11	1,515	1,474
Charitable Donation		262	-
Other Operational Charges	12	2,082	2,053
Corporation Tax	14	79	81
Total Expenditure		11,621	10,948
(Deficit)/Surplus for the year		(119)	33
Other Comprehensive Income			
(Deficit)/Surplus for the financial year		(119)	33
Actuarial movement in defined benefit pension scheme		805	(1,495)
Total recognised gains/(losses) for the financial year		686	(1,462)
Statement of changes in equity			
Opening reserves		6,206	7,668
Closing reserves		6,892	6,206

Balance sheet – Group

for the year ended 31 October 2017

	Note	2017 £000	2016 £000
Fixed Assets			
Leasehold improvements	15.1	1,228	1,312
Furniture and Equipment	15.1	729	803
Investments	15.2	2,727	2,399
		<u>4,684</u>	<u>4,514</u>
Current Assets			
Cash in Hand and at Bank		11,286	10,727
Debtors	16	947	2,249
		<u>12,233</u>	<u>12,976</u>
Creditors: amounts falling due within one year *	17	(9,676)	(9,990)
Provisions	18	(72)	(27)
Net Current Assets		<u>2,485</u>	<u>2,959</u>
Net assets excluding pension liability		7,169	7,473
Defined Benefit Scheme - pension liability		(277)	(1,267)
Net assets including pension liability		<u>6,892</u>	<u>6,206</u>
Represented by:-			
Capital Account		<u>6,892</u>	<u>6,206</u>

Approved by the Council of the Law Society of Scotland on 2 March 2018

Graham Matthews, President

Balance Sheet – Society

for the year ended 31 October 2017

	Note	2017 £000	2016 £000
Fixed Assets			
Leasehold improvements	15.1	1,228	1,312
Furniture and Equipment	15.1	729	803
Listed Investments	15.2	2,703	2,317
		<u>4,660</u>	<u>4,432</u>
Current Assets			
Cash in Hand and at Bank		11,038	10,462
Debtors	16	959	2,253
		<u>11,997</u>	<u>12,715</u>
Creditors: amounts falling due within one year	17	(9,675)	(9,965)
Provisions	18	(72)	(27)
Net current assets		<u>2,250</u>	<u>2,723</u>
Net assets excluding pension asset / (liability)		6,910	7,155
Defined Benefit Scheme - pension liability		(277)	(1,267)
Net assets including pension asset / (liability)		<u>6,633</u>	<u>5,888</u>
Represented by:-			
Capital Account		<u>6,633</u>	<u>5,888</u>

Approved by the Council of the Law Society of Scotland on 2 March 2018

Graham Matthews, President

Group cash flow statement

for the year ended 31 October 2017

	2017	2016
	£000	£000
Net cash generated from operating activities	Note 20 452	3,044
Cash flows from investing activities		
Interest and dividends received	360	130
Payments to acquire investments	(477)	(657)
Receipts from sale of investments	368	290
Payments to acquire tangible fixed assets	(144)	(561)
	<hr/> 107	<hr/> (798)
 Increase in cash during the year	 559	 2,246
 Net funds at the start of the year	 10,727	 8,481
 Net funds at the end of the year	 <hr/> 11,286	 <hr/> 10,727

Notes to the financial statements

for the year ended 31 October 2017

Note 1 - Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

Basis of preparation

The financial statements have been prepared in accordance with accounting standards including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland". The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

The financial statements are prepared in £ sterling.

The Council considers it appropriate to prepare the financial statements on a going concern basis. In reaching this view we have reviewed the number of members paying subscriptions and the level of reserves available should there be any unforeseen events.

Basis of consolidation

The consolidated accounts include the accounts of the Society and its subsidiary undertaking, The Law Society of Scotland Services Limited, made up to 31 October 2017.

Leasehold improvements

Leasehold improvements are depreciated over the length of the lease.

Tangible fixed assets

Tangible fixed assets are measured at cost less accumulated depreciation.

Depreciation is calculated to write off the cost of items over their estimated useful lives as follows:

Office machinery	three to five years
Office equipment	three to ten years
Office fixtures and furniture	five to ten years
Motor cars	four years

Investments

Investments comprise investments in quoted and unquoted equity instruments which are measured at fair value where this can be measured reliably. Where fair value cannot be measured reliably then the investment is carried at cost less impairment. Changes in fair value are recognised in income and expenditure. The Group also has one associate for which the cost model has been adopted.

Debtors

Debtors are recognised at the settlement amount due. Prepayments are valued at the amount prepaid.

Notes to the financial statements

for the year ended 31 October 2017

Note 1 - Accounting policies (continued)

Cash

Cash at bank and in hand includes cash and short term highly liquid investments with a short maturity of three months or less from the date of acquisition or opening of the deposit or similar.

Creditors

Creditors and provisions are recognised where the Society has a present obligation resulting from a past event that will probably result in a transfer of funds to a third party and the amount due to settle the obligation can be measured or estimated reliably. Creditors and provisions are normally recognised at their settlement amount.

Pension scheme - defined benefit pension scheme

The Society operates a pension scheme providing benefits based on final pensionable pay (closed to new members from 30 June 2003 and closed to future accrual from 1 May 2010). The assets of the scheme are held separately from those of the Society.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between other income for interest received and, other comprehensive income for actuarial gains and losses.

Employee benefits

The Society contributes to a group personal pension plan on behalf of certain employees. The assets of this scheme are held separately from those of the Society in an independently administered fund. The amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period. Other short term employee benefits are recognized as an expense in the period in which they are incurred.

Provision for liabilities

Where the Society requests the court to appoint an external judicial factor, the Society has a contractual obligation to meet any shortfall where the estate under administration is insufficient to meet the commission payable to the judicial factor as fixed by the Accountant of Court. A provision for liabilities and charges is recognised in accordance with Financial Reporting Standard 102. In cases where the judicial factor is internal and additional costs require to be incurred in order to carry out the work, a provision is also made. During the administration of an estate, the provision is adjusted based on the best available information.

Income recognition

The Society recognises all categories of income on an accruals basis, recognising income as goods and services are delivered. Practising certificate income is recognised in the period to which the practising certificate relates and only when payment is received.

Income received in advance which relates to future periods or where services have not yet been provided or goods delivered are held within liabilities as income in advance.

Expenditure

Expenditure is recognised on an accruals basis as a liability is incurred which is as soon as there is a legal or constructive obligation committing the Society to the expenditure. Running costs include travel, accommodation, legal fees, professional subscriptions, and other direct costs where applicable.

Note 1 - Accounting policies (continued)

Taxation

The Society is liable for corporation tax on interest and dividends, chargeable investment gains and publication royalty payments. Full provision is made for corporation tax on assessable income

Judgements in applying accounting policies and key sources of estimation uncertainty

In the application of the Society's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

In preparing these financial statements, the directors have made the following judgements:

- Actuarial assumptions in respect of the defined benefit pension scheme. In making these assumptions, advice has been taken from an independent qualified actuary. The assumptions are all shown in note 19.
- Tangible fixed assets are depreciated over a period to reflect their estimated useful lives. The applicability of the assumed lives is reviewed annually, taking into account factors such as physical condition, maintenance and obsolescence.
- Fixed assets are also assessed as to whether that are indicators of Impairment. This assessment involves consideration of the economic viability of the purpose for which the asset is used.
- Determine whether leases entered into by the group as a lessor are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.

The following are the Groups key sources of estimation uncertainty:

- The value of the unlisted Investment is valued using a discounted cashflow methodology but there is an inevitable degree of judgement involved in that each company is unique and value can only ultimately be reliably tested in the market itself.
- Deferred tax has been estimated based on available future corporation tax rates. It is not known what the corporation tax rate will be when the investments are sold.

Non-consolidated entities

The following entities are not consolidated into the financial statements as they are not considered to be subsidiaries, associates or joint ventures as defined by FRS102; The Scottish Solicitors Guarantee Fund, The Scottish Solicitors' Benevolent Fund and The Law Society of Scotland Education Foundation.

The results of the Scottish Solicitors' Guarantee Fund are not included with the Law Society of Scotland's financial statements as the Fund is considered to be held on Trust purely for the specific purpose for which the Fund was created under statute and the Society does not have the right to access any of the Fund's assets for its own purposes. As the Society does not have control or significant influence and does not derive anything other than inconsequential indirect benefit.

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2017

2017 2016
£000 £000

Note 2 - Membership

Practising Fee	6,073	5,958
Non - Practising Membership Fees	50	49
Retention Fees	1,118	1,090
	7,241	7,097

Note 3 - Other core income

Accounts fees from Members	1,416	1,435
Judicial Factor Commission	256	408
Inspection Fees	33	26
SSDT Costs Recovered	154	141
	1,859	2,010

Note 4 - Other fee categories

Retention fees	246	239
Registered Foreign Lawyers	257	181
Examination & Admissions	171	167
Other Income (Paralegals, notaries, incorporations)	107	98
	781	685

Note 5 – Commercial

Annual Conference	28	31
Annual Conference Sponsorship	40	26
Member Services for CPD	482	335
Sponsorship/Business Development	91	68
Service Provider Scheme	28	21
Journal	253	247
Publications	95	104
	1,017	832

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2017

	2017	2016
	£000	£000
Note 6 - Other Income		
Interest & Dividends Received	360	130
Investment Gain /(Loss)	25	(15)
Unrealised Investment Gain/(loss)	194	228
Other Income	25	14
	<u>604</u>	<u>357</u>

Note 7 - Education, Training & Qualifications

Employment costs	488	452
Travel and catering	53	35
Fees and remuneration	38	52
Diversity running costs	12	12
Convenors' Compensation	8	12
General expenditure	51	38
Total Education, Training & Qualifications	<u>650</u>	<u>601</u>

Note 8 - Finance & Operations

Council & Board

Travel & Catering	89	93
Training	9	15
AGM & SGM	1	1
President, Vice President compensation	114	114
Board Compensation	24	21
Other	22	4
	<u>259</u>	<u>248</u>

Corporate Office

Employment Costs	291	332
Travel and catering	17	23
Corporate Office General Fees	1	3
	<u>309</u>	<u>358</u>

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2017

	2017	2016
	£000	£000

Note 8 - Finance & Operations (ctd.)

Employment costs	370	346
Conveners' compensation	5	(9)
Travel and catering	7	11
Registrars - other expenses	2	13
Smartcard costs	61	55
Paralegals	9	7
General expenses	18	16
	472	439
 Finance, IT & Central Operations		
Finance Employment costs	212	208
IT Employment costs	268	279
Central Operations Employment costs	295	293
Facilities - printing & photocopying	54	43
Conveners' Compensation	5	5
IT Repairs & Maintenance	301	291
Disaster Recovery	7	3
Administration - postage costs	136	146
Administration - telephone costs	34	41
Administration - general costs	43	56
Overhead Recovery - SLAB, SSGF	(101)	(100)
Finance - general costs	42	41
	1,296	1,306
 Human Resources		
HR Employment costs	101	85
Advertising and Recruitment costs	5	13
Staff Training	69	73
Fees and charges	3	3
Employee Protection	41	28
Employee Benefits	44	36
Other Operational costs	11	15
	274	253
 Total Finance & Operations	 2,610	 2,604

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2017

	2017	2016
	£000	£000
Note 9 - Member Services		
Note 9 - Member Services		
Employment costs	387	287
Employment costs - Professional Practice	244	222
Conveners' compensation	44	28
Annual Conference	52	49
Marketing	34	35
Professional Support - travel & catering	57	68
Professional Support - other expenses	51	13
Professional Practice - running costs	56	17
	925	719
Commercial		
Employment Costs	265	220
Business development costs	8	13
Events	234	207
Journal - production and distribution costs	245	237
Journal - commission	10	38
	762	715
Total Member Services	1,687	1,434

Note 10 - Regulation

Employment Costs	232	239
Employment Costs - Complaints investigation	622	588
Employment Costs - Financial Compliance & Interventions	947	926
Conveners' Compensation	29	25
SSDT Expenditure	570	610
Regulation - travel and catering	22	22
Regulation - other expenses	16	34
Licensed Providers	-	22
Judicial Factor costs	42	116
Other Financial Compliance costs	97	119
SLCC Judicial Review	159	-
Total Regulation	2,736	2,701

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2017

2017 2,016
£000 £000

Note 11 - External relations

Employment Costs	873	819
Society Stakeholder Engagement	125	137
Conveners' Compensation	40	24
Adverts, monitoring, photo & marketing	75	80
Consultants, Public Info & Consumer Experience	39	11
Research	46	58
ABA & CBA	7	6
IBA	40	17
CCBE	41	35
Commonwealth Law	9	2
Brussels Office	118	114
Corporate Communication - other costs	26	59
External Relations - travel costs	30	37
External Relations - other costs	46	75
Total External Relations	1,515	1,474

Note 12 – Other operational charges

VAT non recoverable	552	480
Property rent, rates and service charges	758	798
Other Property Costs	231	229
Audit Fee	31	38
Professional Fees	44	32
Investment Management Fee	23	25
Depreciation	303	382
(Gain)/Loss on Sale of Fixed Assets	-	(22)
Final Salary Pension - Fees	106	100
Final salary pension - Interest	34	(9)
	2,082	2,053

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2017

2017 2016
£000 £000

Note 13 - Analysis of commercial activity

a) The Journal

Income (note 5)	253	247
Expenditure	(255)	(275)
Deficit for period	<u>(2)</u>	<u>(28)</u>

b) Publications

Income (note 5)	95	104
Expenditure (note 9)	-	-
Surplus for period	<u>95</u>	<u>104</u>

c) Events & sponsorship

Income - events (note 5)	482	335
- sponsorship (note 5)	91	68
Expenditure - events	(234)	(207)
Surplus for period	<u>339</u>	<u>196</u>

d) Annual conference & in-house lawyer events

Income – delegate fees & sponsorship (note 5)	68	57
Expenditure (note 9)	(52)	(49)
Surplus for period	<u>16</u>	<u>8</u>

e) Service provider scheme:

Income (note 5)	28	21
Expenditure	-	-
Surplus for period	<u>28</u>	<u>21</u>

f) Staff costs (note 9)

	(265)	(220)
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Overall surplus for year

	<u>211</u>	<u>81</u>
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Notes to the Financial Statements (ctd.)

for the year ended 31 October 2017

	2017 £000	2016 £000
Note 14 – Corporation tax		
Corporation tax on operating activities:		
Current corporation tax charge	34	38
Movement in deferred tax provision	45	43
	<u>79</u>	<u>81</u>
Reconciliation:		
Surplus for the year before tax	-	114
Corporation taxation at 19% (2016 - 20%)	-	(23)
Income not subject to corporation tax	(2,156)	(2,160)
Expenditure not allowable for corporation tax	2,193	2,175
Adjustments to Prior Periods	(3)	-
	<u>34</u>	<u>38</u>

The majority of the Society's income (and related expenditure) is not subject to corporation tax.

Note 15 - Fixed assets

	Leasehold improvements £000	Office furniture & equipment £000	Total £000
Cost			
At 1 November 2016	1,392	3,798	5,190
Additions	10	134	144
Disposals	-	-	-
At 31 October 2017	<u>1,402</u>	<u>3,932</u>	<u>5,334</u>
Depreciation			
At 1 November 2016	80	2,995	3,075
Charge for year	94	208	302
On disposals	-	-	-
At 31 October 2017	<u>174</u>	<u>3,203</u>	<u>3,377</u>
Net book value 31 October 2017	<u>1,228</u>	<u>729</u>	<u>1,957</u>
Net book value 31 October 2016	<u>1,312</u>	<u>803</u>	<u>2,115</u>

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2017

	2017	2017	2016	2016
	Group	Society	Group	Society
	£000	£000	£000	£000

Note 15 - Fixed assets (continued)

15.2 Investments

Cost or Market value

At 1 November 2016	2,399	2,317	1,819	1,819
Additions	477	477	657	575
Disposal proceeds	(368)	(368)	(290)	(290)
Realised (loss) on disposals	25	25	(15)	(15)
Unrealised gains	194	252	228	228
At 31 October 2017	<u>2,727</u>	<u>2,703</u>	<u>2,399</u>	<u>2,317</u>

	Group	Society	Group	Society
	2017	2017	2016	2016
	£000	£000	£000	£000
<i>Comprises:</i>				
Listed investments	2,703	2,703	2,317	2,317
Unlisted investments	24	-	82	-
	<u>2,727</u>	<u>2,703</u>	<u>2,399</u>	<u>2,317</u>

Note 16 - Debtors

Due within one year:

Trade debtors	327	327	221	221
Other debtors	171	183	1,416	1,420
Prepayments	449	449	612	612
	<u>947</u>	<u>959</u>	<u>2,249</u>	<u>2,253</u>

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2017

	Group	Society	Group	Society
	2017	2017	2016	2016
	£000	£000	£000	£000

Note 17 - Creditors: amounts falling due within one year

Fees in advance	7,109	7,109	7,762	7,762
Trade creditors	378	378	794	794
Corporation tax	35	35	49	37
Other taxation and social security	219	219	161	161
Other creditors	518	518	500	487
Accruals	1,417	1,416	724	724
	9,676	9,675	9,990	9,965

Note 18 - Provisions

Deferred tax	72	72	27	27
	72	72	27	27

Note 19 – Pension Schemes

19.1 Defined contribution pension scheme

The Society operates a group personal pension on behalf of certain employees. The pension cost charge for the year in respect of those employees represents contributions payable by the Society to the scheme and amounted to £417,000 (2016: £385,000). Contributions outstanding at 31 October 2017 amounted to £34,000, being contributions for the month of October 2017.

19.2 Defined benefit pension scheme

The Law Society of Scotland operates a defined benefit pension arrangement called the The Law Society of Scotland Staff Retirement Benefits Scheme. The Scheme provides benefits based on final salary and length of service on retirement, leaving service or death.

The Scheme is subject to the Statutory Funding Objective under the Pensions Act 2004. A valuation of the Scheme is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process the Society must agree with the trustees of the Scheme the contributions to be paid to address any shortfall against the Statutory Funding Objective.

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2017

Note 19 – Pension Schemes (continued)

The most recent comprehensive actuarial valuation of the Scheme was carried out as at 31 March 2016

The Society expects to contribute £219,000 to the scheme during the year to 31 October 2017.

	31 October 2017	31 October 2016
Discount rate	2.80% pa	3.00% pa
Inflation assumption (RPI)	3.50% pa	3.70% pa
Inflation assumption (CPI)	2.80% pa	3.00% pa
Pension increases – CPI limited to 5%	2.80% pa	3.00% pa
Pension increases – CPI limited to 3%	2.50% pa	2.60% pa
Pension increases – CPI limited to 2.5%	2.20% pa	2.30% pa
Revaluation in deferment	2.80% pa	3.00% pa
Post retirement mortality assumption	110% of S2PxA, projected with CMI 2016 - long term rate of improvement 1.5% pa	110% of S1PxA, projected with CMI 2012 - long term rate of improvement 1.5% pa
Tax free cash	Members are assumed to convert 25% of their pension into cash at retirement	Members are assumed to convert 25% of their pension into cash at retirement

Assets

The major categories of assets as a percentage of total assets are as follows:

Asset category	31 October 2017
Corporate bonds	31%
Diversified funds	68%
Cash	Less than 1%
Total	100%

The return on the assets over the period was £783,000

The assets do not include any investment in the shares of the Company.

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2017

Note 19 – Pension Schemes (continued)

Amounts recognised in the Balance Sheet at 31 October 2017	Value at 31 October 2017	Value at 31 October 2016
Fair value of assets	£7,448,000	£6,776,000
Present value of funded obligations	(£7,725,000)	(£8,043,000)
Surplus/(deficit)	(£277,000)	(£1,267,000)
Impact of asset ceiling	£0	£0
Net defined benefit asset/(liability) at 31 October 2017	(£277,000)	(£1,267,000)

Amounts recognised in the Profit & Loss account over the year	31 October 2017	31 October 2016
Current service cost	£0	£0
Interest on liabilities	£236,000	£240,000
Interest on assets	(£202,000)	(£249,000)
Past service cost	£0	£0
Settlement cost	£0	£0
Total	£34,000	(£9,000)

Remeasurements over the year	31 October 2017	31 October 2016
Loss (gain) on scheme assets in excess of interest	(£581,000)	(£618,000)
Experience losses (gains) on liabilities	£80,000	£322,000
Losses (gains) from changes to demographic assumptions	(£377,000)	£0
Losses (gains) from changes to financial assumptions	£73,000	£1,911,000
Changes in effect of asset ceiling	£0	£0
Total remeasurements	(£805,000)	£1,615,000

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2017

Note 19 – Pension Schemes (continued)

Reconciliation of assets and Defined Benefit Obligation

The change in the assets over the period was:

	31 October 2017	31 October 2016
Fair value of assets at the beginning of the period	£6,776,000	£6,252,000
Interest on assets	£202,000	£249,000
Company contributions	£219,000	£219,000
Contributions by Scheme participants	£0	£0
Benefits paid	(£330,000)	(£562,000)
Change due to settlements	£0	£0
Return on Scheme assets less interest	£581,000	£618,000
Fair value of assets at the end of the period	£7,448,000	£6,776,000

The change in the Defined Benefit Obligation over the period was:

	31 October 2017	31 October 2016
Defined Benefit Obligation at the beginning of the period	£8,043,000	£6,132,000
Current service cost	£0	£0
Contributions by Scheme participants	£0	£0
Past service cost	£0	£0
Interest cost	£236,000	£240,000
Benefits paid	(£330,000)	(£562,000)
Change due to settlements	£0	£0
Experience (gain)/loss on defined benefit obligation	£80,000	£322,000
Changes to demographic assumptions	(£377,000)	£0
Changes to financial assumptions	£73,000	£1,911,000
Defined Benefit Obligation at the end of the period	£7,725,000	£8,043,000

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2017

Note 20 - Cash flow statement

Reconciliation of surplus to net cash inflow from operating activities

	2017	2016
	£000	£000
(Deficit)/surplus for the year	(119)	33
Interest and dividends receivable	(360)	(139)
Notional interest charge on pension liability	34	-
Taxation charge	79	81
Depreciation charges	302	360
Loss/(gain) on sale of fixed assets and investments	(219)	(213)
Pension scheme - contributions	(219)	(219)
Change in debtors	1,302	2,663
Change in creditors & provisions	(299)	1,030
Cash from operations	501	3,596
Taxes paid	(49)	(552)
Net cash generated from operating activities	<u>452</u>	<u>3,044</u>

Note 21 – Related party transactions

21.1 Scottish Solicitors' Guarantee Fund

Members of the Client Protection Fund Committee, which oversees the Scottish Solicitors' Guarantee Fund, are also members of the Council of the Law Society of Scotland. At the year-end, a balance of £360,743 (2016 - £307,055) was due to the Scottish Solicitors' Guarantee Fund, which included subscriptions received before the year-end for the 2017/17 subscription year. During the year overheads of £100,600 were charged from the Law Society of Scotland to the Guarantee Fund (2016 - £100,300).

21.2 Scottish Solicitors' Benevolent Fund

Three trustees of the Scottish Solicitors' Benevolent Fund are also members of the Council of the Law Society of Scotland. Two trustees of the Scottish Solicitors' Benevolent Fund are employees of the Law Society of Scotland. At the year-end, a balance of £310 (2016 - £10,015) was due to the Law Society of Scotland.

21.3 The Law Society of Scotland Services Limited

The above company is a wholly owned subsidiary of the Society. The proceeds were donated to the Lawscot Foundation, a registered charity. At the year-end a balance of £12,067 was due to (2016 – £3,804 due to) the Law Society of Scotland. The Law Society of Scotland Services Limited post-tax loss for the year to 31 October 2017 was £59,547 (2016 - £49,386 profit). During the year the Society purchased services from DX Network Services Ltd. who acquired Legal Post (Scotland) Limited in the year, amounting to £118,547 (2016 - £109,845).

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2017

Note 21 – Related party transactions (continued)

21.4 Legal services

Some Council members are partners of firms instructed by the Law Society of Scotland to provide legal services to the Society. Firms of solicitors are appointed to the Society's panel after a competitive tendering process. None of the office bearers' firms provided any services to the Society in the year.

21.5 LawCare

During the year the Society paid £22,400 (2016 - £20,400) to LawCare, a registered charity, for pastoral care services. An employee of the Society is a director of LawCare.

21.6 Pritchard Educational Trust

During the year the Society paid £75 (2016 - £210) to the Pritchard Educational Trust, a registered charity. The Society's president and vice president are trustees. £20,465 was due from the trust at the year-end (2016; £20,435).

21.7 Law Society of Scotland Educational Foundation

During the year the Society established Law Society of Scotland Educational Foundation, a registered charity. One staff member is a trustee. During the year The Law Society of Scotland Services Limited donated £261,585 to the Law Society of Scotland Educational foundation.

Note 22 - Committee convener allowances

	2017
	£
Regulatory committee	7,500
Admission committee	5,000
Appeal & reviews committee	7,500
Civil aid quality assurance committee	7,500
Client protection fund committee	7,500
Complaints committee	5,000
Education & training (standards setting) committee	5,000
Practicing certificate committee	5,000
Professional conduct sub-committee 1	7,500
Professional conduct sub-committee 2	7,500
Rules, waivers & guidance committee	7,500
Access to justice committee	7,500
Civil justice committee	2,500
Criminal law committee	7,500
Equality & diversity committee	2,500
Finance committee	5,000
In-house lawyers committee	7,500
Insurance committee	7,500

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2017

Note 22 - Committee convener allowances (continued)

Civil legal aid committee	7,500
Criminal legal aid committee	7,500
Professional practice committee	5,000
Property law committee	7,500
Public policy committee	7,500
Remuneration committee	2,500
Technology committee	2,500

Note 23 - Employment costs

	2017	2016
	£000	£000
Education, training & qualifications	487	452
Finance & operations	1,537	1,544
Member services	892	730
Regulation	1,791	1,753
External relations	870	819
	<u>5,577</u>	<u>5,298</u>
<i>24.2 By item:</i>		
Gross payroll	4,674	4,461
Employer's national insurance	486	452
Employer's pension contributions	417	385
	<u>5,577</u>	<u>5,298</u>
Staff practising certificates	<u>17</u>	<u>17</u>
	<u>5,594</u>	<u>5,315</u>

The CEO's package was £ 225,290 (2016 - £216,400).

The rest of the senior leadership team comprises the executive directors of the following five areas: education, training & qualifications; external relations; finance & operations; member services and regulation. The total gross remuneration including pension contributions was £518,040(2016 - £482,710). Including Employers National Insurance of £74,600 (2016 - £70,240).

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2017

Note 24 – External auditors' remuneration

	2017	2016
	£000	£000
Group external audit fees	18	19
Other accounting and tax services	11	5
	<u>29</u>	<u>24</u>

Note 25 - Contingent liabilities

In appointments of external Judicial Factors, the Society has an obligation to meet any shortfall where the estate under administration is insufficient to meet the commission payable to the Judicial Factors as fixed by the Accountant of Court. In cases where a potential shortfall is identified a provision representing the best available estimate of the liability is made within the accounts. However, the Society may also have a liability in other cases where a Judicial Factor has been appointed but it is not possible to quantify the liability at the balance sheet date. The existence of these liabilities depends on the funds collected by the Judicial Factor in the administration of the estate and the Society may receive a refund or have to make further payments.

Note 26 - Commitments under Operating Leases

At 31st October the Society had the following minimum payments under a non-cancellable operating lease:

	Group	Society	Group	Society
	2017	2017	2016	2016
	£000	£000	£000	£000
Land and Buildings:				
Within 1 year	-	-	-	-
Within 2 to 5 years	2,204	2,204	1,567	1,567
In 5 years or more	4,966	4,966	5,603	5,603
	<u>7,170</u>	<u>7,170</u>	<u>7,170</u>	<u>7,170</u>

Operating lease payments represent total rentals in respect of the Society's office premises at Atria One, Morrison Street Edinburgh from 1st November 2017 until the expiry date of the lease, 16th August 2029. Renewal options exist on 17th August 2020 and 17th August 2025. The figures exclude any irrecoverable VAT, which will vary from year to year depending on income sources.