

The Law Society

Report and Financial Statements

31 December 2003

The Law Society

Report and financial statements 2003

Contents	Page
Council's report and statement of the Council's responsibilities	1
Corporate governance	4
Statement of going concern	6
Independent auditors' report to the members of The Law Society	7
Consolidated income and expenditure account	8
Consolidated balance sheet	9
Consolidated cash flow statement	10
Notes to the consolidated cash flow statement	11
Income and expenditure account	13
Balance sheet	14
Notes to the accounts	15

The Law Society

Council's report and statement of Council's responsibilities (continued)

The Main Board and the Finance & Resources Board are responsible for ensuring proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Society. They are also responsible for the system of internal control, for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors of the companies controlled by the Society, and whose accounts are consolidated with those of the Society, are required under the Companies Act 1985 to prepare financial statements, keep proper accounting records and safeguard the assets of the companies in a manner comparable to that described above.

The Main Board was formed on 1 July 2001. Its membership from 1 January 2003 to 31 December 2003 was as follows:

Peter Williamson	(President from 17 July 2003, having been Vice President)
Carolyn Kirby	(President until 17 July 2003)
Edward Nally	(Vice President from 17 July 2003, having been Deputy Vice President)
Kevin Martin	(Deputy Vice President from 17 July 2003)
Angus Andrew	(resigned 5 March 2004)
Hilary Siddle	
Paul Gilbert	(resigned 1 August 2003)
Rodney Warren	
Andrew Holroyd	
Geoffrey Sandercock	(Treasurer)
Richard Hegarty	(appointed 17 July 2003)
Fiona Woolf	(appointed 30 September 2003)
Janet Paraskeva*	(Chief Executive)
Evlynnne Gilvarry* (non-voting)	(Director of Representation and Law Reform)
Bruce Minty* (non-voting)	(Director of Finance and Resources)
Russell Wallman* (non-voting)	(Director of Strategic Policy)
Stuart Bushell* (non-voting)	(Director of Regulation, Standards)
Alison Crawley* (non-voting)	(Director of Regulation, Compliance)
Frances Low* (non-voting)	(Director of Legal Services, appointed 28 July 2003)
Ian Wright** (non-voting)	(Director of Consumer Complaints, appointed 12 January 2004)

* denotes members of the Senior Management Team at 31 December 2003.

** denotes member of the Senior Management Team but not a member of the Main Board.

The membership of the Finance & Resources Board from 1 January 2003 to 31 December 2003 was as follows:

Geoffrey Sandercock	(Chairman)
Robin ap Cynan	
Robin Healey	
Derek French	
Andrew Caplen	
John Pickup	
Philip Hamer	

The Law Society

Council's report and statement of Council's responsibilities (continued)

The membership of the Audit Committee from 1 January 2003 to 31 December 2003 was as follows:

Simon Osborne	(Acting Chairman until 22 February 2004)
Stephen Brooker	(Chairman from 23 February 2004)
Richard Bagley	
Peter Davies	
Ian Dinwiddie	(retired 31 August 2003)
Michael Lawson	
Huw Thomas	
Pauline McBride	
Sunil Kambli	(appointed 15 October 2003)
Kevin Mortell	(appointed 15 October 2003)

Simon Osborne assumed the role of acting Chairman pending the recruitment and appointment of a permanent Chairman.

The membership of the Remuneration Committee from 1 January 2003 to 31 December 2003 was as follows:

Colin Harris	(Chairman)
Geoffrey Sandercock	
Fiona Woolf	
Richard Bagley	
Martyn McCarthy	
Simon Osborne	(resigned 31 August 2003)

The Law Society

Corporate governance

Corporate governance is the system by which companies are directed and controlled. The Cadbury Committee sought to strengthen the financial aspects of corporate governance by reviewing the structure and responsibilities of boards and directors, the role of auditors and the rights and responsibilities of shareholders. This was supplemented by the Greenbury and Hampel Committee reports which, together with the Cadbury guidance, were amalgamated to form the Combined Code (“the Code”).

The Society shares the Code’s aims and has voluntarily decided to comply with its requirements, as indicated by the formal statements elsewhere in these accounts. As the management structure of the Society is not the same as that of a registered company, some of the Code’s provisions are not directly applicable. The Society has complied with the Code provisions which are assessed as relevant to the Society save where otherwise identified, as set out below.

Council Members

The Society has a two-tier governance scheme, with the Council maintaining strategic oversight but delegating most functions to the Main Board. In a wider sense all Council Members can be taken as directors for the purposes of the Code, though for most of the specific functions in the Code the Main Board is the equivalent of a plc Board of Directors. Council members are elected for a fixed term, and the Council has specific responsibilities (governed by statute and the Society's Charter and Regulations). The Council, the Office Holders and the Chief Executive have separate responsibilities. There is no direct equivalent of non-executive directors, although the Council has five Lay members.

Remuneration

The Council Members only receive expenses; they are not remunerated. However, there are schemes in place for compensating the following groups:

- Office Holders or their Firms or employers;
- the five Lay Members; and
- the members of the Main Board

These schemes are approved by the Council.

A Remuneration Committee advises on any recompense made to Council Members, and oversees the remuneration packages of the Chief Executive and Senior Management Team.

Accountability and Audit

The provisions of this section of the Code are all met, except that there are no interim or price-sensitive reports to include in the assessment of the Society's financial position and prospects made in the Financial Statements. There is an organisational structure with defined roles for the Main Board, the Finance & Resources Board, and the Audit Committee. There is also an established Internal Audit unit. For 2002 an annual review of internal control has been undertaken. The Internal Control Statement resulting from this review appears below.

Audit Committee

The members of the Audit Committee are listed on page 3. The Committee met seven times in 2003. Its terms of reference comply with the Code, and include responsibility for the review of internal control and the overseeing of action required as a result of matters raised by the external auditors. The Committee also reviews the plans and monitors the progress of the Internal Audit Unit.

The Law Society

Corporate governance (continued)

Internal control

The Society recognises the potential value of the internal control regime in the Combined Code, and decided to adhere voluntarily to all those parts of it which are applicable. It completed the transitional arrangements to do this by 31 December 2001.

In accordance with this approach the Society reports as follows:

Internal Control

Although the Council is the Law Society's governing body, it gave specific responsibility for internal control to the Main Board from 1 July 2001. The Main Board is therefore primarily responsible for reviewing the effectiveness of the Society's system of internal control.

The systematic process of identifying, evaluating and managing the Society's significant risks continued during 2003, as part of the new corporate planning system. The Main Board has twice received the strategic risk register and the updated action plans associated with it. This is in accordance with the prescription in the internal control guidance for directors on the Combined Code.

The Main Board has had throughout the year regular progress reports on the achievement of Strategic Objectives and any related financial implications and control issues. It has where necessary convened unscheduled meetings to deal with significant issues (e.g. Programme Engineer). The Audit Committee has monitored risk and control issues, including:

- i) action taken in response to the external auditors' management letter in respect of the 2002 accounts; and
- ii) the work of the Internal Audit Unit.

Following recommendations to the Council, the Remuneration and Scrutiny Committees were established in 2001. The Scrutiny Committee reviews the exercise of delegated powers by the Main Board and its Subsidiary Boards. The Remuneration Committee advises the Chief Executive and the Office Holders on remuneration for the Chief Executive and the members of the senior management team.

On 29 April 2004 the Main Board completed its review of the system of internal control for the year ended 31 December 2003, taking account of material developments since the year end. The review was performed on the basis of the criteria in 'Internal Control Guidance for Directors on the Combined Code', issued in September 1999.

This review noted that the system of internal control introduced in 2001 accords with the principles of the 'Combined Code' on Corporate Governance and has made progress on integrating risk assessment into its control process. There is further work to do on this. Nevertheless the framework was sufficient to identify and address the key control issues in dynamic and pressured circumstances.

The Law Society

Statement of going concern

In arriving at its decision to prepare financial statements on the going concern basis, the Council has considered a number of matters.

At present the Society has certain powers under the Solicitors Act 1974 (as revised) including the power, under order of the Master of the Rolls with the concurrence of the Lord Chancellor and the Lord Chief Justice, to charge a practising certificate fee. Although the Lord Chancellor has exercised powers under the Access to Justice Act 1999 to restrict the uses to which the practising certificate can be put, the Council of the Society is unaware of any intentions to revoke the Society's Charter or primary statutory powers. It is also unaware of any moves for the practising certificate fee order made by the Master of the Rolls to be rescinded.

The Council approves each year on an annual basis, revenue and capital budgets. The Council, the Main Board and Finance & Resources Board approved the original budgets and forecasts for 2004 and these are subject to continuing review by the Chief Executive in terms of actual performance against plan.

The Council is of the opinion that the Society will have sufficient resources to meet its liabilities as they fall due over 2004.

As a result, the Council has satisfied itself that the Society is a going concern.

Review of the Regulation of Legal Services

The Government has commissioned Sir David Clementi to carry out a review of the regulation of legal services aimed at promoting competition and innovation and improving services for the customer. Sir David published a consultation document in the March of 2004, and is expected to report by the end of 2004.

Sir Davids terms of reference are:

- To consider what regulatory framework would best promote competition, innovation and the public and consumer interest in an efficient, effective and independent legal sector.
- To recommend a framework which will be independent in representing the public and consumer interest, comprehensive, accountable, consistent, flexible, transparent, and no more restrictive or burdensome than is clearly justified.
- To make recommendations by 31 December 2004.

The review will raise important questions about the Society's role and structure. The Society will play a full part in the consultation debate.

Legal Services Complaints Commissioner

The Government has indicated that it intends to appoint a Legal Services Complaints Commissioner in 2004. It is likely that the Commissioner will have significant powers and will be able to require the Society to pay a penalty if it:

- fails to submit a plan which the Commissioner considers adequate for securing that such complaints are handled effectively and efficiently with it.
- submits such a plan but fails to handle complaints in accordance with it.

The Society has made significant improvements in 2003 in its complaints handling performance.

Independent auditors' report to the members of The Law Society (the 'Society')

We have audited the financial statements of the Society for the year ended 31 December 2003 which comprise the income and expenditure accounts, the balance sheets, the consolidated cash flow statement, the reconciliation of net cash flow to movement in net funds and the notes to the consolidated cash flow statement and related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Society's members as a body, in accordance with the by-laws of the Society. 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 auditors' 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.

Respective responsibilities of the Council and auditors

As described in the statement of Council's responsibilities, the Council, through the Main Board and the Finance & Resources Board, is responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view. We also report if, in our opinion, the Society has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the Council's report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Finance & Resources Board in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Society and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us 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. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Society and the group as at 31 December 2003 and of its surplus for the year then ended.

Deloitte & Touche LLP

Chartered Accountants

London

2004

The Law Society

Consolidated income and expenditure account Year ended 31 December 2003

	Note	2003 £'000	2002 £'000
Income – group and joint venture			
Practising certificates and other fees	2	68,337	61,195
Investment income and interest	3	1,917	1,815
Other income (including joint venture)	4	24,174	23,387
Grant from the Law Society Charity		1,048	1,103
		<hr/>	<hr/>
		95,476	87,500
Less: share of joint venture income	9	(4,214)	(3,883)
		<hr/>	<hr/>
		91,262	83,617
Expenditure			
Administration expenses	5	80,989	65,406
Establishment expenses	5	5,978	4,361
Donation to the Law Society Charity	5	2,520	2,000
Donation to the Law Society Bursary Fund	5	80	150
Exceptional contribution to the Law Society Pension Scheme	5	-	6,464
		<hr/>	<hr/>
		89,567	78,381
		<hr/>	<hr/>
Surplus for the financial year	13	<u>1,695</u>	<u>5,236</u>

All transactions are derived from continuing operations in the United Kingdom.

The Society's share in the operating result of its joint venture (see note 10) was £nil (2002 - £nil).

There are no recognised gains and losses for the current financial year and preceding year other than as shown in the consolidated income and expenditure account above.

The Law Society

Consolidated balance sheet 31 December 2003

	Note	2003 £'000	2002 £'000
Fixed assets			
Tangible assets	7	46,545	37,432
Investment in joint venture:	9		
Share of gross assets		1,543	1,170
Share of gross liabilities		(1,543)	(1,170)
		<u>46,545</u>	<u>37,432</u>
Current assets			
Stocks		268	288
Debtors	10	7,301	6,852
Cash at bank and in hand		77,099	70,920
		<u>84,668</u>	<u>78,060</u>
Creditors: amounts falling due within one year	11	<u>(76,651)</u>	<u>(65,151)</u>
Net current assets		<u>8,017</u>	<u>12,909</u>
Total assets less current liabilities		54,562	50,341
Provisions for liabilities and charges	12	<u>(3,559)</u>	<u>(1,033)</u>
Total net assets		<u>51,003</u>	<u>49,308</u>
Represented by:			
Accumulated fund	13	<u>51,003</u>	<u>49,308</u>

The financial statements were approved by the Council of the Law Society on 13 May 2004.

Signed on behalf of the Council of the Law Society

P Williamson PRESIDENT

G Sandercock TREASURER

The Law Society

Consolidated cash flow statement Year ended 31 December 2003

	Note	2003 £'000	2002 £'000
Net cash inflow from operating activities	I	16,691	18,576
Returns on investments and servicing of finance	II	1,917	1,815
Taxation		(325)	260
Capital expenditure and financial investment	II	(12,104)	(2,317)
Cash outflow before management of liquid resources and financing	III	6,179	18,334
Management of liquid resources	IV	(21,500)	(3,500)
(Decrease)/increase in cash in the year		<u>(15,321)</u>	<u>14,834</u>

Reconciliation of net cash flow to movement in net funds

		2003 £'000	2002 £'000
(Decrease)/increase in cash in the year	III	(15,321)	14,834
Cash used to increase liquid resources		<u>21,500</u>	<u>3,500</u>
Change in net funds resulting from cash flows		6,179	18,334
Net funds at 1 January		<u>70,920</u>	<u>52,586</u>
Net funds at 31 December		<u><u>77,099</u></u>	<u><u>70,920</u></u>

The Law Society

Notes to the consolidated cash flow statement Year ended 31 December 2003

I. RECONCILIATION OF SURPLUS FOR THE YEAR TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2003	2002
	£'000	£'000
Surplus for the year	1,695	5,236
Depreciation charges	2,990	3,888
Profit on disposal of investments	-	(1,282)
Gain/loss on disposal of tangible fixed assets	1	-
Investment income received	(4)	(18)
Bank deposit interest received	(1,913)	(1,797)
Tax charge/(credit)	678	(454)
Decrease/(increase) in stocks	20	(28)
(Increase)/decrease in debtors	(449)	2,163
Increase in creditors	2,890	3,329
Increase in fees in advance	8,257	7,734
Decrease/(increase) in provision for liabilities	2,526	(195)
	<hr/>	<hr/>
Net cash inflow from operating activities	16,691	18,576
	<hr/> <hr/>	<hr/> <hr/>

II. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	2003	2002
	£'000	£'000
Returns on investments and servicing of finance		
Bank deposit interest received	1,913	1,797
Investment income received	4	18
	<hr/>	<hr/>
Net cash inflow from returns on investments and servicing of finance	1,917	1,815
	<hr/> <hr/>	<hr/> <hr/>
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(12,104)	(8,682)
Receipts from sales of current asset investments	-	6,365
	<hr/>	<hr/>
Net cash outflow from capital expenditure and financial investment	(12,104)	(2,317)
	<hr/> <hr/>	<hr/> <hr/>

The Law Society

Notes to the consolidated cash flow statement Year ended 31 December 2003

III. ANALYSIS OF NET FUNDS

	At 1 January 2003 £'000	Cash flow £'000	At 31 December 2003 £'000
Cash in hand and at bank	17,420	(15,321)	2,099
Cash held in deposit	53,500	21,500	75,000
	<u>70,920</u>	<u>6,179</u>	<u>77,099</u>

IV. MANAGEMENT OF LIQUID RESOURCES

	2003 £'000	2002 £'000
Cash withdrawn from seven day deposit	<u>(21,500)</u>	<u>(3,500)</u>

The Law Society

The Law Society income and expenditure account Year ended 31 December 2003

	Note	2003 £'000	2002 £'000
Income			
Practising certificates and other fees	2	68,337	61,195
Investment income and interest	3	1,914	2,004
Other income	4	4,611	4,903
Grant from The Law Society Charity for educational purposes		1,048	1,103
		<u>75,910</u>	<u>69,205</u>
Expenditure			
Administration expenses		67,404	53,076
Establishment expenses		6,204	4,692
Donation to The Law Society Charity	5	1,000	1,000
Donation to The Law Society Bursary Fund	5	80	150
Exceptional contribution to the Law Society Pension Scheme	5	-	5,819
		<u>74,688</u>	<u>64,737</u>
Surplus for the financial year		<u>1,222</u>	<u>4,468</u>

All transactions are derived from continuing operations in the United Kingdom.

There are no recognised gains and losses for the current financial year and the preceding year other than as shown in the consolidated income and expenditure account above.

The Law Society

The Law Society balance sheet 31 December 2003

	Note	2003 £'000	2002 £'000
Fixed assets			
Tangible assets	7	43,839	34,577
Investments	8	2,495	3,254
		<u>46,334</u>	<u>37,831</u>
Current assets			
Debtors	10	4,211	4,036
Cash at bank and in hand		77,099	70,920
		<u>81,310</u>	<u>74,956</u>
Creditors: amounts falling due within one year	11	(75,669)	(64,560)
Net current assets		<u>5,641</u>	<u>10,396</u>
Total assets less current liabilities		51,975	48,227
Provisions for liabilities and charges	12	(3,559)	(1,033)
Total net assets		<u>48,416</u>	<u>47,194</u>
Represented by:			
Accumulated fund	13	<u>48,416</u>	<u>47,194</u>

The financial statements were approved by the Council of the Law Society on 13 May 2004.

Signed on behalf of the Council of the Law Society

P Williamson PRESIDENT

G Sandercock TREASURER

The Law Society

Notes to the accounts

Year ended 31 December 2003

1. Accounting policies

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements include the financial statements of the Law Society, together with those of The Law Society Services Limited, The Law Society Property Services Limited, The Law Society Pension Scheme Limited, Law Society (Hardware Rental Services) Limited and Law Society (Software Licensing Services) Limited, which companies are wholly owned by the Law Society.

The Society's holding in Solicitors Professional Indemnity Limited has been treated as a joint venture and has been accounted for on a gross equity basis. The accumulated deficit in The Law Society Property Services Limited has been provided for in the accounts of the Society.

The Society funds the activities of the Solicitors' Disciplinary Tribunal, save for the expenses of Tribunal members, and accounts for its net assets notwithstanding the autonomy of that Tribunal as regards its tribunal decisions.

The Society is trustee of the Compensation Fund, the Stannard Bequest Fund and several bursary and trust prize funds. The accounts of these entities are not included in the consolidated financial statements of the Society as the Society has no beneficial interest in the assets of these entities.

The Society is trustee of The Law Society Retirement Benefits Scheme. The funds within this scheme are not included in the consolidated financial statements of the Society as the Society does not exercise dominant influence over them.

The Society is trustee of The Cheviot Trust. The funds within this scheme are not included in the consolidated financial statements of the Society as the Society does not exercise dominant influence over them.

The Law Society Trustees Limited is trustee of The Law Society Charity. The Law Society Trustees Limited and The Law Society Charity are not included in the consolidated financial statements of the Society as the Society does not exercise dominant influence over them.

The Law Society Pension Scheme Limited (a subsidiary of the Law Society) is trustee of The Law Society Pension Scheme. The Law Society Pension Scheme is not included in the consolidated financial statements of the Society as the Society does not exercise dominant influence over it.

The Society has been advised by its lawyers that it is not a party to the risks and rewards of the Assigned Risks Pool, which lie with the Assigned Risks Pool insurers. The financial statements of the Assigned Risks Pool are not included in the consolidated financial statements of the Society.

Practising Certificates and Investment Business Certificates

Fees received in respect of practising certificates and, until November 2001, investment business certificates issued for the practising year which commences on 1 November are apportioned on a time basis. No credit has been taken for fees due but not received at the balance sheet date.

Examination fees and Legal Practice Course fees

Examination fees are accounted for in the year in which the examination is held. Legal Practice Course fees are apportioned over the period of the course to which they relate.

Admission, annual enrolment, registration and transfer of articles fees

These fees are accounted for on a cash received basis.

The Law Society

Notes to the accounts Year ended 31 December 2003

1. Accounting policies (continued)

Students' enrolment fees

These fees are payable on registration and are apportioned over the period to which they relate.

Taxation

Full provision is made for taxation payable on activities during the year. The society is only liable for taxation on its investment income and gains and obtains no tax relief for its overhead expenditure, which is regarded as being incurred for the benefit of members whose fees are correspondingly not taxed. Tax relief is obtained on annual payments made under deed of covenant and Gift Aid. Its subsidiaries, The Law Society Services Limited and The Law Society Property Services Limited, are liable for corporation tax on their profits.

Depreciation of fixed assets

Tangible fixed assets are stated at cost net of depreciation.

Depreciation is provided on a straight line basis over the periods indicated below:

- (i) In respect of freehold property which has been split into various component parts with each category being depreciated over its useful economic life:

Building structure	50 years
Internal finishes	15 years
Services and fittings	25 years
External works	35 years

Costs of repairs and maintenance are charged against revenue in the year in which they are incurred.

- (ii) In respect of leasehold property and improvements:

Premiums paid - over the period to the next open market rent review.

Improvements - over 10 years or the period of the lease if shorter.

- (iii) In respect of equipment and furniture:

Main frame, mini computers, servers and operating software: over five years.

Software associated with the Society's Customer Relationship Management and web systems will be written off over five years from the point at which the relevant software is first used.

All other computing equipment and software: over three years.

Motor vehicles: over five years.

Equipment and furniture: over ten years.

All additions to the library are now written off in the year of purchase.

No depreciation is charged on freehold land.

Investments

Fixed asset investments are shown at cost less provision for impairment.

Stocks

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

Lease transactions

Rentals under operating leases are charged to the income and expenditure account in equal annual amounts over the lease term.

Development costs

Software development expenditure is capitalised if it is separately identifiable, it is reasonably certain that the development will be successful and, on completion, it will provide a material benefit to the Society.

The Law Society

Notes to the accounts Year ended 31 December 2003

1. Accounting policies (continued)

Pension costs

The expected cost of pensions in respect of the Law Society Pension Scheme is charged to the income and expenditure account so as to spread the cost of pensions over the service lives of employees. Variations from the regular cost are spread over the expected service lives of current employees in the scheme.

The discounted value of ex-gratia pensions is charged to the income and expenditure account in the year in which they are granted.

2. Practising certificates and other fees

Consolidated and the Law Society	2003	2002
	£'000	£'000
Practising certificates	63,899	56,741
Investment business certificates	-	1
Examination and Legal Practice Course Fees	1,970	2,033
Admission fees	717	682
Student enrolment fees	730	627
Annual enrolment fees	406	481
Registration and transfer of articles	615	630
	<u>68,337</u>	<u>61,195</u>

3. Investment income and interest

	Consolidated		The Law Society	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Income from listed investments	4	18	4	18
Bank deposit interest	1,913	1,797	1,910	1,797
Interest on loans to affiliated entities	-	-	-	189
	<u>1,917</u>	<u>1,815</u>	<u>1,914</u>	<u>2,004</u>

The Law Society

Notes to the accounts

Year ended 31 December 2003

4. Other income

	Consolidated		The Law Society	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Gazette income from advertisements	8,869	8,861	-	-
Publications and products	1,442	1,374	-	-
Courses and functions	529	187	3	105
National conference	398	361	-	-
Recruitment service	270	217	-	-
Library	181	180	-	-
Rents receivable	378	389	-	-
Royalty income	756	603	-	-
Gain on disposal of investments	-	1,282	-	1,282
Grant income	897	955	897	955
Catering	190	108	5	-
Foreign lawyer registration	1,428	1,192	1,428	1,192
Special interest sections income	570	626	3	9
Family Law Panel fees	240	252	240	252
Countrywide legal indemnity	296	206	-	-
Personal Injury Panel	171	172	171	172
Authorisation of Course Providers	830	384	490	347
Subscription to Solicitors' Financial Services	101	117	-	-
Business services to solicitors	490	347	-	-
Other subscriptions	222	145	222	145
Sundry income	1,702	1,546	1,152	444
	<u>19,960</u>	<u>19,504</u>	<u>4,611</u>	<u>4,903</u>
Joint venture income	4,214	3,883	-	-
	<u>24,174</u>	<u>23,387</u>	<u>4,611</u>	<u>4,903</u>

Grant income includes £23,654 (2004: £10,963) from Westminster foundation for Democracy.

The Law Society

Notes to the accounts

Year ended 31 December 2003

5. Analysis of expenditure

	Consolidated	
	2003	2002
	£'000	£'000
Administration expenses		
Employment costs - wages and salaries	34,281	27,915
- social security costs	2,944	2,163
- other pension costs	6,903	4,050
- other costs	4,023	3,459
Recoveries of administration expenses from the Compensation Fund	(7,208)	(6,878)
Other recoveries	(108)	(92)
	40,835	30,617
Gazette - printing, paper and postage	2,820	2,878
Other printing and stationery	1,856	1,420
Other postage and telephone	2,400	1,702
Computer charges	5,240	4,897
Office holders' expenses	307	287
Council and committee expenses	1,174	1,332
Staff travelling and other expenses	2,186	1,673
Legal fees	4,499	4,378
Auditors' remuneration	101	99
Other professional fees	6,760	4,346
Operating lease costs	1,180	966
General administration expenses	3,856	2,908
Depreciation – equipment and furniture and computer and hardware	1,981	2,883
Value Added Tax irrecoverable	5,084	3,945
Financial services – application and registration fees	(75)	247
Solicitors' Disciplinary Tribunal expenses	107	184
Taxation	678	794
	80,989	65,556
Establishment expenses		
Rent, rates, heating, lighting, cleaning and insurances	2,674	2,156
Operating lease costs	1,353	763
Net utilisation of provision for foreseeable loss on vacated property	-	(64)
Repairs and alterations	817	870
Employment costs - wages and salaries	494	182
- social security costs	36	15
- other pension costs	56	19
Depreciation – property	1,009	1,005
	6,439	4,946
Recoveries of establishment expenses from the Compensation Fund	(461)	(585)
	5,978	4,361

The Law Society

Notes to the accounts Year ended 31 December 2003

5. Analysis of expenditure (continued)

In addition to their remuneration as auditors, as set out above, the auditors were also paid £1,069,000 (2002: £193,000) in respect of the following matters:

Non audit fees	2003 £'000	2002 £'000
Tax services		
- compliance services	16	17
- advisory services	97	66
Other services		
- litigation assistance	214	65
- Programme Engineer assurance services	101	45
- Programme Engineer project management services	454	-
- other services not covered above	187	-
	<u>1,069</u>	<u>193</u>

Tax advisory services include work in relation to VAT advice and assistance, and income tax advice and assistance given during the year.

During the year work was initially undertaken by Deloitte & Touche LLP in relation to the ongoing assessment of Programme Engineer. From July 2003, Deloitte & Touche LLP have begun to assist the Society with the project management of Programme Engineer and at the same time, the Programme Engineer assurance work was contracted with Ernst & Young. It is expected that Deloitte & Touche LLP will continue with the project management of Programme Engineer during 2004.

Other services include work in relation to complaints handling analysis, an analysis of the single site property proposal, and an impact analysis assessment.

Of the £1,069,000 fees shown above, £214,000 (2002: £64,000) was recharged to the Compensation Fund.

This additional remuneration is included in other professional fees and legal fees.

Exceptional contribution to the Law Society Pension Scheme

During 2002, investments were sold by the Society and formed a significant part of a one-off contribution by the Society and by one of its subsidiaries to the Law Society Pension Scheme.

Donation to the Law Society Charity

The donation to the Law Society Charity for 2003 was £2,520,000 (2002: £2,000,000). £1,520,000 of the donation for 2003 was made from the Law Society Services Limited (2002: £1,000,000) under Gift Aid.

Donation to the Law Society Bursary Fund

The Law Society-Education and Training Department made a gift aid donation of £80,000 (2002: £150,000) to the Law Society Bursary Fund for the benefit of students.

The Law Society

Notes to the accounts

Year ended 31 December 2003

6. Compensation, remuneration and staff numbers

Office holders

Compensation for the year was payable in respect of the office holders as follows:

	2003	2002
	£	£
President	84,608	80,720
Vice-President	42,304	40,360
Deputy Vice-President	21,176	20,192
	<u> </u>	<u> </u>

From 1 September 2002, the annual compensation payable was increased in respect of office holders as follows:

	£
President	88,546
Vice-President	44,273
Deputy Vice-President	21,737
	<u> </u>

The Lay Commissioner received total emoluments of £107,210 during the year ended 31 December 2003 (2002: £17,513 appointed 1 November 2002).

Compensation in respect of lay members serving on the Adjudication Panel is £4,000 per annum, in respect of those serving on the Compliance Board is £3,000 per annum and in respect of those serving on the Council is £3,000 per annum.

Senior Management Team ("SMT")

The SMT of the Society received total emoluments, including pension contributions, of £1,069,000 for the year to 31 December 2003 (2002 - £1,434,000).

The highest paid member, being the Chief Executive, received emoluments including pension contributions of £279,000 (2002: £282,000). This figure includes basic salary of £185,000, bonus of £25,000 and pension contribution of £61,000 including employer's contributions.

All SMT members are members of the Law Society Pension Scheme.

Staff numbers (full time equivalents)

The number of persons employed by the Society at 31 December 2003 was 1,265 (2002: 1,084).

The Law Society

Notes to the accounts Year ended 31 December 2003

7. Tangible assets

Consolidated	Freehold land and buildings £'000	Leasehold property and imp- rovements £'000	Equipment and furniture £'000	Computers and hardware £'000	Leased equipment and furniture £'000	Total £'000
Cost						
At 1 January 2003	30,438	1,172	13,656	32,535	1,975	79,776
Additions	85	139	1,818	10,062	-	12,104
Disposals	-	-	(4)	(1,700)	-	(1,704)
At 31 December 2003	<u>30,523</u>	<u>1,311</u>	<u>15,470</u>	<u>40,897</u>	<u>1,975</u>	<u>90,176</u>
Accumulated depreciation						
At 1 January 2003	7,254	986	6,235	25,894	1,975	42,344
Charge for the year	958	51	684	1,297	-	2,990
Disposals	-	-	(3)	(1,700)	-	(1,703)
At 31 December 2003	<u>8,212</u>	<u>1,037</u>	<u>6,916</u>	<u>25,491</u>	<u>1,975</u>	<u>43,631</u>
Net book value						
At 31 December 2003	<u>22,311</u>	<u>274</u>	<u>8,554</u>	<u>15,406</u>	<u>-</u>	<u>46,545</u>
At 31 December 2002	<u>23,184</u>	<u>186</u>	<u>7,421</u>	<u>6,641</u>	<u>-</u>	<u>37,432</u>
The Law Society						
Cost						
At 1 January 2003	26,405	1,172	12,626	32,471	1,975	74,649
Additions	85	139	1,818	10,062	-	12,104
Disposals	-	-	(4)	(1,700)	-	(1,704)
At 31 December 2003	<u>26,490</u>	<u>1,311</u>	<u>14,440</u>	<u>40,833</u>	<u>1,975</u>	<u>85,049</u>
Accumulated depreciation						
At 1 January 2003	6,039	986	5,242	25,830	1,975	40,072
Charge for the year	826	51	667	1,297	-	2,841
Disposals	-	-	(3)	(1,700)	-	(1,703)
At 31 December 2003	<u>6,865</u>	<u>1,037</u>	<u>5,906</u>	<u>25,427</u>	<u>1,975</u>	<u>41,210</u>
Net book value						
At 31 December 2003	<u>19,625</u>	<u>274</u>	<u>8,534</u>	<u>15,406</u>	<u>-</u>	<u>43,839</u>
At 31 December 2002	<u>20,366</u>	<u>186</u>	<u>7,384</u>	<u>6,641</u>	<u>-</u>	<u>34,577</u>

The Law Society

Notes to the accounts

Year ended 31 December 2003

7. Tangible assets (continued)

Freehold buildings are periodically valued. The total open market value at the last valuation in 2004 was £17,600,000.

The Library collection, which has a net book value of £nil (2002: £nil) is shown within equipment and furniture. It is periodically valued for insurance purposes. The last valuation in 2002 totalled £3,021,000.

8. Fixed asset investments

	The Law Society	
	2003	2002
	£'000	£'000
Advances to subsidiary undertakings	2,495	3,254

Subsidiary and other undertakings

The Society has the following wholly-owned subsidiary undertakings. They are all incorporated in Great Britain and operate in England and Wales.

	Nature of business	Issued share capital
The Law Society Services Limited	Trade and services	£100
The Law Society Property Services Limited	Property holding company	£100
The Law Society Trustees Limited	Charity trustee	Limited by guarantee
The Law Society Pension Scheme Limited	Pension Trustee	Limited by guarantee
Law Society (Hardware Rental Services) Limited	Lease rental (dormant)	
Law Society (Software Licensing Services) Limited	Lease rental (dormant)	

The Law Society Pension Scheme Limited, Law Society (Hardware Rental Services) and Law Society (Software Licensing Services) have no, or minimal, assets or liabilities.

9. Joint venture

On 25 April 2000 the Society entered into a joint venture agreement with St. Paul Holdings Limited. In accordance with this agreement, a joint venture company, Solicitors Professional Indemnity Limited (the 'joint venture Company'), was set up for the following purposes: to arrange the provision of compulsory professional indemnity insurance to solicitors in private practice in England and Wales under the new open market arrangements; to act as marketing, claims handling and underwriting agent of St. Paul International Insurance Company Limited in respect of solicitors' professional indemnity insurance; and to provide run-off and related services to the Solicitors Indemnity Fund. The joint venture Company is incorporated in Great Britain and its first accounting period ended on 30 September 2001.

The Society purchased 51 'A' ordinary shares of £1 each representing 100% of the 'A' shares, in the joint venture Company. St. Paul Holdings Limited purchased 49 'B' ordinary shares of the joint venture Company. The 'A' shareholder has the right to appoint and maintain in office two 'A' directors. The 'B' shareholder has the right to appoint and maintain in office three 'B' directors. A number of Reserved Matters exist which cannot be passed without unanimous approval of all the 'A' and 'B' directors.

During the year ended 31 December 2002, St. Paul Holdings Limited transferred its shareholding to St. Paul Co. Inc who subsequently transferred it to St. Paul London Limited.

The Law Society

Notes to the accounts

Year ended 31 December 2003

9. Joint venture (continued)

An agreement exists whereby in the event that in any financial year the joint venture Company's expenses exceed its income, St. Paul International Insurance Company Limited will increase the commission it pays to the joint venture Company to make up the shortfall. If in any succeeding financial year the joint venture company's income exceeds its expenditure, the commission payable by St. Paul International Insurance Company Limited is reduced to offset any additional commission previously paid.

At 31 December 2003, the net assets of the joint venture Company were £273.

10. Debtors

	Consolidated		The Law Society	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Trade debtors	2,595	2,417	-	-
Grant receivable from The Law Society Charity	1,048	1,103	1,048	1,103
Compensation Fund	-	-	-	-
Other Law Society affiliated entities	363	364	363	364
Other debtors	1,592	916	1,008	503
Prepayments	1,697	1,997	1,792	2,066
Corporation tax recoverable	6	55	-	-
	<u>7,301</u>	<u>6,852</u>	<u>4,211</u>	<u>4,036</u>

11. Creditors: amounts falling due within one year

	Consolidated		The Law Society	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Amounts due to suppliers	7,932	7,459	7,483	7,116
Other creditors including taxation and social security	1,622	1,269	1,301	1,179
Fees received in advance	62,964	54,707	62,751	54,549
Compensation Fund	4,132	1,631	4,132	1,631
Other Law Society affiliated entities	1	85	1	85
	<u>76,651</u>	<u>65,151</u>	<u>75,669</u>	<u>64,560</u>

Included in other creditors are balances of £1,044,000 (2002: £752,000) in respect of PAYE and National Insurance.

The Law Society

Notes to the accounts Year ended 31 December 2003

Provisions for liabilities and charges

	2003	2002
	£'000	£'000
Pension costs - unfunded		
At 1 January	1,015	1,128
Charge for the year	84	18
Utilised in the year	(134)	(131)
	<hr/>	<hr/>
At 31 December	965	1,015
	<hr/>	<hr/>
Pension costs - funded		
At 1 January	18	36
	(18)	(18)
Charge for the year	1,994	-
	<hr/>	<hr/>
At 31 December	1,994	18
	<hr/>	<hr/>
Provision for foreseeable loss on rented premises		
At 1 January	-	64
Utilised in the year	-	(64)
	<hr/>	<hr/>
At 31 December	-	-
	<hr/>	<hr/>
Provision for Employment Tribunal		
At 1 January	-	-
Charge for the year	600	-
	<hr/>	<hr/>
At 31 December	600	-
	<hr/>	<hr/>
Total provisions at 31 December	3,559	1,033
	<hr/> <hr/>	<hr/> <hr/>

The provision for the pension costs is in respect of the estimated present value of additional pension payments that have been granted to former members of staff beyond the pension scheme contractual obligation. Payments are made monthly in arrears.

The Law Society

Notes to the accounts Year ended 31 December 2003

13. Movement on reserves

	Accumulated fund £'000
Consolidated	
At 1 January 2003	49,308
Surplus for the year	1,695
	<hr/>
At 31 December 2003	51,003
	<hr/> <hr/>
	Accumulated fund £'000
The Law Society	
At 1 January 2003	47,194
Surplus for the year	1,222
	<hr/>
At 31 December 2003	48,416
	<hr/> <hr/>

14. Operating lease commitments

The Society's commitments for rental payments under operating leases payable during the year to 31 December 2003 are as follows:

	Land and buildings		Other operating leases	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Leases expiring between two and five years	481	264	1,211	966
	<hr/>	<hr/>	<hr/>	<hr/>

15. Capital commitments

The Main Board has agreed Programme Engineer capital expenditure of £29,517,000 of which £12,328,000 has been spent on the Programme up to the end of December 2003, leaving a capital commitment of £17,189,000.

A Core Programme capital budget of £14,142,000 (which included £4,734,000 brought forward from 2002) was approved for 2003. £7,512,000 of this was spent during 2003 and £5,513,000 was carried forward to 2004. The Core Programme for 2004 (including the brought forward balance from 2003) is £15,442,000.

The Law Society

Notes to the accounts

Year ended 31 December 2003

16. Pension commitments

The Society operates a pension scheme (the 'Scheme') providing benefits based upon final pensionable salary. The assets of the Scheme are held separately from those of the Society in a trustee administered scheme, The Law Society Pension Scheme. These assets are invested mainly in quoted securities and are managed by Merrill Lynch Investment Managers Limited, Barclays Global Investors Limited and Bank of Ireland Asset Management UK Limited.

The total pension cost for the year was £6,963,000.

There is a provision for pension costs of £2,959,000 in the balance sheet as at 31 December 2003 arising from the accumulated difference between contributions paid and the corresponding pension costs, including the estimated present value of unfunded pension payments that have been granted to former members of staff beyond the pension scheme contractual arrangements. These payments are payable monthly by direct debit from the Society's bank account.

The Society currently accounts for pensions under SSAP24. Under the transitional arrangements for FRS17, the Society is required to provide additional disclosures relating to its pension scheme. These are provided below.

SSAP24 Accounting for pension costs

Contributions to the Scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the group. The Scheme is subject to triennial valuation by a qualified independent actuary. The last valuation was carried out as at 31 December 2002, using the projected unit method. It was assumed that the investment returns would be 6.0% a year, salary increases would average 3.40% a year and pension increases would average 2.4% for LPI pension increases or the fixed rates specified by the scheme. The joint contribution rate payable by the Society and its employees to meet the cost of accruing liabilities was increased from 20% to 23% of earnings from 1 May 2003.

At the actuarial valuation date, the market value of the assets of the Scheme was £57,729,000 and, in the opinion of the actuary, this value represented 70% of the value of the benefits which had accrued to members, after allowing for expected future increases in earnings. The employer's contribution rate takes account of the deficit disclosed by the valuation.

FRS17 Retirement benefits

Under the transitional arrangements of FRS 17, the Society is required to disclose the following information about the Scheme and the figures that would have been shown in the Society's balance sheet if FRS 17 applied in full today.

The full actuarial valuation of the Scheme carried out as at 31 December 2002 has been updated to 31 December 2003 by a qualified, independent actuary.

The Law Society

Notes to the accounts Year ended 31 December 2003

16. Pension commitments (continued)

The assets in the scheme and the expected rates of return at 31 December were:

	2003		2002		2001	
	Long term rate of return expected	Value £'000	Long term rate of return expected	Value £'000	Long term rate of return expected	Value £'000
Equities	7.8%	35,908	7.5%	26,575	8.0%	42,225
Bonds	4.8%	33,345	4.8%	31,176	5.5%	11,050
Total market value of assets		<u>69,253</u>		<u>57,751</u>		<u>53,275</u>
Present value of Scheme liabilities		<u>(112,308)</u>		<u>(93,281)</u>		
Deficit in the scheme and net pension liability		<u><u>(43,055)</u></u>		<u><u>(35,530)</u></u>		

If the above net pension liability were recognised in the financial statements at 31 December, the Society's Accumulated Fund would be as follows:

	2003 £'000	2002 £'000
Accumulated Fund excluding net pension liability	51,003	49,308
Pension cost provision included in Accumulated Fund (note 12)	2,959	1,033
Pension cost provision in relation to unfunded scheme	(1,001)	(1,015)
Deficit in the scheme and net pension liability	<u>(43,055)</u>	<u>(35,530)</u>
Accumulated Fund	<u><u>9,906</u></u>	<u><u>13,796</u></u>

The figures shown above were calculated on the basis of the following assumptions:

	2003	2002	2001
Discount rate	5.4%	5.6%	6.0%
Rate of increase in salaries	4.75%	3.4%	3.4%
Rate of increase in deferred pensions	2.75%	2.4%	2.4%
Rate of increase in pensions in payment (for pensions accrued before 1 November 2002)	5.0%	5.0%	5.0%
Rate of increase in pensions in payment (for pensions accrued after 1 November 2002)	2.75%	2.4%	2.4%
Inflation assumption	<u>2.75%</u>	<u>2.4%</u>	<u>2.4%</u>

The Pensions trustees have met with the Society and considered the latest deficit. The actuaries have advised that an increased contribution rate of 27% would eliminate this deficit over the current working lives of the employees. The current contribution rate is 18%, the increase to 27% will lead to an additional per annum pension contribution of approximately £3.1m which would equate to an increase in the Practising Certificate fee of approximately £31, an increase of 4%. This assumes no change to the Society's powers to fund itself through the Practising Certificate.

The Law Society

Notes to the accounts Year ended 31 December 2003

16. Pension commitments (continued)

Analysis of the movements in the scheme deficit during the year

	2003 £'000	2002 £'000
Opening deficit in the scheme and net pension liability	(35,530)	(15,609)
Current service cost	(4,698)	(3,965)
Contributions	4,987	10,640
Other finance income	(1,716)	378
Actuarial (loss)	(6,098)	(26,974)
	<u>(43,055)</u>	<u>(35,530)</u>

Amounts that would have been included within the financial statements for the year ended 31 December 2003 had FRS 17 been applied are as follows:

Amounts included within operating profit:

	2003 £'000	2002 £'000
Current service cost and total included within operating profit	4,698	3,965
	<u>4,698</u>	<u>3,965</u>

Amounts included as net finance return:

	2003 £'000	2002 £'000
Expected return on scheme assets	3,630	4,616
Interest on scheme liabilities	(5,346)	(4,238)
Other finance income/(costs)	(1,716)	378
	<u>(1,716)</u>	<u>378</u>

Analysis of the actuarial gain in the statement of total recognised gains and losses:

	2003 £'000	2002 £'000
Actual return less expected return on pension scheme assets	3,221	(10,315)
Experience gains/(losses) arising on the scheme liabilities	3,065	(4,383)
Changes in assumptions underlying the present value of the scheme liabilities	(12,384)	(12,276)
	<u>(6,098)</u>	<u>(26,974)</u>
Total actuarial losses recognised in the statement of total recognised gains and losses	<u>(6,098)</u>	<u>(26,974)</u>

The Law Society

Notes to the accounts

Year ended 31 December 2003

16. Pension commitments (continued)

History of experience gains and losses:

	2003	2002
Difference between the expected and actual return on scheme assets:		
Amount (£'000)	3,221	(10,315)
Percentage of scheme assets	5%	(18%)
Experience gains/(losses) on scheme liabilities:		
Amount (£'000)	3,065	(4,383)
Percentage of the net present value of scheme liabilities	3%	(5%)
Total actuarial gain/(loss) in the statement of total recognised gains and losses:		
Amount (£'000)	(6,098)	(26,974)
Percentage of the present value of scheme liabilities	(5%)	(29%)

17. Monies held as a consequence of the intervention process

At 31 December 2003, monies held by the Society, in Statutory Trust Accounts ("STA") as a consequence of intervention in the practices of solicitors amounted to £37,924,351 (2002: £23,665,806). The increase has occurred due to the reinstatement of certain Statutory Trust Accounts and the embargo on distributions from non-intact accounts whilst the Legal Trustee's responsibilities are determined. The Society has no beneficial interest in these monies and accordingly they are not included in the balance sheet. In addition, the Society, as sole trustee, has made no provision for potential losses or costs relating to the identification of the beneficial owners of these monies.

These balances were held by the Law Society as statutory trustee. The rightful beneficiary of these monies is not always known. The Compensation Fund may have a legal entitlement to some of these monies and this may be clarified by the courts. This unknown amount that the Court may direct should be remitted from the STAs to the Compensation Fund.

Related party transactions

Five lay members of the Council received payments of £3,000 each in 2003 and 2002. The Lay Commissioner's emoluments are set out in note 6.

The Law Society paid £4,470 excluding VAT to Council members for LPC board mediation/assessor fees, for written articles in the Law Society's gazette/other publications and for course assessment fees.

The Law Society occupies 3 properties under an operating lease arrangement. The negotiations (on behalf of The Law Society) were conducted by a solicitors firm in which one council member is employed.

There are no other related party transactions, except for expenses, allowances and fees paid by the Society to Council members and their firms, which have been disclosed.