



The Law Society

## The Law Society

Annual Report and Consolidated  
Financial Statements for the ten  
month period ended 31 October  
2013



The Law Society

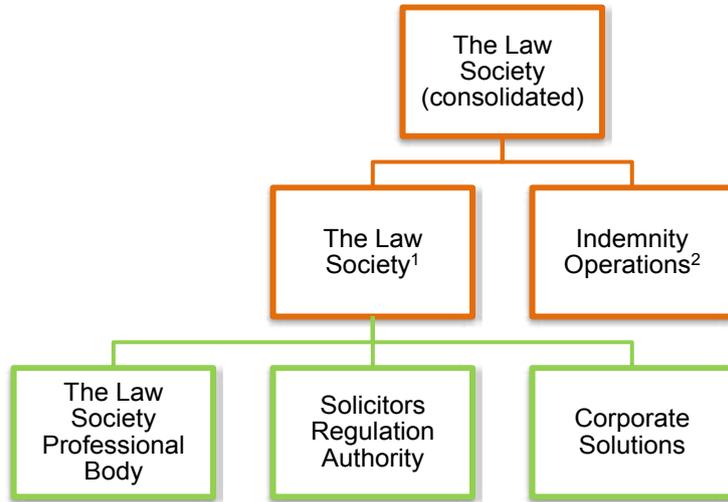
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# Who we are

## Structure

The Law Society operates under Royal Charter and is the Approved Regulator for solicitors in England and Wales under the Legal Services Act 2007 (LSA).



Colours represent Legal Structure and Operating Divisions

1. Encompasses the following operations and investments which are not consolidated - Queen’s Counsel Appointments Limited, Six Clerks Insurance Services Limited and Riliance Limited. (The) Law Society Services Limited (dormant) is consolidated.

2. Encompasses the following investments which are consolidated - Solicitors Indemnity Fund, Solicitors Indemnity Fund Limited, Legal Indemnity Insurance Operations Limited and Solicitors Professional Indemnity Limited (dormant).

Within the Law Society there are three independently run operating divisions - the Law Society Professional Body, the Solicitors Regulation Authority and Corporate Solutions.

## The Law Society Professional Body

The Law Society Professional Body (TLS) was established in 1825 to represent solicitors in England & Wales. TLS works globally to support and represent members and to promote the highest professional standards and the rule of law. TLS business operations report through the TLS Chief Executive to the Management Board.

## Solicitors Regulation Authority

The Solicitors Regulation Authority (SRA) is the regulatory body of the Law Society. Whilst still part of the Law Society, the SRA operates independently from TLS as required under the LSA. SRA business operations report through the SRA Chief Executive to the SRA Board, which is solely responsible for decisions on regulatory matters.

## Corporate Solutions

Corporate Solutions (CS) is responsible for the Law Society’s infrastructure and provides support services including Finance, Human Resources, Information Technology, Programme Management, Procurement, Property and Risk and Assurance to both TLS and the SRA. CS operations report through the Chief Operating Officer to the Business & Oversight Board.

## Solicitors Indemnity Fund

The Law Society also controls three entities - the Solicitors Indemnity Fund (SIF), the Solicitors Indemnity Fund Limited (SIFL) and Legal Indemnity Operations Limited (LIOL) - all of which administer indemnity operations and are in wind-down.

SIF is a statutory fund established in 1987 and is governed by the Solicitors' Indemnity Rules 1987 as amended from time to time. The Rules are presently made under sections 37, 79 and 80 of the Solicitors Act 1974, section 9 of the Administration of Justice Act 1985, and paragraph 19 of Schedule 11 of the Legal Services Act 2007, with the approval of the Legal Services Board under paragraph 19 of Schedule 4 to the Legal Services Act 2007. The Rules are now known as the SRA Indemnity Rules.

SIF provided indemnity in respect of the practices of solicitors, recognised bodies and registered foreign lawyers carried on wholly or in part in England and Wales with up to £1 million of cover per claim (£1.5 million for recognised bodies) until 31 August 2000, when the Council of The Law Society decided to require firms to purchase indemnity insurance in the open market. SIF therefore went into run-off from 1 September 2000. In 2004, the indemnity limit increased for new claims arising within existing practices to £2 million (£3 million for recognised bodies).

## Other Operations

Details of subsidiaries and other undertakings can be found in Note 13 on page 52. There is one new operation which was set up in 2013, Six Clerks Insurance Services Limited.

## Six Clerks Insurance Services Limited

### (trading as Chancery PII)

Chancery PII was launched in 2013 as a Managing General Agency providing a professional indemnity insurance brokerage service to small firms. The Group invested £16,667 in October 2013 in consideration for 33% of the share capital of Six Clerks Insurance Services Limited.

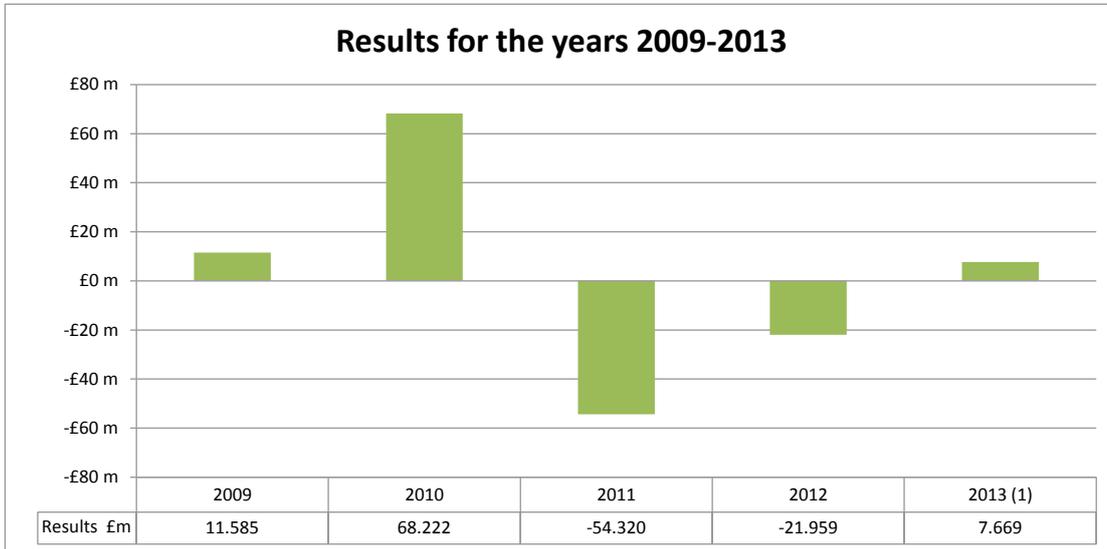
Chancery PII earns a management fee based on a percentage of the premium written but does not take on any underwriting risk. At the end of October 2013, 128 policies of insurance had been written to the value of £2.2 million.

Under the terms of the Shareholder Agreement there is an option for the Group to increase the investment to 49.99%. The exercise of this option was approved by the Management Board in March 2014. The company is not consolidated into the annual accounts but reported as an investment.





# Financial Results: 2009-2013



(1) The 2013 result is for the period 1 January 2013 - 31 October 2013.

The Law Society operates as a predominantly not-for-profit organisation, though the TLS funding base is partly derived from commercial revenue generating activities. The significant financial result in 2010 was due to increased Practising Certificate fees, savings against budget and indemnity operations contributions. Of the £56.935m surplus in 2010 only £39m was available for use by the Society, the remainder being earmarked for the Defined Benefit Pension Scheme buy-out. The loss in 2011 was due to a provision for exceptional costs of £82.5m for the disposal of the Defined Benefit Pension Scheme where funds had been collected in the prior year to remove the volatile risk from the Scheme. The 2012 result reflected major expenditure on two projects; a major SRA IT Programme and the relocation of the Midlands based staff to a new office, The Cube in Birmingham.

In 2013 an increase in income from Practising Certificate fees coupled with an exceptional gain from the finalisation of the Defined Benefit Pension Scheme and various cost reduction initiatives resulted in a £7.224m surplus being achieved. The 2013 result is discussed in detail in the next section.



# Financial Review

All references to 2013 in this section refer to the ten month period ended 31 October 2013 unless otherwise indicated.

During 2013 the Law Society changed its financial year end from 31 December to 31 October in order to align the financial year to the Practising Certificate (PC) renewal year, which runs from 1 November to 31 October. The Income & Expenditure account and cash flow statement for 2013 therefore represent the 10 month period from 1 January 2013 to 31 October 2013, whilst the prior year comparatives are the 12 month period from 1 January 2012 to 31 December 2012. The Balance Sheet dates are 31 October 2013 and 31 December 2012 respectively.

The result for 2013 was a net surplus of £7.2m (2012: £22.7m deficit); a £29.9m improvement on the previous period. The result included an exceptional gain of £8.7m from the finalisation of the Defined Benefit Pension Scheme. The total income of the Group has increased on a like for like basis by £7.3m or 6.1%, predominantly due to an increase in the income received from PC fees. In addition, there was a like for like increase in Commercial Income of £2.4m (12%).

## Practising Certificate Fees

PC fees are used to fund the activities of the SRA, the associated support operations of CS and the activities of TLS which are referred to as "permitted activities" under S51 of the LSA. The PC fee is calculated by reference to the operating and capital budget requirements of the Law Society excluding the "non-permitted" (essentially commercial) activities of TLS which are required to be funded through the generation of commercial income.

The PC fee is levied on regulated firms and individuals and is invoiced during September and October to cover the following period from November to October each year. For 2013/14 the base PC fee for individuals was set at £384 (£344 in 2012/13). The number of regulated firms and individuals has remained broadly consistent at just over 10,000 and 122,000 respectively. A total of £87.7m was recognised as PC fee income in 2013 (2012: £98.0m). The proportionate increase in PC fee income over the ten month period in 2013 compared to the twelve months period in 2012 is mostly due to the increase in PC fees rather than a change in the mix of the underlying regulated community base. In addition to the PC fee a levy is collected for the Compensation Fund which funds compensation claims against defaulting practitioners. This is paid by all PC holders, with the exception of those working for the Crown Prosecution Service, and by all firms holding client money. The levy provides a source of cash to maintain an amount in the Compensation Fund that exceeds a minimum calculated reserve.

A total of £94.9m was recognised as deferred PC fee income for the 2013/14 renewal year (2012: £86.4m). The PC fee and Compensation Fund levy collection process for 2013/14 commenced on 16 September 2013 and officially finished on 30 November 2013. As at 31 March 2014 the invoiced total amount was £133.5m (102.5%) and cash banked was £133.1m (102.2%). The above figures include the cash collected on behalf of the Compensation Fund with the corresponding liability being recognised in the consolidated Balance Sheet.

## Collection of Compulsory Statutory Levies

Under the LSA and Solicitors Act 1974 the Society is required to collect and pass on levies to fund three independent bodies; the Legal Services Board, the Legal Ombudsman and the Solicitors Disciplinary Tribunal. The levies are imposed by these organisations based on their operating costs and the Law Society has no involvement in the determination of the amounts levied. In 2013 this amounted to £17.4m, which represented 16% of the Group's total operating cost (2012 £22.4m: 16%).

Further information on these payments can be found in Note 15 on Page 43.

## Defined Benefit Pension Scheme

The Law Society closed the Law Society Retirement Benefit Scheme (the "Scheme") to the future accrual of benefits after 30 June 2011 and, working with the Trustee, secured an insurance policy with the insurer MetLife for all of the remaining uninsured pension benefits in June 2011.

This insurance policy was contingent on the payment of a final premium to complete the full scheme buy-out. The transaction was completed on 6 September 2013 and, following final adjustments to the scheme liabilities and assets, an exceptional gain of £8.7m was realised against previous costs recognised.

As of 6 September 2013, there were no further assets or liabilities of the Scheme and the Trustees were discharged of their responsibilities.



## Assigned Risks Pool

The Assigned Risks Pool (ARP) provided professional indemnity insurance cover for firms who were unable to obtain cover from Qualifying Insurers. The ARP's final year of operation ended on 30 September 2013. An arrangement is in place for liabilities arising from claims made in relation to firms in the ARP in the final year of operation. For such firms which ceased to trade while in the final year of the ARP, for a period of six years any liability is to be met by the Law Society and Qualifying Insurers under agreed layers. Provision has been made for £4.1m of claims (2012 £3.2m) based on our best estimate of the Law Society's liability.

## Projects and capitalisation

Each year the Law Society invests funds in change programmes to deliver business benefits such as improved service, revenue generation and/or reduced costs. Many of these initiatives are highlighted in more detail in the Business Review section of this Annual Report. The benefits of many of these programmes of work are delivered over a number of financial years and create assets of a tangible nature. Accordingly, any assets created are capitalised with the cost of that expenditure spread over a number of years and aligned to their use, rather than being fully taken to the income statement in the current year. During 2013 the Law Society made further investments in IT systems and processes spending a total of £6.9m (2012: £25.5m) of which £5.5m was capitalised (2012: £14.8m).

## Property

The Law Society holds the freehold to three properties in London which are included in the financial statements at cost less accumulated depreciation. The Ipsley Court property in Redditch was sold in 2013 for £1.25m realising a profit of £0.4m after costs.

Based on desktop valuations and a detailed reassessment undertaken by independent surveyors as at 31 October 2013 the value of the property portfolio stands at £27.3m (2012: £24.9m). The open market value of 113 and 114 Chancery Lane is £21.9m (2012: £18.9m). The open market value of 60 Carey Street is £5.4m (2012: £6.0m). These values are provided for information purposes only and are not incorporated within the financial statements.

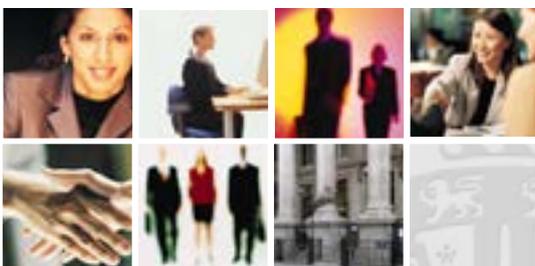
The Net Book Value of freehold land and buildings in the Consolidated Balance Sheet as at 31 October 2013 is £11.3m (2012: £11.6m). A provision for dilapidations of £0.3m is currently held in respect of leasehold property.

## Solicitors Indemnity Fund

SIF gave rise to a deficit after tax of £4.6m for the period. The main driver of the adverse results is a revision of estimates used for the extended post six-year cover to 2020. This follows an actuarial review carried out during 2013 that recommended increasing the claims reserves and the future expected claims management costs provision. This accounts for £2.5 million of the deficit. The other significant element of the deficit is due to revising estimates for other related run off costs for the period 2017 to 2030.

## Legal and Intervention Costs

The provision for intervention, disciplinary proceedings and litigation costs for the period has increased by £3.0m in the period from £3.0m as at 31 Dec 2012 to £6.0m as at 31 Oct 2013. This is mainly due to the increased level and complexity of intervention in the period.



# Business Review

## The Law Society Professional Body

### Business Model

TLS is the independent professional body established for solicitors in England and Wales in 1825 that works globally to support and represent its members, promoting the highest professional standards and the rule of law.

### Strategy

TLS vision is to be the leading representative of the world's best legal profession, valued as a vital partner by all it serves and engages. In 2012 a three year strategic plan was adopted with the following key goals:

- Improve the competitiveness of the environment for our legal profession.
- Provide exemplary services.
- Be an exemplary organisation.

To help deliver these long term aims the following priorities were focussed on during 2013:

- Engage more effectively and proactively with members.
- Develop a clear segmentation policy for our members.
- Be one organisation, working flexibly and effectively together across organisational boundaries.

For each of these priorities specific actions/activities were identified. The extent to which these actions were achieved were monitored on a quarterly basis and reported to the management and through the governance structure of the Law Society.

### 2013 In Review

#### Engage more effectively and proactively with members

##### Promoted the value of the legal services sector and broke down barriers to international trade

A campaign was successfully launched to demonstrate to Government the economic significance of the legal services sector and secure greater support to open international markets. The Society is a key participant in the establishment of an annual Global Law Summit to be held in London from 2015, participated in several trade delegations and published – via a speech by the Chief Executive at the Confederation of British Industry – a detailed dossier on the economic contribution of the legal sector.

##### 'Thought Leader' in the professional services sector

The final instalment of our wide-ranging Market Assessment was published looking in depth at the present and possible future of the legal services market. A further detailed project analysing the current regulatory settlement and advocating reforms was also published which has driven debate in the sector and with Government. The foundation stones were laid for the formation of a specialist strategic policy directorate that will begin work in 2014.

##### Meet members' needs

Law Society Consulting (LSC) was launched at the Risk & Compliance conference in March 2013. LSC builds upon the risk and compliance service launched previously which was introduced as the first of several offerings to support members in the management of their business. Six Clerks Insurance Services Ltd (trading as Chancery PII) was launched in 2013 and provides access to Professional Indemnity Insurance for small firms from rated insurers. TLS seeks, by not taking commission from insurers, to dis-intermediate the broker market and drive down costs for our members. The company is part owned by the Law Society and is the second commercial investment TLS has established to provide specialist support to members and ensure that the Law Society's members will benefit financially from these services. The





Wills and Inheritance Quality Scheme was also announced and by the end of October 2013 - over 1,000 registrations of interest were received.

### Digital developments

A new on-line 'Gazette' was launched in August 2013 which significantly improved the reader experience. A mobile application for the 'Gazette' was launched in October 2013 which has enabled a wider readership.

### Enhanced communications with the wider membership

During 2013 the new website came fully online, e-newsletters were overhauled with substantial success in terms of readership of the Professional Update, and an organisation-wide effort was undertaken to instil high production values and brand adherence.

### An effective influencer of Government

The Law Society has invested considerable effort in being a trusted and effective influencer of Government across activities in Westminster, Brussels and Cardiff. We have sought to ensure all parts of Government recognise the economic significance of the profession both nationally and internationally. We have also sought to secure greater Government support in promoting English and Welsh law firms, in promoting international trade in legal services and offering commentary on consumer rights reform and banking, as well as the more contentious issues of changes to the criminal justice system. We have made considerable progress in becoming a trusted – though sometimes critical – adviser to Government to the benefit of all of our members.

### Develop a clear segmentation policy for our members

#### Demonstrated value to specific member segments

Significant resource was invested in overhauling our relationship with law firms based in the City of London to ensure that we had a positive working relationship with the key players in the City and provided the products, services and advocacy that the sector required. Further resource was devoted to

achieving the same step-change in our relationship with corporate in-house counsel and other groups.

### Development of Customer Relationship Management (CRM) System

Continual embedding of this system in the organisation which provides information about the membership of TLS shared across the organisation is enabling improved efficiency in many of our operations.

### Be one organisation, working flexibly and effectively together across organisational boundaries

#### Organisational re-structure

A significant restructure during 2013 enabled TLS to better focus on the delivery of membership services and greater emphasis on providing services and support that are important to, and valued by members. We established a Member Support Centre encompassing the Practice Advice Team providing one central point of contact for members. We also outsourced Find a Solicitor call handling, providing a more efficient and less costly service.

## Solicitors Regulation Authority

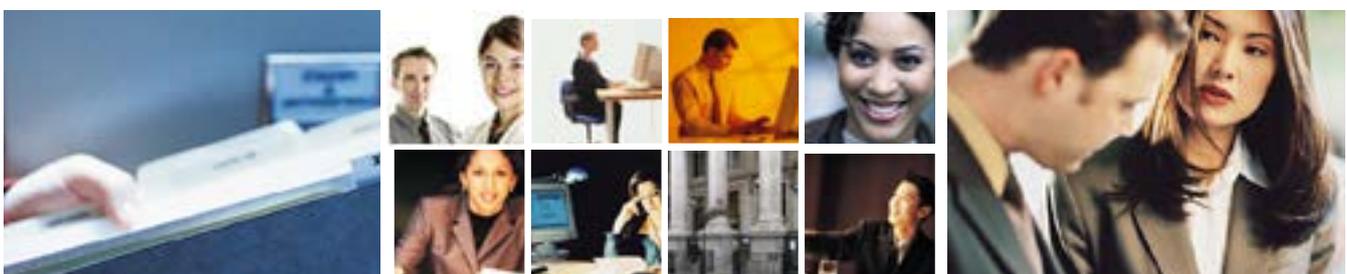
### Business Model

The SRA is the independent regulatory body of the Law Society. It regulates solicitors and entities providing legal services - both solicitors' firms and bodies licensed under the LSA - and individuals employed within those entities. The SRA regulates in the public interest. The organisation is funded by regulatory fees and charges made to the individuals and entities it regulates.

### Strategy

The SRA's vision is to be the leading regulator of legal services; recognised for the outcomes it achieves in the public interest and the way in which it achieves them. Our strategic objectives, as set out in its Strategic Plan 2013/15 are to:

- Ensure the SRA has the capability and capacity to deliver risk based outcomes focused regulation effectively and efficiently and to meet future



challenges in a rapidly changing legal services market.

- Deliver risk-based outcomes focused regulation so as to achieve positive outcomes for consumers in the public interest and to do so in a way that is justifiable to all our stakeholders.
- Develop the SRA regulatory arrangements and tools to better meet the regulatory objectives and the principles of better regulation and to mitigate emerging risks and anticipate changes in the external environment.
- Ensure effective operational delivery and the effective operation of new systems and processes already implemented so as to realise the business benefits and financial efficiencies they were designed to deliver, and address the control weaknesses pertinent to the SRA identified by the Law Society's external auditors.

## 2013 In Review

### R-View

A core element of the programme to deliver our strategic objectives is the R-View Programme which was launched in 2013.

R-View is a three year programme of linked projects that cover people, processes, information systems and regulatory arrangements and is timetabled to be progressively delivered by the end of 2015. It will enable us to deliver proactive risk-based outcomes-focused regulation which is in the public interest; regulation that is effective, efficient, targeted, proportionate and transparent.

The first phase of R-View was successfully delivered in 2013 and included the publication of the Regulatory Risk Outlook in July and the development of the key Regulatory Outcomes. The Programme team also completed a detailed analysis of the current regulatory processes across the organisation as the foundation for future design.

### Red Tape Initiative

The Red Tape Initiative was launched in 2013. The SRA is committed to ensuring that regulation is targeted and proportionate and does not impose unnecessary regulatory burdens or stifle innovation and competition in the market. Three consultations were undertaken under the initiative during 2013, resulting in the removal of a range of unnecessary requirements. The SRA plans that the pace of this initiative will continue to increase with more significant reforms taking place in 2014 and 2015.

### Managing Risk & Interventions

During 2013 there was a significant increase in the number of legal firms experiencing financial difficulties and an increased part of the SRA's supervisory activity was focused on addressing the risks arising from this increase. The market has seen a greater number of medium and large sized firms move into administration and insolvency and the SRA's primary objective has been to protect the consumers of legal services from the consequences of firm failures.

The SRA has focused a significant level of resource on financial stability issues, in particular by identifying and assessing firms that are at risk and ensuring an appropriate level of active engagement is introduced to limit the number of firms requiring intervention. There have been numerous successes with the SRA assisting a number of firms to address financial stability issues and others achieving an orderly wind-down.

However, the continued difficult economic environment has increased the number of interventions carried out by the SRA in 2013 to a level higher than originally forecast, with the size and cost of these interventions being significantly higher than has previously been the case.

As a result of the significant increase in intervention costs, the SRA Board took the decision to amend the policy for intervention costs and to recover the additional cost of these interventions over and above the levels originally budgeted for in the SRA's 2013 operating budget from the Compensation Fund.

The work on financial instability will continue to be a major driver of the work of the investigation and intervention teams in 2014.





## Alternative Business Structures

In 2011 the SRA became a Licensing Authority for Licensed Bodies, commonly known as Alternative Business Structures (ABS).

The streamlining of processes, the up-skilling of staff, on creation of a single team for firm authorisation processes and improvements in reporting have resulted in speedier decisions and an increase in the numbers of ABS licences granted in 2013.

## Other highlights

- Implemented the Quality Assurance Scheme for Advocates (QASA).
- Implemented new Overseas Practice Rules working collaboratively with major firms with overseas practices.
- Completed the final stage of reforms of the compulsory Personal Indemnity Insurance arrangements by closing the Assigned Risks Pool in October 2013.
- Completed the approvals process for compliance officers to increase their understanding of risk-based outcomes-focused regulation.
- Issued a policy statement setting out the programme for the future reform of the approach to education, training and continuing competence of solicitors.
- Implemented the statutory ban on the payment and receipt of referral fees for personal injury claims.
- Undertook the review of the regulatory provisions applying to in-house solicitors and the preparation of the licensing of special bodies.

## Corporate Solutions

### Business Model

CS was formally established in March 2012 and is responsible for running the Law Society's infrastructure and for supporting TLS and the SRA with a range of shared services.

## Strategy

The inaugural CS strategic plan was launched in April 2013 with the overall goal to build a high performing shared services operation for the Law Society Group by 2016.

A strategic planning framework was introduced in 2013 linking the strategic plan with business plans for each CS function and a comprehensive suite of balanced scorecards was introduced with which to measure ongoing financial and non-financial performance and progress against the plans. Measures of performance include a number of key cost and service indicators.

CS reports sixteen Key Performance Indicators (KPIs) on a monthly basis via a performance dashboard. The metrics are internally and externally benchmarked and grouped into four focus areas of performance.

'Finance' performance measures focus on variances of actual spend versus budget, procurement and sourcing data and staff related costs for recruitment and sickness absence.

'People' KPIs measure staff turnover, employee satisfaction and workforce data relating to resource availability and permanent to non-permanent staff ratios.

'Process' focuses on environmental and process efficiency, project lifecycle compliance and the timely delivery of management accounts.

'Customer' delivery KPIs measure IT availability, project roadmap delivery and internal audit reporting.

## 2013 In Review

Key priorities for CS in 2013 were to improve the internal controls framework, build and deliver a new Enterprise Resource Planning (ERP) system, embed new programme and project management frameworks and commence the delivery of a Leadership and Management Development Programme.

## Internal Controls

The internal control environment has been a key focus across the Law Society throughout 2013 with organisation wide activities led by CS staff.



During the year work to address internal control deficiencies previously identified focused on improving financial and procurement systems and processes alongside additional activities aimed at embedding internal controls within the culture, behaviours and codes of conduct of the organisation. A significant milestone in our activities in 2013 was the design and testing of new ERP finance and procurement systems, which subsequently went live in January 2014.

## Human Resources

Throughout 2013 the Human Resources (HR) team focused on a Policy Review Project. This has been a major piece of work which has ensured that internal policies comply with relevant legislation, are fit for purpose in today's environment and are cost effective for the organisation. As part of this project, policies on sickness, car allowance, annual leave and redundancy payments have been reviewed and updated where appropriate.

In addition, a Leadership and Management Development Programme was designed which provides a comprehensive package of skills training for all levels of management. The rollout of the programme commenced in the second half of 2013 and will continue throughout 2014.

## Internal Audit & Risk

An investment in resources was made in 2013 to increase the size of the Group Audit and Risk Assurance team. We enhanced the team by appointing an Internal Audit Manager and introduced an audit plan which provides greater coverage of risks and controls. The new team has implemented a quarterly self certification process whereby senior managers throughout the organisation are asked to report on the effectiveness of internal controls operating within their team.

An experienced Group Risk Manager has also been appointed and has been working towards embedding risk management as part of everyday activity across the Group.

## Property

In 2013, a planning application was submitted for the redevelopment of sites at 113 and 114 Chancery Lane in London. The plans were drawn up on the basis that a redevelopment would provide a flexible and modern working environment suited to the needs of the organisation, whilst recognising the heritage aspects of these Grade Two Star listed buildings. Planning approval has not yet been granted and as a result no date has yet been set for redevelopment work to commence.

## Sourcing

In 2013 a new Sourcing structure marked the move from a traditional purchasing function to a contemporary procurement approach incorporating category and supplier performance management.

A new team was recruited over the course of 2013 and are now responsible for Group purchases of goods and services which total £45m per annum.

## IT

An IT Roadmap was introduced in late 2012 which maps the development of key IT systems over the next three years against an agreed architecture which will standardise IT solutions on the Microsoft platform.

## Programme Management

A Portfolio Programme Management Office (PPMO) was established in January 2013. The role of the PPMO is to ensure the proper governance, management and successful delivery of major programmes and projects across the Group.

Work in 2013 very much followed the direction set by the IT Roadmap. This approach resulted in the successful delivery of 35 IT projects at a cost of £6.5m, which was £1.3m (16.7%) under the overall budget of £7.8m set.





# How we are Governed

## Council

The Council is the Law Society's ultimate governing body with responsibilities derived from statute and the Law Society's Charter, Bye-Laws and General Regulations. The Charter and Bye-Laws reserve certain matters to the Annual General Meeting (AGM) of members.

There are 100 places on the Council, of which 95 were filled as at 31 October 2013. Five seats are currently held in abeyance to provide additional representation as and when required. Most members are elected for a four year term, which is renewable. Council members who held office during the period are shown on page 60.

The Council maintains strategic oversight but has delegated most corporate functions to the Management Board and the Business and Oversight Board. Whilst the Law Society remains the Approved Regulator, all regulatory functions are delegated by Council to the SRA Board.

## Office holders

The Law Society has three elected office holders: the President, Vice President and Deputy Vice President. They each hold office for one year. Each year the Council elects the Deputy Vice President; the previous year's Deputy Vice President becomes the Vice President and the Vice President becomes President. The handover takes place at the AGM in July each year.

The office holders are the Law Society's main ambassadors and represent the organisation at home and abroad. The office of President is a full-time appointment and the President is Chair of the Council.

## Chief Executives and Chief Operating Officer

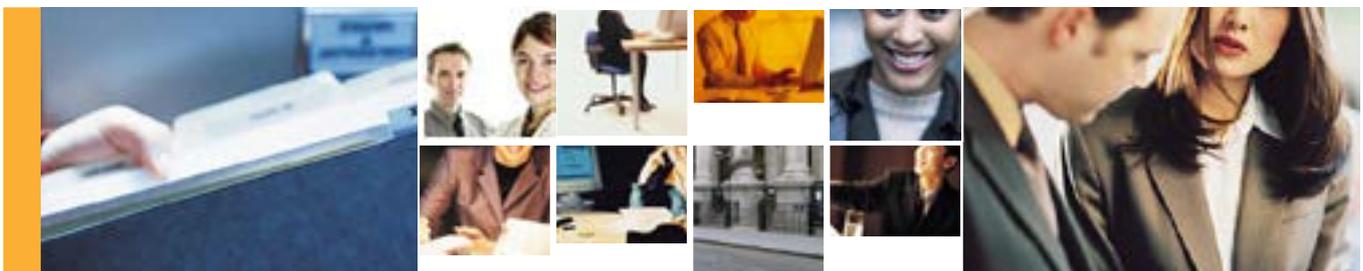
The Chief Executive of TLS is Desmond Hudson, who was appointed in 2006. On 14 March 2014, Mr Hudson announced his intention to retire from the role after the Annual General Meeting in July 2014.

Antony Townsend was appointed as Chief Executive of the SRA in 2006 and in May 2013 announced his intention to stand down from the post. Mr Townsend left the organisation on 31 January 2014 with incoming Chief Executive Paul Philip taking up the post on 3 February 2014. Mr Philip was previously Deputy Chief Executive and Chief Operating Officer of the General Medical Council.

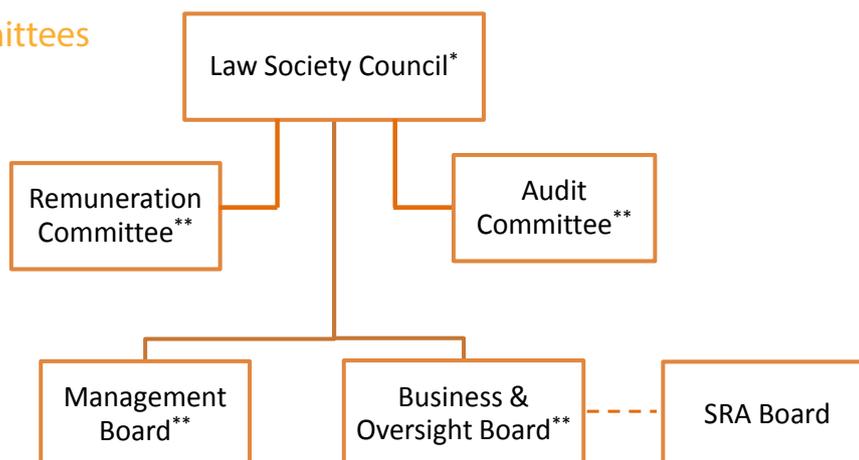
Alan Vallance is the Chief Operating Officer with responsibility for CS Operations. The Chief Executives and Chief Operating Officer are responsible for the development of strategies for, and the performance of, their business operations and for the management of their staff. Each is responsible for a budget approved by Council through the relevant governing Board. The Chief Executive of TLS is responsible to the Management Board, the Chief Executive of the SRA is responsible to the SRA Board and the Chief Operating Officer is responsible to the Business and Oversight Board.

## The UK Corporate Governance Code

The Law Society is incorporated by Royal Charter and, as a result, is not bound by the UK Corporate Governance Code (the Code). However, the Law Society is committed to the principles of good corporate governance and has put in place steps to comply with the Code where it can reasonably do so.



## Boards & Committees



\* Each Board provides an annual report of its activities to Council as part of the governance process

\*\* These Committees have Group-wide responsibilities within their terms of reference

## Management Board

The Management Board advises Council on the exercise of the Law Society's functions as Approved Regulator, except for matters delegated to the Business and Oversight Board and the SRA Board. The Management Board recommends to Council the TLS budget and business plan and oversees the work of the TLS Chief Executive and his team. The Management Board also recommends to Council the amount to be collected through PC fees and contributions to the Compensation Fund.

The Management Board is chaired by a Council member who is also Treasurer, who is elected by a ballot of Council members for a period of three years (non-renewable). The current Treasurer and Chair of Management Board is Tim O'Sullivan, who was appointed to the role on 1 January 2013. In addition to the Chair, the membership of Management Board comprises the President, Vice President, Deputy Vice President, Chief Executive (non-voting member) and five Council members elected by ballot of the Council.

## Business and Oversight Board

The Business and Oversight Board deals with all matters relating to the provision of support services from CS to TLS and the SRA. In addition, the Board is responsible for recommending to Council the annual budgets for the SRA and CS and for the oversight of risk.

The Law Society, as Approved Regulator, remains responsible for oversight of the SRA Board to ensure that it operates in accordance with the regulatory objectives of the LSA. This responsibility is exercised through the Business and Oversight Board.

The Business and Oversight Board comprises the President, Treasurer, a Council member elected by ballot of the Council, the Chief Executive of TLS, the Chair of the SRA Board, two members of the SRA (one being the Chair of the Board's Finance and Resources Committee and the other being nominated by the Chair of the SRA Board), the Chief Executive of the SRA and three external members (who are neither Council members nor members of the SRA Board).

Each of the external members of the Business and Oversight Board serves for three years, running from the date of appointment until the 31 August of the fourth year and is eligible for re-appointment for one further period of three years only.

Until 31 December 2012 the Business and Oversight Board was jointly chaired by Andrew Caplen as Treasurer of the Law Society and Graham Chisnall, an SRA Board member and Chair of the SRA Board's Finance and Resources Committee. On 1 January 2013 David Fisher, an external member, was appointed as sole Chair of the Board.

## Solicitors Regulation Authority Board

In accordance with the requirements of the LSA, the Council has delegated its regulatory powers to the SRA Board to ensure the independence of regulation from representation activities. The SRA Board determines the overall regulation strategy of the SRA, and oversees the work of the SRA's Chief Executive and his team.

The SRA Board is chaired by Charles Plant and comprised 15 members as at 31 October 2013.



## Audit Committee

The Audit Committee advises the Boards and the Executive on the Group's internal control framework and oversees action required as a result of matters raised by the external auditors. The Committee also reviews the plans and monitors the progress of the Group Risk and Assurance team which includes Internal Audit.

The Audit Committee is chaired by Bob Spedding, a former partner at KPMG. Mr Spedding was appointed as a member of the Audit Committee on 1 September 2008, became Chairman on 1 January 2010 and was reappointed for a further three year term on 1 January 2013. In addition to the Chairman, there are seven members of the Audit Committee who each serve a three year term, renewable for a maximum of two further three year terms. Under the General Regulations one of the members is required to be a Council member, another an SRA Board member and the remaining five members must not be Council members.

## Remuneration Committee

The Remuneration Committee advises on compensation to the office holders, Council members and Board and Committee Chairs and members. In addition, it makes recommendations to the relevant Board on the pay, terms, conditions, incentives and performance management frameworks in place for the two Chief Executives and their executive teams and for the Chief Operating Officer.

The Remuneration Committee was chaired by David Fisher until 30 April 2013. On 1 May 2013 Michael Blacker was appointed to the role. Mr Fisher and Mr Blacker are also independent external members of the Business and Oversight Board. In addition to the Chair, the membership of the Remuneration Committee comprises the remaining two external members of the Business and Oversight Board, the Treasurer (non-voting) and a SRA Board member (non-voting). Members of the Committee are all ex officio members as a result of their membership of other Boards and Committees.

## Other Boards and Committees

Additional Boards in place oversee work on legal policy, regulatory affairs and membership services. Details of Board and Committee members during the period are shown on pages 61 to 63.

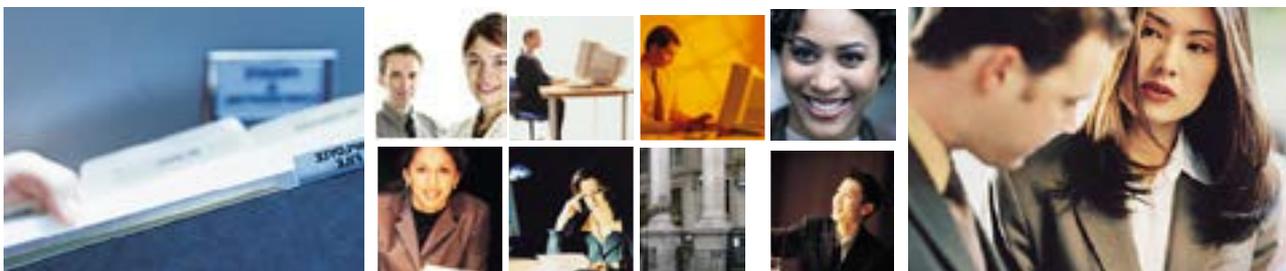
## How Council, Board, and Committee members are paid

### Remuneration

Payments are made to the office holders or their firms or employer. Under bye-law 73a(2) the President may be remunerated a maximum payment equivalent to that paid to a recorder. The Vice President may receive up to 50% of the annual recorder salary whilst the DVP may receive up to 25% of a recorder's salary. Council members receive an annual allowance to defray office costs and individual expenses are repaid in accordance with the Society's written policy.

The Chairs of the Business and Oversight Board and the SRA Board received payments in 2013, as did the Chairs of the Audit Committee and Remuneration Committee.

More details on remuneration paid to Council and Board and Committee Chairs are provided in Note 12 to the Consolidated financial statements on page 51.



# Group risks

## Risk governance and management

The Audit Committee and the Business and Oversight Board have regular oversight of the Group Risk Register as part of the formal governance arrangements.

To support risk management oversight the Law Society has delivered on its commitment to enhance risk governance and management systems during this period. Examples of this include the consolidation of high level risk registers into a consistent reporting format and high level risk reports better linked to strategic and operational plans. As these enhancements were introduced, our articulation of risk has changed accordingly.

The key risks are provided in the summary below.

### Group risk summary

The organisation does not anticipate adverse economic conditions, and/or effectively manage financial arrangements (e.g. assets, liabilities, cash flow etc.) resulting in insufficient funds for operational activities and/or transformation programmes.

The organisation fails to understand and respond to the diverse and changing needs of members, customers and stakeholders which leads to member disengagement, reduced relevance of the Law Society and loss of market share.

### Actions to mitigate risks

A formal reserves policy has been established by Council which requires a minimum cash reserve to be held which covers at least six months of forward expenditure net of expected income.

The Investment Committee regularly reviews accounting reserves, commercial investments and revenues, ensuring appropriate monitoring and reporting of the Society's financial position.

Management have made judgemental provisions in respect of future liabilities. Examples are the claims provisions in the indemnity operations and the ARP, together with the level of intervention and legal costs.

There is an independent SIF Board that monitors the insurance claims liabilities with input from external actuaries. The level of claims are monitored along with external factors that might impact the costs arising from claims that have not yet been notified. External specialists are used to manage the claims costs and assist in valuing the provisions and estimated future commitments.

The SRA has focused on financial stability issues, in particular by identifying and assessing firms that are at risk of closure and provided more supervision and support to closure which reduced the level of costs incurred from interventions and closures.

A range of ongoing activities are undertaken to ensure we understand and respond to members needs in an effective and sustained manner. For example an engagement exercise was undertaken with City firms, ABS and in-house practitioners during the year.

Regular product and service reviews are also undertaken to analyse and better understand client needs and, using this information, launch new or refreshed products, for example; the introduction of a Conveyancing Portal and the launch of Law Society Consulting and Chancery PII to provide small firms access to affordable PI insurance.

Feedback is monitored on a regular basis and enhancements made where necessary.

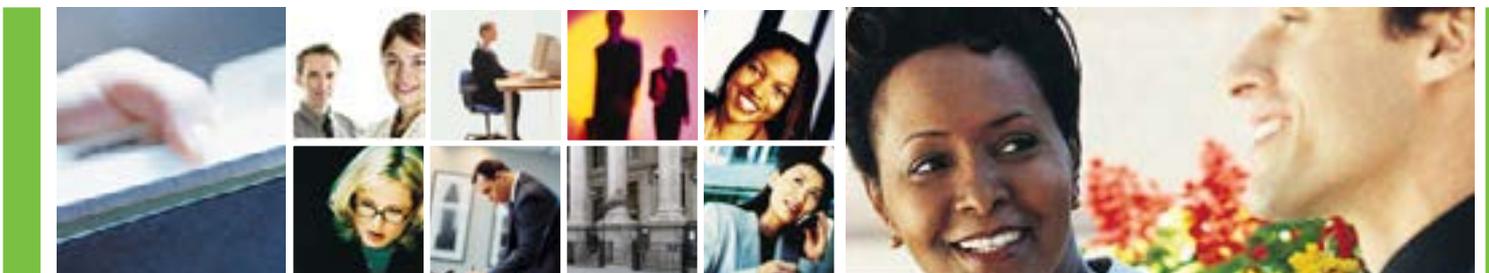


## Group risk summary

The organisation fails to have a robust control environment and infrastructure resulting in an inability to deliver accurate financial reporting and useful management information to support key decisions.

## Actions to mitigate risks

A detailed action plan is in place to embed an appropriate internal control culture and infrastructure to support the Law Society's operations. Specific actions taken during the period include the rollout of a new ERP finance system, the adoption of a quarterly self certification questionnaire for management, an enhanced internal audit function and more robust measurement techniques to link the internal controls to performance. Further details can be found in the Audit Committee Statement on page 19.



# Audit Committee Statement

The Audit Committee advises the Management Board on the review of internal control and oversees action required as a result of matters raised by the external auditors. In addition, the Committee reviews the process of preparing the financial statements as well as the content of the financial statements and the Annual Report including the accounting policies and advises Management Board accordingly. The Audit Committee also reviews the plans and monitors the progress of the Group Risk and Assurance Team. During the period the Audit Committee have monitored and considered a number of areas.

## Internal Control Environment

Internal controls are designed to manage the risk of failure to achieve business objectives and provide reasonable assurance against material misstatement or loss. Internal control is primarily the responsibility of the Management Board and is also included in the Audit Committee's terms of reference requiring it "to keep under review the systems of internal control...". The Law Society considers that its systems of internal control require further improvement and will continue to review and develop the internal control environment.

A detailed plan to improve the control environment was presented to the Audit Committee for feedback. This plan was approved by the Business and Oversight Board in November 2013 and was also reviewed in conjunction with the Law Society's external auditors. In addition, the plan was reviewed by the Management Board and the SRA Board's Finance and Resources Committee. The plan focuses on improving the effectiveness of the financial controls over the next year alongside additional activities aimed at embedding internal controls within the culture, behaviours and codes of conduct of the organisation. The first key milestone to be delivered was the implementation of a fully integrated ERP system early in 2014.

## Internal Audit

The Internal Audit team reports through the Chief Operating Officer with a reporting line directly to the Audit Committee, and has a continuous plan of improvement to ensure that the function continues to be able to provide the required monitoring, challenge and support that the business needs. There have been significant changes made to modernise the Internal Audit function and add greater value to the work done. The Internal Audit team was restructured to recruit internal audit and risk expertise at the appropriate levels and a procurement exercise was undertaken to outsource IT internal audit services to Deloitte.

Improvements have been made to the audit planning process, with the introduction of a four year rolling plan, and audit reports are now rated in terms of the levels of assurance over the effectiveness of the operation of controls.

Self-certification is a process where managers self-assess their level of compliance with corporate controls on a quarterly basis. This was introduced as a means of monitoring adherence to, and awareness of, controls across the organisation.

## IT Strategic Development

The Audit Committee reviewed the IT Strategy and IT Roadmap as laid out below.

- The Strategy included the identification and design of an appropriate IT architecture for the Law Society. This is referred to as the IT Roadmap which is published and tracked against.
- Moving away from a number of major legacy systems which are either approaching end of life support or are already in extended support arrangements.
- Embracing more current technology to provide a solution for remote working.

## Enterprise Resource Planning Programme

The ERP Programme commenced in January 2013 and has been working towards a two phased delivery of the ERP solution with Phase 1 being delivered in January 2014. The Phase 1 implementation involved replacing the legacy Finance system with Microsoft Dynamics AX with a resulting improvement in the financial control environment.

The Audit Committee received regular updates on the progress of the ERP Programme and reviewed resource plans for the Finance department ensuring the correct governance and controls were in place over the programme. Within the internal controls plan is a review of financial processes which incorporates documenting the processes and controls using an industry standard process classification framework. The ERP Go-Live decision was made by the ERP Programme Board based on pre-defined acceptance criteria being satisfied. This decision was made in conjunction with work being completed to document the financial processes and controls in place.



# Audit Committee Statement

## Key Strategic Projects

The Group needed to address improved governance and the delivery of key strategic projects particularly in relation to the internal control environment. This included monitoring and reporting on the critical portfolio dependencies across the Law Society, capturing, communicating and learning from delivery issues and establishing a mechanism for assessing priorities of the portfolio pipeline.

The organisation has been reliant on contractor resource for delivery of business critical projects both from a cost and succession perspective.

The Audit Committee received details of the new Programme and Project lifecycle framework, which came into effect on 1 January 2013. This included the establishment of a Project Review Committee (PRC), chaired by the Chief Operating Officer. The PRC governs the Enterprise portfolio and has representatives from the SRA and TLS. The PRC has clear terms of reference and is responsible for the consideration of all projects in the portfolio and for their ongoing performance and delivery.

The Audit Committee receives regular updates on the implementation of the framework and the progress of the PRC. This provides a clear approach to considering viability of projects ensuring that quality assurance is embedded within the process. This framework is underpinned by the Programme and Project Portfolio Office (PPMO), project processes including risk and issue management, change management and benefits management.

## Financial Statements - Key Matters Considered

The Audit Committee pays particular attention to matters it considers to be important by virtue of their impact on the Law Society's financial results or the level of complexity or estimation involved in their application. It has considered the following key areas during the financial period:

### Matter considered

#### SRA Legal & Intervention Provisions

The Group provides for costs in respect of legal interventions, disciplinary proceedings and litigation matters that are ongoing at the year end. As at the Balance Sheet date the provision had increased by £3.0m to £6.0m due to the increased volume and value of interventions.

#### SRA Cost Recovery Provision

The SRA is entitled to recover costs in relation to interventions from individuals or law firms as appropriate. There is a significant potential debtor, however in the majority of cases recovery cannot always be made. Recovery is recognised when a payment plan has been agreed. To mitigate against the risk of recovering the debt the SRA also makes provision for non recovery of the debt. As at the Balance Sheet date, cost recovery debts of £1.6m have been included in the Consolidated Balance Sheet with a corresponding provision of £0.8m.

### Action

The Audit Committee has considered the current policy with management in relation to when a legal or constructive obligation arises in respect of the legal interventions. In 2014 a clearly defined financial policy clarifying timing of the recognition of these costs will be established.

The Audit Committee has considered with management the level of the provision and policy applied this year, together with ensuring that efforts are being made to recover the debt. In 2014 the financial policy will be further reviewed and formalised.



# Audit Committee Statement

## Matter considered

### Solicitors Indemnity Fund case provisions

SIF is responsible for managing historic claims and settling associated liabilities arising from solicitors where their post cessation open market PII has expired and there is no successor insurer to assume the liability. During 2012 cover was extended to cover claims as far as 2020 (previously 2017).

SIF makes provisions in respect of outstanding cases and the provision as at the Balance Sheet date increased by £3.9m to £12.6m. The increase has been in respect of incurred but not reported (IBNR) provisions and also run off costs.

### Pension Scheme

The Law Society completed the disposal of the defined benefit pension scheme in 2013. MetLife entered into an individual pension arrangement with each member of the Scheme and the Law Society's liability and future exposure to risk has been entirely eliminated. The anticipated additional costs of the scheme to complete the buyout were accrued in the 2012 financial statements and after the Scheme closed a significant refund was returned to the Law Society. The final valuation of the Scheme was undertaken externally by an independent valuer.

### Assigned Risks Pool

The ARP provided PII cover for firms who are unable to obtain cover from Qualifying Insurers and closed in 2013. Certain liabilities arising from claims made in relation to applied firms are to be met by the Law Society.

The quantification of the provision required is subjective and requires judgement. Valuation is conducted externally by an independent valuer and the overall provision is significant to the Law Society. As at the Balance Sheet date the provision was £4.1m (2012: £3.2m).

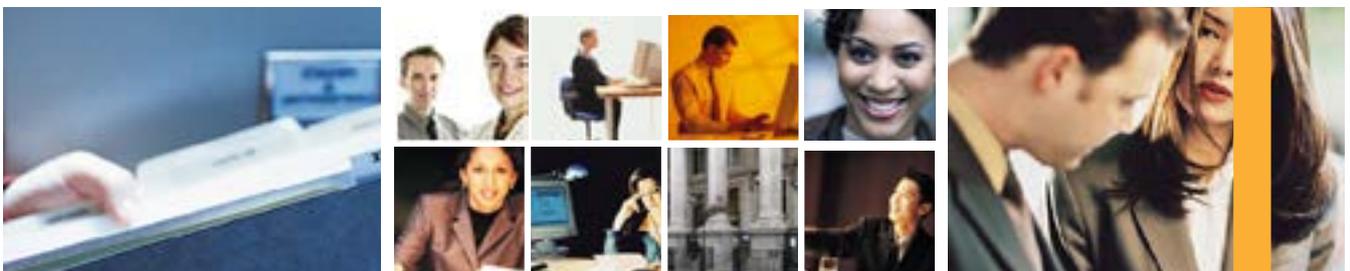
## Action

The Audit Committee was presented with accounts from SIF that were audited and signed off along with an overview of the case provisions by the relevant management teams. The Committee discussed the various provisions and judgements made with regard to the calculation of each provision.

An actuarial review was undertaken that recommended increasing the IBNR reserve and expected future run off cost provision. In addition allowance has been made for future claims inflation at 3% pa. The provisions are consistent with the underlying calculations.

The Audit Committee has considered the entries posted into the financial statements and final valuations and accounting treatment.

Management have provided a paper to the Audit Committee, which the Committee has discussed, regarding judgements made and the valuation & calculation of the provision based on the valuer's report and subsequent information provided by the ARP administrators, Capita. The Committee considered the level and number of claims both historical and in progress and also the IBNR claims and discussed with management the reasonableness of estimates on which the provision is based.





# Statement of Responsibilities

## Council

The Council is responsible for governance of the Law Society. Under delegated authority from the Council, the Management Board is responsible for the preparation of financial statements which give a true and fair view of the position of the Law Society at the end of the financial period and of any surplus or deficit for that period.

## Management Board

The Management Board is responsible for preparing the non-statutory consolidated financial statements in accordance with the basis of preparation and accounting policies in Note 1. The Management Board must not approve the non-statutory consolidated financial statements unless it is satisfied that they have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies in Note 1 to the non-statutory consolidated financial statements.

In preparing these non-statutory consolidated financial statements, the Management Board has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgments and accounting estimates that are reasonable and prudent.
- Stated the basis of preparation and the accounting policies applied.
- Prepared the non-statutory consolidated financial statements on the going concern basis unless it is inappropriate to assume that the Law Society will continue in business.

The Management Board is responsible for keeping adequate accounting records that are sufficient to show and explain the Law Society's transactions and disclose with reasonable accuracy at any time the financial position of the Law Society. It is also

responsible for safeguarding the assets of the Law Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Management Board is primarily responsible for reviewing both the system of internal controls and risk management, with the Business and Oversight Board and the SRA Board sharing responsibility.

The Management Board is responsible for the maintenance and integrity of the Law Society's website. The SRA Board is responsible for the maintenance and integrity of the SRA's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Management Board considers that the Annual Report and consolidated financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the Law Society's performance and strategy.

Each member of the Management Board confirms that, so far as they are aware, there is no relevant audit information of which the Law Society's auditors are unaware and that they have taken all the steps that they ought to have taken as a board member with delegated authority in order to make themselves aware of any relevant audit information and to establish that the Law Society's auditors are aware of that information.

## Independent auditors

PricewaterhouseCoopers were appointed as external auditors in 2009 following a competitive tender process.

Following a recommendation from the Audit Committee, Management Board has adopted a policy in relation to the provision of non-audit services by the auditors, with the objective of ensuring that the provision of such services does not impair the external auditors' independence or objectivity.



# Statement of Responsibilities

## How we ensure controls are in place

### Internal control

The Law Society recognises the value of the internal control principles in the Code and chooses to comply voluntarily where possible. In doing so, the Law Society acknowledges that internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable assurance against material misstatement or loss. Further details on the internal control environment can be found in the Audit Committee Statement on Page 19.

### Monitoring of internal controls

The Council has given specific responsibility for internal control to the Management Board, although other Boards have some risk management responsibilities.

During 2013, the Law Society continued to focus on implementing a detailed plan to improve the internal control environment.

### Risk management

The Council, through Management Board, the Chief Executives of the Law Society and the SRA and the Chief Operating Officer, has established a process for identifying, evaluating and managing significant risks faced by the Law Society. The Business and Oversight Board has responsibility for overseeing the Group Risk Register (further details on page 17). The supporting risk registers are regularly updated.

## Statement of going concern

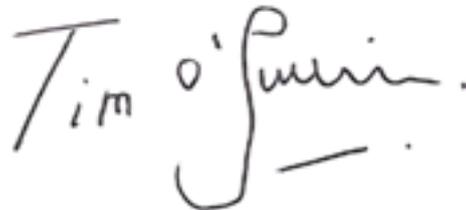
The Management Board considers (on behalf of the Council) that the Law Society will have sufficient resources to meet its liabilities as they fall due for the foreseeable future, at least over the next 12 months from the date of signing the accounts. As a result, the Management Board (on behalf of the Council) has satisfied itself that the Law Society is a going concern.

Approved by the Management Board of the Law Society and signed on behalf of the Council of the Law Society.



Nicholas Fluck  
President

Date: 19 May 2014



Tim O'Sullivan  
Treasurer



# Independent Auditors' Report to the Council of the Law Society

We have audited the non-statutory consolidated financial statements (the "consolidated financial statements") of the Law Society (the "Society") and its subsidiaries, (together "the Group") for the period ended 31 October 2013 which comprise the consolidated Income and Expenditure Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the notes to the consolidated Cash Flow Statement and the related notes. These Consolidated financial statements have been prepared in accordance with the basis of preparation and accounting policies in Note 1 to the consolidated financial statements.

## Respective responsibilities of the Management Board and auditors

As explained more fully in the Statement of Responsibilities set out on page 22 the Management Board is responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for management's purposes to assist the Council of the Law Society to discharge their stewardship obligations and fiduciary responsibilities in respect of the Society under the Bye-laws in accordance with our engagement letter dated 10 September 2013 and for no other purpose.

We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the consolidated financial statements sufficient to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Management Board; and the overall presentation of the consolidated financial statements. In addition, we read all the financial and non-financial information in the annual report and consolidated financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 October 2013 and of its surplus and cash flows for the period then ended;
- have been properly prepared in accordance with the basis of preparation and accounting policies in Note 1 to the consolidated financial statements.

PricewaterhouseCoopers LLP  
Chartered Accountants  
London

Date: 19 May 2014

# Consolidated Income and Expenditure Account for the ten month period ended 31 October 2013

	Note	10 month period 2013 £'000	12 month period 2012 £'000
Income:			
Practising certificate income	2	87,725	98,008
Other income		18,368	19,688
Indemnity operations	3	194	2,541
<b>Total income</b>	<b>4</b>	<b>106,287</b>	<b>120,237</b>
Operating cost:			
The Law Society excluding funding of external bodies		(85,570)	(117,144)
Funding of external bodies	5	(17,419)	(22,376)
Indemnity operations	3	(5,337)	(3,771)
<b>Total operating cost</b>		<b>(108,326)</b>	<b>(143,291)</b>
<b>Operating result</b>	<b>6</b>	<b>(2,039)</b>	<b>(23,054)</b>
Exceptional gain on disposal of pension scheme	7	8,700	-
Exceptional reorganisation release relating to LCS		-	302
Investment income	8	1,269	1,022
Other finance charges	9	(524)	(1,071)
<b>Result before taxation</b>	<b>4</b>	<b>7,406</b>	<b>(22,801)</b>
Taxation (charge) / refund	10	(182)	62
<b>Surplus / (deficit) for the financial period</b>	<b>11</b>	<b>7,224</b>	<b>(22,739)</b>

All of the above are continuing activities except for the indemnity operations which were discontinued from 2000 but continue to wind-down, see Note 3.

There are no material differences between the result before taxation and the surplus for the financial period stated above and their historical cost equivalents.

The notes on pages 33 to 59 form part of these financial statements.



## Consolidated Statement of Total Recognised Gains and Losses for the ten month period ended 31 October

	Note	10 month period 2013 £'000	12 month period 2012 £'000
Surplus / (deficit) for the financial period/year	11	7,224	(22,739)
Actuarial gain recognised on the pension schemes	9	524	1,071
SIF unrealised loss on fixed asset investments	3	(79)	(291)
<b>Total recognised gain / (loss) for the period</b>		<b>7,669</b>	<b>(21,959)</b>

The notes on pages 33 to 59 form part of these financial statements.

# Consolidated Balance Sheet as at 31 October 2013

	Note	31 Oct 13 £'000	31 Dec 12 £'000
Tangible assets:			
Fixed assets	14	25,977	24,087
Investments - long-term	15	20	3
<b>Total tangible assets</b>		<b>25,997</b>	<b>24,090</b>
Current assets:			
Assets held for resale	17	-	850
Stocks - goods for resale		327	281
Debtors	18	33,725	23,363
Investments - short-term	15	48,459	28,648
Cash in escrow relating to pension scheme buy-in	9	-	23,071
Cash in escrow relating to indemnity operations	3	1,170	1,815
Bank and cash		108,190	115,157
<b>Total current assets</b>		<b>191,871</b>	<b>193,185</b>
<b>Total assets</b>		<b>217,868</b>	<b>217,275</b>
Current liabilities:			
Creditors	19	(133,421)	(121,482)
<b>Total current liabilities</b>		<b>(133,421)</b>	<b>(121,482)</b>
Liabilities due in more than one year			
Gross indemnity claims provision	16	(12,591)	(8,994)
Society provisions	20	(10,974)	(7,386)
<b>Total liabilities due in more than one year</b>		<b>(23,565)</b>	<b>(16,380)</b>
<b>Total liabilities excluding pension liabilities</b>		<b>(156,986)</b>	<b>(137,862)</b>
<b>Total net assets excluding pension liabilities</b>		<b>60,882</b>	<b>79,413</b>



# Consolidated Balance Sheet as at 31 October 2013 (continued)

	Note	31 Oct 13 £'000	31 Dec 12 £'000
Pension liabilities:			
Funded	9	-	(26,200)
<b>Total pension liabilities</b>		<b>-</b>	<b>(26,200)</b>
<b>Total net assets including pension liabilities</b>		<b>60,882</b>	<b>53,213</b>
Represented by:			
Accumulated funds at the start of the year		53,213	75,172
Total recognised gain/(loss) since the last financial statements		7,669	(21,959)
<b>Accumulated funds at the end of the period/ year</b>	<b>11</b>	<b>60,882</b>	<b>53,213</b>

The notes on pages 33 to 59 form part of these financial statements.

The financial statements were approved by the Management Board of the Law Society and signed on behalf of the Council of the Law Society.

Nicholas Fluck  
President  
Date: 19 May 2014

Tim O'Sullivan  
Treasurer

# Consolidated Cash Flow Statement for the ten month period ended 31 October 2013

	Note	10 month period 2013 £'000	12 month period 2012 £'000
Net cash (outflow) / inflow from operating activities	I	(7,831)	73,986
Returns on investments and servicing of finance	II	1,269	1,022
Taxation received / (paid)		222	(3,417)
Capital expenditure and financial investments	II	(4,453)	(14,763)
Cash (outflow) / inflow before management of liquid resources and financing		(10,793)	56,828
Management of liquid resources	III	(19,890)	32,933
(Decrease) / increase in cash in the year	IV	(30,683)	89,761
Reconciliation of net cash flow to movement in net funds:			
(Decrease) / increase in cash in the year		(30,683)	89,761
Cash used to increase / (decrease) liquid resources		19,890	(32,933)
Changes in net funds resulting from cash flows	IV	(10,793)	56,828
Unrealised gain on investments		(79)	(291)
Movement in net funds		(10,872)	56,537
Net funds as at 1 January		168,691	112,154
Net funds as at 31 October / 31 December	IV	157,819	168,691



# Notes to the Consolidated Cash Flow Statement for the ten month period ended 31 October 2013

## I. Reconciliation of deficit for the year to net cash (outflow) / inflow from operating activities

	Note	10 month period 2013 £'000	12 month period 2012 £'000
Operating result deficit		(2,039)	(23,054)
Depreciation charges	6	3,767	4,428
Impairment of tangible fixed assets	6	-	5,915
Loss on disposal of tangible fixed assets	6	2	8
Profit on disposal of assets held for sale	6	(373)	-
Exceptional income	7	8,700	302
Increase in inventories		(46)	(7)
(Increase) / decrease in debtors		(10,690)	81,258
Increase in creditors and creditors due in less than one year		11,863	3,242
Increase in PII claims incurred net of reinsurance		3,597	1,650
Increase in provisions		3,588	244
Decrease in pension scheme liability		(26,200)	-
<b>Net cash (outflow) / inflow from operating activities</b>		<b>(7,831)</b>	<b>73,986</b>

### Increase in debtors

The £10,690k increase in debtors between 31 December 2012 and 31 October 2013 is mainly as a result of a £12,161k increase in PC fee debtors. This is due to the shortened accounting period matching the PC renewal period which has had the effect of more PC fees invoiced but not paid as a result of registering an online application prior to the year end; in previous years the monies for these applications would have been received in the following few months, some prior to 31 December year end.

Prepayments and accrued income accounted for £2,166k of the increase whilst other debtors and the VAT refund due from HMRC increased marginally by £151k and £121k respectively.

Trade debtors fell overall by £426k. There were no amounts due from other Law Society affiliated entities as at the year end, a reduction of £3,483k.

### Increase in creditors

The £11,863k increase in creditors between 31 December 2012 and 31 October 2013 is mainly as a result of a £8,471k increase in PC fee deferred income; this is again due to the change in year end. This has had the effect of a 100% deferral of income collected by 31 October 2013, as all this income relates to the next accounting year. In previous years only 10/12 of this income would have been deferred.

Trade creditors increased slightly by £1,692k and other creditors by £453k, whilst accruals and other deferred income fell by £1,916k.

Amounts due to the Legal Ombudsman fell by £3,861k due to a decrease in running costs. As at the year end there are amounts due to other Law Society affiliated entities of £7,025k.

# Notes to the Consolidated Cash Flow Statement for the ten month period ended 31 October 2013 (continued)

## II. Analysis of cash flow for headings netted in the cash flow

	Note	10 month period 2013 £'000	12 month period 2012 £'000
Returns on investments and servicing of finance:			
Investment income and interest		1,269	1,022
<b>Net cash inflow from returns on investments and servicing of finance</b>		<b>1,269</b>	<b>1,022</b>
Capital expenditure and financial investment:			
Purchase of tangible fixed assets	14	(5,659)	(14,760)
Sale of fixed assets	17	1,250	-
Costs incurred on sale of fixed assets	17	(27)	-
Purchase of shares	15	(17)	(3)
<b>Net cash outflow from capital expenditure and financial investments</b>		<b>(4,453)</b>	<b>(14,763)</b>

## III. Management of liquid resources

	10 month period 2013 £'000	12 month period 2012 £'000
(Purchase) / Sale of current asset investments	(19,890)	32,933
	<b>(19,890)</b>	<b>32,933</b>



# Notes to the Consolidated Cash Flow Statement for the ten month period ended 31 October 2013 (continued)

## IV. Analysis of net funds

	As at 01 Jan £'000	Cash flow £'000	Non-cash items £'000	As at 31 Oct £'000
Cash and cash equivalents	140,043	(30,683)	-	109,360
Current asset investments	28,648	19,890	(79)	48,459
	168,691	(10,793)	(79)	157,819

Non-cash items relate to unrealised gains on investments.

# Notes to the Consolidated Financial Statements for the ten month period ended 31 October 2013

## 1. Accounting policies

### Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and in accordance with the requirements of the Companies Act 2006 to the extent that the Board believe that they are applicable to the Group. As the Law Society is a body incorporated by Royal Charter it is not required to comply with the Companies Act 2006. However, the Law Society has complied with those elements of the Companies Act relevant to the financial statements that the Management Board believes are necessary to enable the financial statements to give a true and fair view.

The financial statements are prepared under the historical cost convention with the exception of the valuation of investments. The indemnity entities included in the consolidation also adopt certain elements of the Association of British Insurers Statement of Recommended Practice (ABI SORP) relevant to those entities.

The most significant accounting policies adopted by the Law Society are described below and these have been applied consistently, except as noted below.

### Basis of consolidation

Consolidated financial statements have been prepared which comprise the Law Society and its principal subsidiary undertakings, as disclosed in Note 13. The financial statements only disclose the consolidated Law Society results. No separate Income and Expenditure Account or Balance Sheet is presented for the Law Society itself.

### Non-consolidated entities

In the opinion of the Management Board the following entities should not be consolidated into the financial statements as these entities are not considered to be subsidiaries, associates or joint ventures as defined by FRS2 or FRS9.

- The Law Society Compensation Fund
- Statutory Trust Accounts
- The Law Society Educational Trust
- The Law Society Retirement Benefits Scheme
- The Law Society Trustees Limited
- The Law Society Charity
- The Law Society Pension Scheme
- Assigned Risks Pool
- Riliance Software Limited

The following entities are not consolidated in the financial statements as in the opinion of Management Board the results, assets and liabilities continue to be immaterial to the Law Society.

- Queen's Counsel Appointments Limited
- Six Clerks Insurance Services Limited (trading as Chancery PII)

### Significant judgements and key sources of estimation

To be able to prepare the financial statements in accordance with United Kingdom accounting standards, management and the Management Board must make estimates and assumptions that affect the recorded asset and liability items as well as other information, such as that provided on provisions. These estimates are based on historical experience and various other assumptions that management and Management Board believe are reasonable. The result of these forms the basis for making judgements about the carrying value of assets and liabilities that may not be readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions however they are based on the Board's best estimate and all available information and after consideration of the sensibility of key assumptions. All key accounting estimates have been included and explained in the relevant



## 1. Accounting policies (continued)

accounting policies which follow.

### Income

#### Practising certificate fees collected to fund operating activities

Revenue in relation to PC fees is recognised on an accruals basis, apportioned over the period to which the practising certificate relates (1 November to 31 October, except where people join during the year). Income invoiced but not yet received prior to year end is included in debtors and deferred income to match the period to which they relate. PC fees collected by the Law Society are only used to fund permitted activities under section 51 of the LSA.

#### Other income

There are a number of other income streams. For each, income is recognised on an accruals basis ensuring that revenue is recognised as the goods or services are delivered. The date of delivery is typically the day of despatch for goods, the day of a particular event or course or, for non practising certificate regulatory fees, the day payment is received and the applicant becomes entitled to the services applied for, subject to final checks being undertaken. There are three significant exceptions to this as follows:

#### Student enrolment and re-enrolment

The granting of student enrolment affords eligibility to study the legal practice course to the applicant; eligibility lasts for a period of four years. On this basis enrolment services provided are deemed to be delivered evenly over a four year period and revenue is therefore recognised over a four year period from the day payment is received and the applicant becomes entitled to the services applied for, subject to final checks being undertaken.

#### Recognised body fees

Revenue in relation to recognised body fees is recognised when payment is received and the entity becomes entitled to provide legal services, subject to final checks being undertaken. These fees are then apportioned over the period to which the entitlement relates, which runs from 1 November to 31 October, except where recognised body status is granted to new entities during the year.

#### Legal practice course income

The granting of legal practice course (LPC) status to a training company entitles that company to provide legal practice course training. Revenue in relation to legal practice course income is recognised at the point of invoicing and revenue is apportioned over the period to which the LPC status relates, which runs from 1 September to 31 August, except where LPC status is granted to a new training provider during the year.

### Funding of external bodies

The Law Society is required to fund three independent organisations, the Legal Services Board, the Legal Ombudsman and the Solicitors Disciplinary Tribunal with ongoing commitment to fund their operating costs or a proportion thereof.

#### Ongoing operating costs

The amounts levied by each entity each year are based on budgeted costs of those bodies and notified in advance. Both the Legal Ombudsman and the Legal Services Board have a year end of 31 March with the Solicitors Disciplinary Tribunal having a year end of 31 December. The Law Society is formally notified of variations to budget by Legal Ombudsman and Legal Services Board on an annual basis, in March, and by the Solicitors Disciplinary Tribunal on a quarterly basis. These levy costs are accounted for in the period to which the Law Society is advised those costs relate. Any variations to budget are accounted for upon notification.

### Foreign currency

Monetary assets and liabilities in foreign currencies are translated into sterling at rates of exchange ruling at the end of the year. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. All foreign exchange differences have been taken to the income and expenditure account during the year.

### Exceptional items

Exceptional items are those material items which, by virtue of their size or incidence, are presented separately in the income and expenditure account to enable a full understanding of the financial performance.

# Notes to the Consolidated Financial Statements

## 1. Accounting policies (continued)

### Taxation

With the exception of its commercial activities the Law 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.

Commercial activities of the Law Society and LIOL are liable for Corporation Tax on their profits for the year at the standard rate of United Kingdom Corporation Tax. SIF is liable for Income Tax on its taxable surplus for the year at a rate agreed with HMRC of 20%.

### Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted. All liabilities are recognised.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

### Recoveries

The Law Society as Approved Regulator will incur costs in protecting the public. These costs may be recoverable from solicitors in due course and any potential recovery will be recognised at the point at which they become virtually certain and provision is made for the likelihood of recovery. The Law Society does not make provision for other potential future recoveries due to the uncertainty of whether any amounts can be recovered.

### Fixed assets and depreciation

Tangible fixed assets are stated at cost net of accumulated depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is provided on a straight-line basis to write off the cost less estimated residual value over the useful economic life of the assets as follows:

- i. In respect of freehold buildings, each building has been split into various categories. Each category is being depreciated over its estimated useful economic life as follows:

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

No depreciation is charged on freehold land; cost of repairs and maintenance are charged to the Income and Expenditure account in the year incurred.

- ii. In respect of short leasehold property and improvements:

Premiums paid	over the period to the next open market rent review
Improvements	over ten years or the period of the lease if shorter

- iii. In respect of furniture and equipment: 5 years

- iv. In respect of computers and hardware:

Hardware assets	3 years
Software assets	5 years from the point of first use
Licences	Over the period of the licence, or not capitalised if < 1 year



## 1. Accounting policies (continued)

### Assets under construction

Where an asset is being acquired in stages or has not been brought into use it is classified as an asset in the course of construction and depreciation is not charged. Once a development build is complete the asset is depreciated. Any amounts outstanding at the year end which have been committed to, but where the assets have not been received, are disclosed as capital commitments.

### Development costs

Software development expenditure is capitalised if it meets certain criteria including 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 Law Society. All other costs are expensed as incurred.

### Lease transactions

Assets under operating leases, including leasehold buildings, are not capitalised. Rentals under operating leases are charged to the income and expenditure account in equal annual amounts over the lease term. Operating leases are those leases where:

- the lease term is less than 75% of the estimated economic life of the asset,
- the present value of lease payments is less than 90% of the equipment's fair market value; and
- ownership is retained by the lessor during and after the lease term.

The Law Society has no finance leases or hire purchase arrangements.

### Valuation of investments

Investments, comprising listed securities, are valued at their mid-market value at the Balance Sheet date on a portfolio basis. Upward revaluations are taken to the Income and Expenditure account where they are a reversal of previously recognised impairments or taken to the Statement of Total Recognised Gains and Losses where the value is an increase above historical cost. Impairments to the value of investments are taken to the Statement of Total Recognised Gains and Losses where they are a reversal of previously recognised upward revaluations or the Income and Expenditure account where they fall below historical cost. Profits and losses on sales of investments are measured by reference to the carrying value.

### Investment income

Interest on fixed interest securities, deposits and gilts is accounted for on an accruals basis. All movements in valuation of non listed security investments are recognised through the income and expenditure account.

### Stocks

Stocks are valued at the lower of cost, using the first in first out basis, and net realisable value. Using information available at the year end the Law Society makes judgements based on experience to provide for potentially obsolete and / or old stocks.

## Additional accounting policies for indemnity specific entities

### Contributions

Professional indemnity insurance (PII) contributions are accounted for on the accruals basis.

### Reinsurance recoveries

Reinsurance recoveries are accounted for as and when payment becomes due based on the liability being incurred.

### Claims costs

Claims costs are made up of claims handling costs including the costs of panel solicitors and internal claims handling staff, damages paid out, other costs and recoveries. Claims costs are accounted for as and when payment is authorised and recoveries are recognised at the point they become virtually certain and they can be measured.

# Notes to the Consolidated Financial Statements

## 1. Accounting policies (continued)

### Claims provisions

Estimation techniques are used to determine the Gross Claims Provision which represents the estimated outstanding liabilities relating to all indemnity years.

Ultimate claim settlements are estimated by the use of statistical projections of historical data, together with case by case reviews of notified losses, and are based on information available at the time the estimates are made. This is done at regular intervals during the year. There is uncertainty as to the quantum of the ultimate settlement of the liabilities which is inherent in the process of estimating such that, in the normal course of events, unforeseen or unexpected future developments could cause the ultimate cost of settling the outstanding liabilities to differ from that currently estimated. Any differences between provisions and subsequent settlements are dealt with in later accounting periods as actual costs and recoveries are known. Claims provisions include the estimated future costs of panel solicitors and of internal claims handling staff, including overheads. Claims provisions are not discounted.

### Claims provisions recoveries

Recoveries are recognised at the point at which they become virtually certain, practically when SIF is notified of entitlement to amounts and they can be measured. SIF does not make provision for other potential future recoveries due to the uncertainty of whether any amounts can be recovered.

### Reinsurance provisions

Reinsurance policies are held to provide cover for the risk associated with uncertainties of claims settlements and costs. Claims are made against policies to the extent that criteria have been met. Amounts are recognised to the extent that the Directors believe they are recoverable with provision made for any doubtful debts.

### Run-off costs

In accordance with FRS3 and ABI SORP, provision is made for future run-off costs as SIF is in wind down. Under the SORP it is not necessary to provide for future anticipated administrative run-off costs to the extent that they are offset by the expected future investment return of the Fund. The Board consider that all costs incurred by SIF fully relate to claims handling costs in relation to closure of SIF and so are fully provided for.

## Provisions

Provisions are recognised in respect of present obligations as a result of past events where it is probable that an outflow of resources will be required to settle the obligations and they can be reliably estimated. All provisions are made based on management's best estimate given past experience and available information.

The Law Society recognises provisions for the following items on the basis outlined below:

- Interventions, disciplinary proceedings and litigation - the Law Society recognises provisions for the unavoidable costs of completing proceedings in these areas based on earlier activity.
- Dilapidations - the Law Society recognises provisions for the unavoidable costs of restoring leased property to the same state as when the property lease was taken on by the Law Society. These costs are provided for evenly over the life of the lease.
- Ex-gratia payments - the Law Society has a small number of ex-employees who are contractually entitled to payments. The Law Society recognises all costs expected to be payable under the contract.
- Assigned Risks Pool costs – the Law Society has recognised, based on predicted claim values for the current economic environment, probable liabilities for the firms who have applied and been provided with a professional indemnity insurance policy from the Assigned Risks Pool.
- Other - provision is made for any other items where a liability is considered to be probable.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events. No reference is disclosed in the financial statements if they are remote or immaterial.



## 1. Accounting policies (continued)

### Pension costs

#### Defined contribution scheme

The Law Society makes contributions towards the defined contribution scheme up to maximum of 12.25% of basic salary. A separate defined contribution pension scheme is also available to staff involved in the PII operations.

The amount charged to the Income and Expenditure account in respect of pension costs and other post-retirement benefits is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

#### Defined benefit pension: funded

The Law Society closed the Law Society Retirement Benefit Scheme (the 'Scheme') to the future accrual of benefits after 30 June 2011 and working with the Trustee, secured an insurance policy with MetLife (the insurer) for all the remaining uninsured pension benefits in June 2011. The Trustees completed the wind-up of the Scheme on 6 September 2013 at which point the Scheme liabilities were transferred to the insurer MetLife and individual policies were issued to members. As of 6 September 2013, there are no further assets or liabilities of the Scheme and the Trustees have been discharged of their responsibilities.

#### Defined benefit pension: unfunded

The unfunded scheme (also referred to as ex-gratia or top-up scheme) was implemented by the Law Society in the 1980s when inflation was running very high. Under the scheme the Law Society agreed to top-up / increase pensioners' payments to account for the erosion of the value of pensions. A monthly payment is made by the Law Society to Punter Southall and Punter Southall in turn pay this money to the pensioners. The amounts payable are reviewed regularly by Punter Southall, scheme administrators, and valued each year by a qualified actuary. Any change in value of the scheme is charged to the income statement.

### Liquid resources

For the purposes of the cash flow statement, liquid resources are defined as current asset investments, representing amounts receivable within one year.

### Compensation fund recharge

The Law Society recharges an element of SRA costs and Corporate Solutions costs based upon agreed parameters to the Compensation Fund each year which relate to costs in intervening in solicitors' practices, managing the grant and adjudication process and of administering the Fund as it has no employees. The Compensation Fund is associated to the Law Society but is not considered a subsidiary for the purposes of these financial statements. Elements of income from defaulting solicitors and amounts recovered from STAs are proportionally deducted from the recharge.

The recharge calculation parameters are subject to change each year based on SRA Board approval and the terms are agreed by both the Law Society and the Compensation Fund.

### Heritage assets

The Law Society has a number of historical assets which are held and maintained for their contribution to knowledge and culture. These include mainly books and paintings. These items were acquired historically and have no value attributed to them in these financial statements as the Management Board have no method of establishing their value.

## 2. Practising Certificate income

The process for the collection of the 2013/14 PC fees commenced in September 2013, therefore the income received that relates to the 2013/14 period has been deferred for release in the year ended 31 October 2014. The amount of income deferred within creditors was £94.9m (2012: £86.4m).

PC fees collected by the Law Society are predominantly collected from UK based members with those coming from international solicitors being insignificant.

# Notes to the Consolidated Financial Statements

## 3. SIF financial statements summary

SIF, SIFL and LIOL form indemnity operations as presented in the consolidated financial statements. As SIF is a quasi-subsiary of the Law Society, a summary of the financial statements of SIF are shown below. No summary of LIOL financial statements are provided as LIOL is a subsidiary and SIFL, whilst a quasi-subsiary, is the administrator for the Fund and therefore has nothing in its financial statements other than some recharge costs.

The following shows an overview of amounts recognised in the consolidated financial statements relating to all three indemnity operations entities:

	10 month period 2013 £'000	12 month period 2012 £'000
SIF gross claims paid - recoveries element	194	2,135
Decrease in claims provision	-	-
Reinsurance recoveries	-	406
<b>Income statement - income from indemnity operations</b>	<b>194</b>	<b>2,541</b>
Increase in claims provision	(3,597)	(1,445)
SIF gross claims paid - payment element	(1,271)	(2,099)
Other	(464)	(226)
LIOL operating costs	(5)	(1)
<b>Income statement - operating costs from indemnity operations</b>	<b>(5,337)</b>	<b>(3,771)</b>

### SIF income and expenditure account

	10 month period 2013 £'000	12 month period 2012 £'000
Gross claims (costs) / recoveries	(1,077)	34
Reinsurance recoveries	-	406
<b>Net claims (costs) / recoveries</b>	<b>(1,077)</b>	<b>440</b>
Increase in gross provision for claims	(3,597)	(1,445)
Decrease in amounts recoverable from reinsurers	-	(205)
<b>Decrease in net provision for claims</b>	<b>(3,597)</b>	<b>(1,650)</b>
<b>Increase in claims incurred net of reinsurance</b>	<b>(4,674)</b>	<b>(1,210)</b>
Realised losses on fixed asset investments	(429)	(12)
Income from fixed asset investments	643	623
Investment expenses	(35)	(7)
<b>Investment return</b>	<b>179</b>	<b>604</b>
<b>Deficit before taxation</b>	<b>(4,495)</b>	<b>(606)</b>
Taxation (charge) / credit	(49)	134
Release of Funds	(132)	-
<b>Realised deficit for the year</b>	<b>(4,676)</b>	<b>(472)</b>
Surplus brought forward	21,947	22,710
Other unrealised losses	(79)	(291)
<b>Surplus carried forward</b>	<b>17,192</b>	<b>21,947</b>



### 3. SIF financial statements summary (continued)

#### SIF statement of total recognised gains and losses

	10 month period 2013 £'000	12 month period 2012 £'000
Deficit for the financial year	(4,676)	(472)
Unrealised losses on fixed asset investments	(79)	(291)
<b>Total recognised losses relating to the financial year</b>	<b>(4,755)</b>	<b>(763)</b>

#### SIF balance sheet

	31 Oct 13 £'000	31 Dec 12 £'000
<b>Assets:</b>		
Investments	28,262	28,451
Reinsurers' share of claims provision	-	-
Debtors	180	636
Cash held in escrow	1,170	1,815
Cash and bank	309	157
<b>Total assets</b>	<b>29,921</b>	<b>31,059</b>
<b>Liabilities:</b>		
Gross claims provision	(12,591)	(8,994)
Creditors	(138)	(118)
<b>Total liabilities</b>	<b>(12,729)</b>	<b>(9,112)</b>
<b>Net assets</b>	<b>17,192</b>	<b>21,947</b>
<b>Retained surplus</b>	<b>17,192</b>	<b>21,947</b>

# Notes to the Consolidated Financial Statements

## 4. Segmental reporting

The Law Society is not required to comply with the requirements of SSAP25, segmental reporting, however information is included below to show how the Law Society results relate to the different operating segments. The operating segments have been determined by business structure and reflect the way in which management manage the business. PC fee and other income is collected by Corporate Solutions and is used to fund regulatory activities under Section 51 of the LSA in the Law Society professional body.

	Corporate Solutions	Solicitors Regulation Authority	Law Society Professional Body	Indemnity operations	Law Society
<b>10 month period: 2013</b>					
<b>Consolidated Income and Expenditure Account</b>	£'000	£'000	£'000	£'000	£'000
Total income	88,276	5,281	12,536	194	106,287
Operating cost	(31,703)	(30,939)	(22,928)	(5,337)	(90,907)
Funding of external bodies	(17,419)	-	-	-	(17,419)
<b>Operating result</b>	<b>39,154</b>	<b>(25,658)</b>	<b>(10,392)</b>	<b>(5,143)</b>	<b>(2,039)</b>
Exceptional items:					
Pension scheme disposal	8,700	-	-	-	8,700
Financing	94	8	-	643	745
<b>Result before taxation</b>	<b>47,948</b>	<b>(25,650)</b>	<b>(10,392)</b>	<b>(4,500)</b>	<b>7,406</b>
Taxation	(133)	-	-	(49)	(182)
<b>Surplus / (deficit) for the year</b>	<b>47,815</b>	<b>(25,650)</b>	<b>(10,392)</b>	<b>(4,549)</b>	<b>7,224</b>

	Corporate Solutions	Solicitors Regulation Authority	Law Society Professional Body	Indemnity operations	Law Society
<b>12 month period: 2012</b>					
<b>Consolidated Income and Expenditure Account</b>	£'000	£'000	£'000	£'000	£'000
Total income	98,032	6,229	13,435	2,541	120,237
Operating cost	(52,916)	(38,060)	(26,168)	(3,771)	(120,915)
Funding of external bodies	-	(169)	(22,207)	-	(22,376)
<b>Operating result</b>	<b>45,116</b>	<b>(32,000)</b>	<b>(34,940)</b>	<b>(1,230)</b>	<b>(23,054)</b>
Exceptional items:					
LCS reorganisation	302	-	-	-	302
Financing	(677)	5	-	623	(49)
<b>Result before taxation</b>	<b>44,741</b>	<b>(31,995)</b>	<b>(34,940)</b>	<b>(607)</b>	<b>(22,801)</b>
Taxation	(72)	-	-	134	62
<b>Surplus / (deficit) for the year</b>	<b>44,669</b>	<b>(31,995)</b>	<b>(34,940)</b>	<b>(473)</b>	<b>(22,739)</b>



## 4. Segmental reporting (continued)

### Inter-segment revenues

There are no material inter-segment revenues (2012: nil).

### Corporate Solutions

Corporate Solutions activities fall under the responsibility of the Chief Operating Officer who is responsible for the areas of Group Risk & Assurance, Finance, Human Resources & Development, IT and Facilities & Procurement.

### Solicitors Regulation Authority

SRA activities are split between the CEO's office as well as the four key areas of business which have specific executive directors: Operations; Supervision & Authorisation; Compliance; Policy, Standards, Strategy & Research.

Operations activities comprise:

Intelligence & Investigation; Business Programmes; Outsourcing & Operations Support; Contact Centre; Risk & Performance.

Supervision & Authorisation activities comprise:

International Affairs; Supervision; Authorisation; Education & Training.

Compliance activities comprise:

Legal & Enforcement; Legal Policy & Advice; Legal Operations; Chief Adjudicator; Post-enforcement.

Policy & Strategy activities comprise:

Policy; Standards; Risk; Strategy; Planning; Audit; Research.

### Law Society Professional Body

TLS activities are split between the CEO and President's Offices as well as two key areas of business, both of which have specific chiefs: Corporate Affairs and Commercial Affairs.

Corporate Affairs activities comprise the following seven areas:

Legal Services; Council Services; Policy, Communications; International; Government & Parliamentary Relations; Relationship Management Team.

Commercial Affairs activities comprise the following eight areas:

Events & Publications; Gazette Publishing; Business Planning & Performance Management; Service Delivery; Section & Product Management; Consulting; Commercial Investments; Business Development.

### Geographical analysis

The majority of the Group's operations are undertaken in the UK and all income is derived from the UK aside from an immaterial element.

### Net assets

The Law Society net assets comprise assets and liabilities which cannot practicably be divided between all of the respective operating segments of Law Society Professional Body, the SRA and Corporate Solutions.

	The Law Society £'000	Indemnity operations £'000	Group £'000
Net assets as at 31.10.13	43,337	17,545	60,882
Net assets as at 31.12.12	30,908	22,305	53,213

# Notes to the Consolidated Financial Statements

## 5. Funding of external bodies

As disclosed in Note 1, the Law Society was required to fund the set-up costs and ongoing operating costs of the Legal Ombudsman, the Legal Services Board and the Solicitors Disciplinary Tribunal.

These costs can be analysed as:

	10 month period 2013 £'000	12 month period 2012 £'000
Legal Ombudsman operating cost	12,460	15,954
Legal Services Board operating cost	2,833	3,468
Solicitors Disciplinary Tribunal operating cost	2,126	2,954
	17,419	22,376

## 6. Operating result

The operating result is stated after charging / (crediting):

	Note	10 month period 2013 £'000	12 month period 2012 £'000
Depreciation	14	3,767	4,428
Impairment of tangible fixed assets	14	-	5,915
Provision for Assigned Risks Pool liabilities	20	1,020	3,200
Amounts payable under operating leases – land and buildings		999	1,419
(Profit) / loss on disposal of fixed assets		(371)	8
Audit fees:			
Current year		359	336
Prior year		37	-
Non audit fees:			
Services provided by the auditors – tax consultancy		101	292
Services provided by the auditors - other consultancy		58	-

Audit and non-audit fees relating to the Law Society only are as follows:

Audit fees:			
Current year		306	278
Prior year		37	-
Non audit fees:			
Services provided by the auditors – tax consultancy		101	292
Services provided by the auditors - other consultancy		58	-



## 7. Exceptional cost of disposal of pension scheme

The transaction involving the exceptional cost of the pension scheme is made up as follows:

	10 month period 2013 £'000	12 month period 2012 £'000
Plan settlements:		
Residual premium adjustment	5,610	-
Overpayment	1,838	-
Guaranteed minimum pension equalisation	(1,125)	-
Overprovision of risk premiums	1,875	-
Other premium adjustments	502	-
<b>Total settlement gain recognised</b>	<b>8,700</b>	<b>-</b>

Further details are provided in Note 9 on page 45.

## 8. Investment income

	10 month period 2013 £'000	12 month period 2012 £'000
Bank deposit interest	626	399
Fixed interest and deposits	551	579
Interest on payments into court	92	44
	<b>1,269</b>	<b>1,022</b>

# Notes to the Consolidated Financial Statements

## 9. Pension commitments

### Defined Benefit Scheme

The Law Society closed the Law Society Retirement Benefit Scheme (the "Scheme") to the future accrual of benefits after 30 June 2011 and, working with the Trustee, secured an insurance policy with MetLife (the insurer) for all the remaining uninsured pension benefits in June 2011.

The insurance policy was contingent on the payment of a final premium to complete the full Scheme buy-out. The final premium was funded by an escrow account established between the Law Society and MetLife for £23.0m. An accrual was also made in 2012 for net £3.2m of additional costs expected to be incurred during the finalisation of the buy out. In August 2013, £17.5m was paid to the scheme and subsequently transferred to MetLife to complete the transaction an exceptional gain on disposal of £8.7m has been recognised within the income statement. The escrow balance of £5.6m was refunded to the Law Society. The balance of the Trustee bank account of £2.2m was transferred to MetLife as part of the scheme settlement.

The Trustees completed the wind-up of the Scheme on 6 September 2013 at which point the Scheme liabilities were transferred to the insurer MetLife and individual policies were issued to members. As of 6 September 2013, there are no further assets or liabilities of the Scheme and the Trustees have been discharged all of their responsibilities.

### Other pensions

The Law Society also operates a defined contribution scheme providing benefits based on the amounts paid into the scheme and the performance of the investments. Contributions paid to the scheme during the year totalled £3.4m (2012: £2.6m). There were no outstanding prepaid or accrued contributions at the period end (2012: £nil).

### FRS17 retirement benefits

The Scheme discharged all liabilities on 6 September 2013 and as a result no surplus or deficit is noted on the balance sheet at 31 October 2013.

The results of the FRS17 valuation of the Scheme as at the date of disposal for 2013, was carried out by a qualified independent actuary based on management assumptions, are as follows:

The amounts recognised in the balance sheet:	31 Oct 13 £'000	31 Dec 12 £'000
Present value of funded obligations	-	(283,440)
Fair value of Scheme assets	-	257,240
Net liability	-	(26,200)



## 9. Pension commitments (continued)

The amounts recognised in the income and expenditure account:

	10 month period 2013 £'000	12 month period 2012 £'000
Interest cost	(8,472)	(12,126)
Expected return on plan assets	7,948	11,055
Past service cost	-	(410)
Exceptional items: settlement gain recognised	8,700	-
<b>Total pension gain recognised in the income and expenditure account</b>	<b>8,176</b>	<b>(1,481)</b>
Actuarial gain	524	1,071
<b>Total pension gain recognised in the statement of total recognised gains and losses</b>	<b>524</b>	<b>1,071</b>

The movement on the retirement benefit obligation in the period is as follows:

	31 Oct 13 £'000	31 Dec 12 £'000
Benefit obligation at beginning of period	(283,440)	(264,835)
Interest cost	(8,472)	(12,126)
Past service costs	-	(410)
Actuarial loss	(495)	(13,337)
Benefits paid from plan	2,095	7,268
Expenses paid from plan	2,925	-
Plan settlements	8,700	-
Effects of Scheme wind-up	278,687	-
<b>Benefit obligation at end of the period</b>	<b>-</b>	<b>(283,440)</b>

# Notes to the Consolidated Financial Statements

## 9. Pension commitments (continued)

The movement on the fair value of Scheme assets in the period is as follows:

	31 Oct 13 £'000	31 Dec 12 £'000
Fair value of scheme assets at beginning of period	257,240	238,635
Expected return on plan assets	7,948	11,055
Actuarial gains	1,019	14,408
Employer contribution	17,500	410
Benefits paid from plan	(2,095)	(7,268)
Expenses paid from plan	(2,925)	-
Effect of Scheme wind up	(278,687)	-
Fair value of Scheme assets at end of period	-	257,240

The portfolio of assets is split as follows:

	31 Oct 13 £'000	31 Dec 12 £'000
Insured pensioners	-	255,230
Cash	-	2,010
	-	257,240

The Scheme does not hold any assets at 31 October 2013 due to the Scheme being wound up. The actual return on Scheme assets for the period was £8,967k (2012: £25,463k).

The key assumptions adopted in the actuarial valuation at the period end were as follows:

The expected return on Scheme assets were assumed to increase in line with discount rates up to the scheme wind-up date as all benefits were insured / matched. After the Scheme wind-up date there are no assets under the Scheme therefore no asset allocation nor expected return. The table below shows expected return of Scheme assets at 6 September 2013 (Scheme wind-up date) and 31 December 2012:

	2013 %	2012 %
Expected return on plan assets:		
Discount rate	4.65	4.50
Rate of pension increases in respect of 5% (LPI) benefit	3.15	3.20
Inflation RPI	3.65	3.20
Inflation CPI	3.15	2.70



## 9. Pension commitments (continued)

The mortality assumption used in the disclosures is the same as that used in the actuarial valuation of the Scheme, carried out by the Trustees. This reflects the characteristics and experience of the membership of the Scheme and makes appropriate allowance for the future improvements in life expectations. The table below summarises the future life expectations reflected in the mortality assumption:

	2013 Years	2012 Years
Life expectancy for a male member aged 65	24	24
Life expectancy for a female member aged 65	26	26
Life expectancy for a male member aged 65 (currently aged 45 years)	26	26
Life expectancy for a female member aged 65 (currently aged 45 years)	28	28

### A summary of the five year history:

	10 month period 2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Benefit obligation at end of period / year	-	(283,440)	(264,835)	(234,695)	(221,400)
Fair value of scheme assets at end of period / year	-	257,240	238,635	255,533	220,460
(Deficit) / surplus	-	(26,200)	(26,200)	20,838	(940)
Experience adjustments on Scheme liabilities	-	-	-	9,960	5,104
Experience adjustments on Scheme assets	1,019	14,408	33,178	12,057	(425)

# Notes to the Consolidated Financial Statements

## 10. Taxation

	10 month period 2013 £'000	12 month period 2012 £'000
UK Corporation Tax at 20% / 23.3% (2012: 20% / 24.5%) based on profit for the year	115	(118)
Adjustment in respect of prior years	17	44
<b>Current tax</b>	<b>132</b>	<b>(74)</b>
Deferred tax: timing differences, origination and reversal	50	12
<b>Tax charge / (refund) on profit on ordinary activities</b>	<b>182</b>	<b>(62)</b>

The tax charge assessed for the year is lower than that resulting from applying the standard rate of Corporation Tax in the UK of 23.3% (2012: 24.5%). The current tax reconciliation below explains the differences:

Result before tax	7,406	(22,801)
Tax at 23.3% (2012: 24.5%)	1,726	(5,586)
Adjustments to tax:		
Reduced rate paid by SIF 20% (2012: 20%)	160	27
Expenses not deductible for tax purposes	-	1
Exempt activities	(2,703)	5,542
Capital allowances in excess of depreciation	(10)	(12)
Utilisation of losses	(9)	(30)
Tax losses not recognised	992	-
Other timing differences	(41)	(60)
Adjustments in respect of prior years	17	44
<b>Current tax</b>	<b>132</b>	<b>(74)</b>

The Law Society has tax losses carried forward as at 31 October 2013 amounting to £60k (2012: £95K). SIF has tax losses carried forward as at 31 October 2013 amounting to £4,620k (2012: £nil).

No deferred tax asset has been recognised in respect of these losses as there is uncertainty as to the timing of any future profits within those entities to which the losses relate.

The unrecognised deferred tax asset relating to Law Society carried forward tax losses as at 31 October 2013 is £12k (2012: £21k). The unrecognised deferred tax asset relating to SIF carried forward tax losses as at 31 October 2013 is £924k (2012: £nil).

### Factors affecting current and future tax charges

During the year, as a result of the changes in the UK corporation tax rate to 21% from 1 April 2014 and to 20% from 1 April 2015, which were substantially enacted on 2 July 2013, the relevant deferred tax balances have been re-measured.



## 11. Accumulated funds

	10 month period 2013 £'000	12 month period 2012 £'000
As at 1 January 2013	53,213	75,172
Surplus / (deficit) for the financial year	7,224	(22,739)
Actuarial gains recognised in the pension scheme	524	1,071
Unrealised losses on investments	(79)	(291)
As at 31 October 2013 / 31 December 2012	60,882	53,213

Of the £60,882k (2012: £53,213k) above only £43,690k (2012: £31,266k) is available for use by the Law Society as £17,192k (2012: £21,947k) relates to SIF and those reserves are to be used solely in the management of the Fund. The Society can only access the funds once they have been released which requires formal approval from the SIF Board.

# Notes to the Consolidated Financial Statements

## 12. Compensation, remuneration and staff numbers

### Council, Boards and Committees

As the Law Society has no statutory directors, this note discloses the total remuneration of those considered to be in similar key management roles including the President whose remuneration basis is detailed on page 16.

Council members are paid an annual expense allowance of £3,756 (2012: £3,636) when they Chair a Board or Committee, unless the Board they sit on has stipulated a different payment as disclosed below. Council members who do not Chair a Board or Committee are paid an annual expense allowance of £1,252 (2012: £1,212). There is no specific remuneration for other Board members other than those included below:

	10 month period 2013 £'000	10 month period 2013 £'000	12 month period 2012 £'000	12 month period 2012 £'000
	Management Board	SRA Board	Management Board	SRA Board
Total for Chief Executive and directors	980	880	1,217	964
The highest paid member was the Chief Executive:				
Salary and benefits	355	198	340	225
Pension contributions	-	22	-	26
Total emoluments including pension contributions	355	220	340	251

The Chair of Management Board receives no emoluments in respect of this role. As at 31 October 2013, three members of the senior management team were members of the Law Society stakeholder scheme, a defined contribution pension scheme and the Law Society Chief Executive is a member of a private stakeholder scheme, a defined contribution pension scheme.

The Chair of the SRA Board received emoluments of £83,333 for the ten month period ended 31 October 2013 (2012: £84,238). As at 31 October 2013, three members of the SRA Board, including the SRA Chief Executive, were members of the Law Society stakeholder scheme.

The Chair of the Business and Oversight Board received emoluments of £24,000 for the ten month period ended 31 October 2013 (2012 co-Chairs: £22,537 and £17,000).

The Chair of Audit Committee earned emoluments of £16,500 for the ten month period ended 31 October 2013 (2012: £18,000).

The Chair of Remuneration Committee received emoluments of £5,167 for the ten month period ended 31 October 2013 (2012: £8,000). Chairmanship of the Remuneration Committee changed on 1 May 2013.

### Employment costs

The amount paid to employees during the year including those amounts paid to the Chief Executives and directors of TLS and the SRA aforementioned as well as the office holders.

	10 month period 2013 £'000	12 month period 2012 £'000
Wages and salaries	33,909	40,413
Social security costs	3,819	4,217
Other pension costs	2,187	2,975
Other costs	2,095	4,127
	42,010	51,732



## 12. Compensation, remuneration and staff numbers (continued)

### Staff numbers

The average number of full time equivalent staff was 944 (2012: 919).

	10 month period 2013	12 month period 2012
Corporate Solutions	151	146
TLS	274	230
SRA	519	543
	944	919

## 13. Subsidiaries and other undertakings - The Law Society only

### Subsidiaries

The Law Society had the following principal subsidiary undertakings as at 31 October 2013. They are all incorporated in the United Kingdom and operate in England and Wales and are consolidated in these financial statements:

Undertaking (nature of trade)	Issued share capital	% ownership
(The) Law Society Services Limited (dormant)	£1	100%
Legal Indemnity Operations Limited (professional indemnity insurance claims handling), (dormant)	£500,000	100%
†Solicitors' Indemnity Fund (professional indemnity insurance for solicitors)	Fund	100%
†Solicitors' Indemnity Fund Limited (acting as agent for the Solicitors' Indemnity Fund)	Limited by guarantee	100%
SPIL#2 (Solicitors' Professional Indemnity Limited - dormant)	£100	100%

†SIF is considered to be a quasi-sub subsidiary under the terms of FRS5 by virtue of joint control and the Law Society's entitlement to any surpluses of SIF upon approval by the SIF Board. As such there is a requirement to disclose a summary of SIF's financial statements within these financial statements, see Note 3. The fund was put into run-off in 2000 when the fund ceased to write PII insurance so all SIF activities are considered discontinued operations, although there are ongoing costs and recoveries.

The accounting policies on page 33 explain related entities which are not considered subsidiaries and the reason for their non consolidation.

### Joint venture

The Law Society had the following joint venture, incorporated in the United Kingdom and operating in England and Wales, as at 31 October 2013:

Undertaking (nature of trade)	Issued share capital	% ownership
Queen's Counsel Appointments Limited (QCAL) (support and facilitate the process for selection of Queen's Counsel)	Limited by guarantee	50%

The joint venture entity QCAL is not consolidated in the financial statements as it is not considered material to the Law Society. Since 2012, QCAL's financial year end date changed to 31 March from 31 July. The Law Society's share of the results for QCAL at its period end are:

	31 Mar 13 £'000	31 Jul 12 £'000
Revenue	270	356
Profit before tax	11	21
Net assets	605	593

# Notes to the Consolidated Financial Statements

## 13. Subsidiaries and other undertakings - The Law Society only (continued)

### Associated Undertakings

The Law Society had the following associated undertaking, incorporated in the United Kingdom and operating in England and Wales, as at 31 October 2013:

Undertaking (nature of trade)	Issued share capital	% ownership
Six Clerks Insurance Services Limited (trading as Chancery PII)	limited by shares	33%

The Law Society invested £16,667 in October 2013 in consideration for 33% of the share capital of Six Clerks Insurance Services Limited.

The associated undertaking Chancery PII is not consolidated into the annual accounts as it is not considered material to the Law Society. Chancery PII earns a management fee based on a percentage of the premium written but does not take on any underwriting risk. At the end of October 2013, 128 policies of insurance had been written to the value of £2.2 million. The Law Society's share of the results for Chancery PII at its period end are:

	31 Oct 13 £'000
Revenue	41
Profit before tax	8
Net assets	25

### Investment

The Law Society had the following investment, incorporated in the United Kingdom and operating in England and Wales, as at 31 October 2013:

Undertaking (nature of trade)	Issued share capital	% ownership
Riliance Software Limited	limited by shares	30%

On 9 October 2012 the Law Society invested into Riliance comprised of £3,000 shares and £197,000 loan notes, a company that is the market leader providing online compliance support tools for law firms.



## 14. Fixed assets

	Freehold land & buildings £'000	Leasehold land & buildings £'000	Furniture & equipment £'000	IT hardware & software £'000	Assets under construction £'000	Total £'000
<b>Cost</b>						
As at 01.01.13	20,132	2,823	2,250	17,619	670	43,494
Additions	12	-	114	582	4,951	5,659
Disposals	-	-	-	(2)	-	(2)
Re-analysed	26	(232)	23	2,087	(1,904)	-
As at 31.10.13	20,170	2,591	2,387	20,286	3,717	49,151
<b>Accumulated depreciation</b>						
As at 01.01.13	8,487	106	1,213	9,601	-	19,407
Charge for year	408	231	224	2,904	-	3,767
Re-analysed	-	(27)	2	25	-	-
As at 31.10.13	8,895	310	1,439	12,530	-	23,174
<b>Net book value</b>						
As at 31.12.12	11,645	2,717	1,037	8,018	670	24,087
As at 31.10.13	11,275	2,281	948	7,756	3,717	25,977

Re-analysed cost between assets under construction and IT hardware & software reflect assets from 2012 and 2013 now brought into use. During the period a detailed review of fixed assets was undertaken and as a result certain assets were reclassified.

In line with our policy for capitalising software development costs, IT hardware & software costs have been capitalised and where in service depreciated from the software go-live date.

## 15. Investments

	31 Oct 13 £'000	31 Dec 12 £'000
<b>Investments - long-term</b>		
Investment in shares	20	3
<b>Total investments - long-term</b>	<b>20</b>	<b>3</b>
The increase in long-term investments is in respect of the Law Society's £16,667 purchase of shares in Six Clerks Insurance Services Limited ( trading as Chancery PII). £3,000 relates to shares in Rliance.		
<b>Investments - short-term</b>		
Fixed interest stock - UK government bonds (SIF)	-	6,129
Managed gilt funds (SIF)	-	19,306
Managed cash funds (SIF)	-	3,016
Managed cash funds	20,000	-
Investment in loan notes (Rliance)	197	197
Managed fixed income portfolio (SIF)	28,262	-
<b>Total investments - short-term</b>	<b>48,459</b>	<b>28,648</b>

# Notes to the Consolidated Financial Statements

## 16. Indemnity claims provision

The claims provisions are made in accordance with the accounting policies; they carry a significant level of judgement and rely on estimation techniques based on past experience and available information. There are three main aspects to the provision as follows:

	31 Oct 13 £'000	31 Dec 12 £'000	Movement £'000
Case reserves	73	676	(603)
IBNR	5,964	4,579	1,385
Run-off costs	6,554	3,739	2,815
Gross indemnity claims provision	12,591	8,994	3,597

### Case reserves

Provision is made for known cases. Estimates are made by specialist claims experts and panel solicitors of the likely damages and potential costs involved in settling the claim, as well as any expected recoveries to be made. These are revised on a regular basis based on updated information as the claims progress. Recoveries are only recognised when management and external advisors believe it is virtually certain that amounts will be received. These provisions are sensitive to changes in the complexity of the case and the potential outcome and therefore damages changing.

	31 Oct 13 £'000	31 Dec 12 £'000
Case with a net liability estimated	2,906	2,939
Case with a net recovery predicted	(2,833)	(2,263)
Case reserves included in claims provisions	73	676

There are additional significant assets over which SIF has some title or claim which may lead to potential future recovery. However, there is such uncertainty over the timing and amount of any recovery that no estimate can be made of the value of the asset.

### Incurred but not reported (IBNR)

An actuarial estimate is made of those cases where the event that triggers a claim has already happened i.e. an act of negligence has occurred at some time in the past but is presently unknown to SIF because it has not been reported. When disclosed to SIF it would still be subject to any statutory limitation provisions applying. The risk exposure of all IBNR claims reduces over time as cases reach their primary or statutory limitation period. There remains significant risk in the post six year run-off provision as this is an undeveloped and immature area of business that took effect from 1 September 2007 when SIF began providing cover for post six year run-off claims.

### Run-off costs

As SIF is in run-off, estimated future costs are all recognised in the financial statements. In 2013 and 2012, some of the provision is based on the agreed contract with Vision Underwriting Limited and therefore the uncertainty in this aspect of the provision has been reduced. The main uncertainty is the period of time for which SIF will need to manage ongoing claims and this will depend on the complexity of the remaining cases. In 2013 and 2012, the provision includes estimates of maintaining some claims handling services until 2030, however the level is expected to gradually decrease. Significant uncertainty remains in relation to the claims handling costs associated with the post cessation cover referred to in the IBNR paragraph above.



## 17. Profit on disposal of assets held for resale

Ipsley Court was held in 2012 as an asset for resale; in 2013, it was sold for £1,250k with a profit of £373k after deducting £27k of legal and marketing fees.

## 18. Debtors

	31 Oct 13 £'000	31 Dec 12 £'000
Trade debtors	1,876	2,302
PC fee debtors	27,231	15,070
Amounts due from other Law Society affiliated entities	-	3,483
Other debtors	908	757
Prepayments and accrued income	3,378	1,212
Deferred tax asset	3	53
Taxation - Income Tax	-	209
Taxation - Corporation Tax	-	69
Taxation - VAT	329	208
	<b>33,725</b>	<b>23,363</b>

## 19. Creditors

	31 Oct 13 £'000	31 Dec 12 £'000
Trade creditors	4,512	2,820
PC fee deferred income	94,898	86,427
Amounts due to the Legal Ombudsman	10,674	14,535
Amount due to other Law Society affiliated entities	7,025	-
Other creditors	1,834	1,381
Accrual and other deferred income	13,230	15,146
Taxation - PAYE and National Insurance	1,172	1,173
Taxation - Corporation Tax	76	-
	<b>133,421</b>	<b>121,482</b>

# Notes to the Consolidated Financial Statements

## 20. Law Society provisions

	As at 01 Jan £'000	Utilised £'000	Released £'000	Added £'000	As at 31 Oct £'000
Interventions, disciplinary proceedings and litigation	3,042	(6,572)	662	8,885	6,017
Dilapidations	144	-	-	125	269
Ex-gratia payments for ex-employees	1,000	-	(400)	-	600
ARP	3,200	(132)	-	1,020	4,088
	7,386	(6,704)	262	10,030	10,974

The provision for interventions, disciplinary proceedings and litigation includes the costs of legal fees to complete ongoing matters at the year end. These provisions are likely to be utilised within the next twelve months.

The dilapidations provision represents the unavoidable costs of restoring leased property to the same state as when the property lease was taken on by the Law Society. These costs are provided for evenly over the life of the lease. Costs are calculated based on third party estimates of restoration costs per square foot for each property. An element of the provision was expected to be utilised in 2013, however this lease has in 2013 been extended so the first call upon this provision is now expected to be 2016.

The ex-gratia payments for ex-employees provision provides for the capital cost of ex-gratia pensions and is revalued each year based on a report provided by our actuaries Mercer. This valuation allows for the ex-gratia pensions paid by the Scheme administrator and those paid by Legal&General. Calls upon this provision are expected to be spread over more than 10 years.

The ARP provides professional indemnity insurance cover for firms who are unable to obtain cover from Qualifying Insurers. The ARP's last year of operation was 2013. An arrangement is in place for liabilities under claims made by applied firms in the final year of the ARP to be met by the Group and Qualifying Insurers under agreed layers. The provision is based on estimates of claims arising from this final year and includes provision for the six year run off period for applied firms ceasing to trade during the final year. The provision will be utilised over the next 6 years.



## 21. Related party transactions

### Compensation Fund

The Law Society is related to the Compensation Fund as they are both controlled by the Council. During the year the Law Society collected contributions on behalf of the Compensation Fund totalling £11,868,088 (2012: £35,314,133) and the Law Society recovered costs from the Compensation Fund totalling £5,878,386 (2012: £4,477,590). At the year end the amount due from the Law Society totalled £7,025,243 (2012: £3,483,184 due to the Law Society).

### Council, Board and Committee members

Transactions the Law Society has directly with individual Council, Business and Oversight Board, Management Board, SRA Board, Audit Committee, Remuneration Committee, and Scrutiny & Performance Review Committee members, excluding transactions expected in order for the member to carry out their duties, are considered related party transactions for the purposes of FRS8.

Furthermore, Law Society transactions with entities any member of the Management Board, SRA Board, Audit Committee, Remuneration Committee and Scrutiny & Performance Review Committee has significant influence over are also considered related party transactions for the purposes of FRS8.

Council members are not considered to be akin to directors given their role and, as a whole, the Council is deemed to be the ultimate controlling party of the Law Society. As such transactions with entities any member of the Council has significant influence over are not considered related party transactions for the purposes of FRS8. Council members are paid an allowance each year as described in Note 12.

All related party transactions are carried out at arms length. Other than disclosed within this note, there were no material related party transactions.

Member	Nature	10 month period 2013 value £	12 month period 2012 value £
<b>Council members - direct transactions</b>			
Richard Barnett	Seminar attendance	1,000	-
Christina Blacklaws	Assessors fees	5,550	11,275
Denis Cameron	Speakers fees and expenses	-	748
Helen Clarke	Speakers fees and expenses	1,500	5,750
Helen Davies	Consultancy services	-	1,224
Laura Devine	Article writing fees	336	504
Keith Etherington	Speakers fees and expenses	-	2,288
Derek French	Assessors fees	20	1,700
David McIntosh	Chair of SIF	-	30,000
Razi Shah	Panel member of QCAL	17,428	22,832
Paul Widdup	Monitoring visits	-	341
Linda Lee	Panel member of QCAL	17,956	21,139

### Executive members - direct transactions

Des Hudson CEO	Director of QCAL	25,000	25,000
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### Board & Committee members - direct transactions to entities

Martin Coleman (Norton Rose LLP)	Legal services	435,373	537,803
Charlie Jones (Weightmans LLP)	Consultancy fees	17,054	35,899
Moni Mannings (Olswang LLP)	Legal services	-	2,400
Paul Marsh	Consultancy services	2,067	1,621
Charles Plant (Herbert Smith Freehills LLP)	Legal services	5,352	35,976
Jeremy Tatham (Michael Page International PLC)	Recruitment services	919,919	654,555

# Notes to the Consolidated Financial Statements

## 22. Litigation

Legal matters will arise as a matter of course within the business due to the nature of operations as solicitors will legally challenge decisions on action taken against them or their firms. The Law Society has a robust process of reviewing and managing high profile litigation matters. Provisions and accruals have been made in the financial statements to reflect litigation costs as appropriate.

The Management Board do not consider there to be any other legal claims that require provision or disclosure other than those already included.

## 23. Contingent gains and losses

There are a number of assets over which the Law Society has some title / claim which may lead to potential future recoveries. These potential assets are not recognised as part of the provisions for recoveries as, in the opinion of the Board, they are so uncertain that they cannot be practically measured and hence no estimate is included here.

## 24. Operating lease commitments

As at 31 October 2013, the Law Society's annual commitments for rental payments under non-cancellable operating leases are:

	2013 £'000	2012 £'000
Land and buildings:		
Leases expiring within one year	-	18
Leases expiring between two and five years	296	254
Leases expiring after five years	1,631	1,495
	1,927	1,767

The main commitment within operating leases is a result of acquiring a ten year lease for The Cube offices in Birmingham with a break clause in February 2022, totalling £16.3m. The lease costs shown above include a contractual in-built increase based upon a forecast RPI index.

## 25. Capital commitments

As at 31 October 2013 there were capital commitments of £241k (2012: £nil).

## 26. Post balance sheet events

There are no post balance sheet events that require disclosure.



# Council, Board & Committee membership

## Council

Council membership for 2013 comprised:

Lucy Scott-Moncrieff	Chair until Jul-13	Keith Etherington		Maria Memoli	
Nick Fluck	Chair from Jul-13	Nichola Evans	Joined Jul-13	David Merkel	
Andrew Caplen		Tony Fisher		Joy Merriam	
Jonathan Smithers		Tom Flanagan	Left Jul-13	Rod Mole	
Peter Adams		Jeffrey Forrest		David Morgan	
Robin Ap Cynan		Beth Forrester	Joined Jul-13	Tim Mutti	
Sarah Austin		Malcolm Fowler		Sue Nelson	
Paul Barnes		Michael Franks		Nwabueze Nwokolo	
Richard Barnett		Derek French		Tim O'Sullivan	
Richard Barr		Emma Garnett		Michelle Penn	Left Jul-13
Sapna Bedi-FitzGerald	Left Jul-13	Davina Garrod	Joined Jul-13	John Perry	
Clare Belcher	Joined Jul-13	Michael Garson		John Pickup	
Sundeep Bhatia		Katherine Gibson		Alan Radford	
Christina Blacklaws		David Greene		Patrick Richards	
John Bleasdale	Joined Jul-13	Nicholas Gurney-Champion		Peter Rodd	Joined Oct-13
Robert Bourns		Keith Hardington	Joined Jul-13	Tony Russell	Joined Jul-13
Grace Brass	Left Jul-13	Simon Harker		Razi Shah	
Yvonne Brown	Joined Mar-13	Robert Heslett		Lubna Shuja	Joined Jul-13
Roger Buston		Wendy Hewstone	Left Jul-13	Michael Singleton	
John Calladine	Left Jul-13	Des Hudson	Attendance only	John Leonard Spencer	Joined Mar-13
Denis Cameron		Clare Johnson		David Steed	
Sue Carter	Left Jul-13	Charlie Jones		Jonathan Stephens	
Sara Chandler		Ian Kelcey		David Taylor	
Chris Clark		Philip Kim	Joined Jul-13	Andrew Tucker	Left Jul-13
Helen Clarke		Stuart Kightley	Left Mar-13	Rodney Warren	
Tim Crook	Joined Jul-13	Angus King	Left Jul-13	John Weaver	
Beverley Cullan	Joined Jul-13	Carolyn Kirby		Michael Webster	Left Mar-13
George Curran	Left Mar-13	Steve Kunczewicz	Joined Jul-13	Chris Welton	Left Jul-13
Helen Davies		Linda Lee		Jo Wharton	
Paul Davies		Denise Lester	Joined Jul-13	Fraser Whitehead	
Simon Davis		Ian Lithman		Paul Widdup	
Nigel Day		Pat Lush		Mike Williams	
Laura Devine		Nicola Mackintosh		Stanley Williams	Left Jul-13
Christopher Digby-Bell		Nicola Manning		Colin Witherall	Joined Jul-13
David Dixon		Kevin Martin		John Wotton	Left Jul-13
Clive Dobbin	Joined Jul-13	Clare McConnell		Gaynor Wragg	
Nigel Dodds		Catherine Melis	Joined Jul-13	Peter Wright	
Joe Egan				Brontie Zoutewelle	Left Feb-13

# Council, Board & Committee membership

## Boards & Committees

The membership records for Management Board, SRA Board, Business and Oversight Board, Audit Committee and Remuneration Committee are shown below

The numbers in brackets denote the maximum number of meetings a person could have attended, allowing for the period in which they were a board or committee member, if less than a full period.

## Management Board

The Chair of the Management Board is the Treasurer of the Law Society. The Board has 10 members. These include the president, vice president, deputy vice president and five Council members elected by ballot of the Council, and (in a non-voting capacity) the chief executive. Management Board membership and attendance for 2013 comprised:

4 (6)	Paul Barnes <sup>†</sup>	Left Aug-13
4 (5)	Robert Bourns <sup>†</sup>	Joined May-13
8 (8)	Andrew Caplen <sup>†</sup>	Deputy vice president to Jul-13; Vice president from Jul-13
8 (8)	Nick Fluck <sup>†</sup>	Vice president to Jul-13; President from Jul-13
7 (8)	Desmond Hudson	Law Society CEO
8 (8)	Maria Memoli <sup>†</sup>	Joined Jan-13
8 (8)	Tim O'Sullivan <sup>†</sup>	Chair and treasurer from Jan-13
4 (5)	Lucy Scott-Moncrieff <sup>†</sup>	President to Jul-13; left Jul-13
6 (8)	Michael Singleton <sup>†</sup>	
3 (3)	Jonathan Smithers <sup>†</sup>	Deputy vice president from Jul-13; joined Jul-13
- (2)	Rodney Warren <sup>†</sup>	Joined Sep-13
1 (2)	Michael Webster <sup>†</sup>	Left Feb-13
6 (8)	Mike Williams <sup>†</sup>	

<sup>†</sup>Council member All other members are independent of Council.





### SRA Board

As at 31 October the SRA Board had 15 members - seven solicitors (one of whom, Charles Plant, chairs the board) and eight lay members. The SRA Board met six times during the year. SRA Board membership and attendance for 2013 comprised:

6 (7)	Graham Chisnall	
7 (7)	Martin Coleman	
6 (7)	Peter Duffy	
4 (7)	Bill Galvin	Joined Jan-13
7 (7)	Jane Furniss	
5 (7)	Tom Keevil	
6 (7)	Cindy Leslie	
5 (7)	Moni Mannings	
7 (7)	Paul Marsh	Joined Jan-13
6 (7)	Sara Nathan OBE	
6 (7)	Malcom Nicholson	
6 (7)	Peter Phippen	Joined Jan-13
7 (7)	Charles Plant	Chair
6 (7)	Enid Rowlands	Joined Jan-13
4 (7)	Shamit Saggar	

All members are independent of Council.

### Business and Oversight Board

On 1 January 2013 the membership of the Business and Oversight Board was changed to a single independent Chair, David Fisher, with four members from the Law Society, four members from the SRA and two external members. Business and Oversight Board membership and attendance for 2013 comprised:

6 (6)	Michael Blacker	External
6 (6)	Laura Carstensen	External
5 (6)	Graham Chisnall <sup>††</sup>	SRA
6 (6)	David Fisher	Chair from Jan-13
1 (1)	Nick Fluck <sup>†</sup>	Law Society; President from Jul-13; joined Jul-13
5 (6)	Robert Heslett <sup>†</sup>	Law Society
4 (6)	Desmond Hudson	Law Society CEO
6 (6)	Tim O'Sullivan <sup>†</sup>	Law Society; joined Jan-13
6 (6)	Charles Plant <sup>††</sup>	SRA
6 (6)	Shamit Saggar <sup>††</sup>	SRA
4 (5)	Lucy Scott-Moncrieff <sup>†</sup>	Law Society; President to Jul-13; left Jul-13
6 (6)	Antony Townsend	SRA CEO

<sup>†</sup>Council member <sup>††</sup>SRA Board member All other members are independent of Council.

# Council, Board & Committee Membership

## Committees

### Audit Committee

Audit Committee membership and attendance for 2013 comprised:

3 (5)	Jane Clarkson	
5 (5)	Peter Duffy	Joined Jan-13
4 (5)	Linda McHugh	
3 (5)	Grenville Page	
5 (5)	Murray Ross	
5 (5)	Bob Spedding	Chair
5 (5)	Jeremy Tatham	
3 (5)	Stanley Williams†	Left Jul-13

†Council member

All other members are independent of Council, any other board or committee

### Remuneration Committee

Remuneration Committee membership and attendance for 2013 comprised:

3 (4)	Michael Blacker	Joined Jan-13; Chair from May-13
4 (4)	Laura Carstensen	Joined Jan-13
4 (4)	David Fisher	Joined Jan-13; Chair to Apr-13
4 (4)	Tim O'Sullivan†	Joined Jan-13
2 (4)	Peter Phippen	Joined Jan-13

†Council member

All other members are independent of Council, any other board or committee





Listed below are the explanations of key acronyms and abbreviations used throughout the 2013 financial statements:

ABI SORP Association of British Insurers Statement of Recommended Practice	LSC Law Society Consulting
ABS Alternative Business Structure(s)	MoJ Ministry of Justice
AGM Annual General Meeting	PC fee Practising Certificate fee
ARP Assigned Risks Pool	PII Professional indemnity insurance
CPI Consumer Prices Index	PPMO Programme & Portfolio Management Office
CRM Customer Relationship Management	PRC Project Review Committee
CS Corporate Solutions	QASA Quality Assurance Scheme for Advocates
CQS Conveyancing Quality Scheme	QCAL Queen's Counsel Appointments Limited
DVP Deputy Vice President	RegIS Regulatory Information System
ERP Enterprise Resource Planning	RPI Retail Prices Index
FRS# Financial Reporting Standard	SDT Solicitors Disciplinary Tribunal
HMRC HM Revenue & Customs	SGM Special General Meeting
IBNR Incurred but not Reported	SIF Solicitors Indemnity Fund
L&G Legal & General	SIFL Solicitors Indemnity Fund Limited
LCS Legal Complaints Service	SPIL#2 Solicitors Professional Indemnity Limited
LeO Legal Ombudsman	SRA Solicitors Regulation Authority
LIOL Legal Indemnity Operations Limited	STA Statutory Trust Accounts
LSA Legal Services Act 2007	TLS The Law Society Membership Body
LSB Legal Services Board	









The Law Society

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