



Law Society  
of Scotland

# Annual Report 2015

1 November 2014 to 31 October 2015



# Annual report 2015

Welcome to our annual report covering the period from 1 November 2014 to 31 October 2015. It reports on our performance against the objectives set out in our 2014/15 annual plan. The annual report was put forward to members for approval at our AGM in May 2015.

This was the last year of activity under our previous strategy. The aims of the strategy were:

1. Excellent solicitor professionalism and reputation
2. Our members are the trusted advisers of choice
3. Our members are economically active and sustainable
4. The Society is the professional body of choice
5. The Society is a high performing organisation

Our new strategy was launched in August 2015.

If you have any questions about the content of our annual report, please get in touch.

## Explore our annual report

Our 2015 annual report is made up of the following sections:

- **President's report from Christine McLintock** (p.2)
- **Chief Executive's report from Lorna Jack** (p.4)
- **Full table of actions and results for 2014/15** (p.6)
- **Membership profile** (p.18)
- **Regulation highlights** (p.21)
- **Support and services highlights** (p.23)
- **Equality and diversity highlights** (p.25)
- **Corporate Social Responsibility report** (p.26)
- **Financial review 2015** (p.28)
  - Our financial review of 2014/15, including our full accounts, **Governance report** and **Guarantee Fund report**.



## **President's report** **Christine McLintock, President**

Much of our work during the past year focused on responding to the many changes taking place in the solicitors' profession and the justice system. Challenges and opportunities arose from reductions in public spending, legislative reform and shifts in the marketplace. The number of Scottish solicitors continued to rise and now exceeds 11,300, a majority of which are female for the first time.

In response to changes in the fast-moving legal sector - particularly significant as we approach the Scottish parliamentary elections - the Society developed proposals to improve the legislative framework around the Society and the profession. It is hoped new legislation will be brought forward to allow solicitors to better meet the expectations of clients, respond to advances in technology and facilitate the evolution of new business structures. At the Society, we aim to expand the range of services we offer to members and open up associate forms of membership to other legal professionals.

To continue to deliver a world-class service in Scotland and beyond, the legal profession and marketplace also require a modern, transparent and flexible system of regulation. During the year, the Society decided not to take forward a scheme of principles and outcomes focused regulation but to progress proposals around entity regulation. The results of a detailed consultation will feature in our plans for legislative change. In other regulatory work, we adopted the recommendations of both the independent Bowen review of consumer protections and the external review of the Guarantee Fund, which was renamed the Client Protection Fund.

Constitutional issues remained prominent throughout the year, particularly during the general election campaign, with the Society taking an active role in helping to move the debate forward, making a submission to the Smith Commission and responding to a number of parliamentary proposals and discussions.

The Society continued to promote the need for a sustainable system of legal aid, publishing a recommendations paper, followed by sessions at the Legal Aid Conference and an event at the Scottish Parliament. We also campaigned to improve access to justice – in areas such as online dispute resolution, tribunal fees and during the courts reform programme – and reviewed potential barriers to becoming a solicitor, identifying areas where the Society could help to ensure the profession is open to all on merit, irrespective of their economic or social background. The continued success and expansion of our innovative Street Law programme in 2014/15 has been instrumental in this. The Society also developed plans for a Legal Education Trust to support and mentor aspiring Scottish solicitors from areas of deprivation. The trust was established in early 2016.

The Society's Council members, and all those who sit on our committees and working groups, once again deserve huge credit for their diligent work on behalf of the profession and the public.

# 128 TEAMS FROM 27 OF THE 32

local authorities in Scotland took part in the Donald Dewar Memorial Debating Tournament



numbers taking part in **Street Law**

# 25 SCHOOLS 605 PUPILS





## Chief Executive's report Lorna Jack, Chief Executive

The many developments taking place in the legal sector require solicitors to adapt and innovate. Equally, the Society must change - and is changing - to meet the needs of our members and the public they serve.

Although completed a matter of days after the end of our reporting year, the most obvious physical change at the Society was the move from our headquarters of 47 years at Drumsheugh Gardens to new, modern premises at Atria One on Morrison Street in Edinburgh. While undoubtedly the end of an era, the relocation is providing a better working environment for our staff, as well as the members and volunteers who contribute so much to the work of the Society.

The move marks the start of an exciting time for us. During 2015, we developed a new five-year strategy that aims for the Society to be a world-class professional body, leading legal excellence and delivering for all those who rely on us and the services we provide. The strategy is recognition that we should be bolder, more ambitious and even more effective if we are to meet the challenges of a changing legal services market.

While impacting on all areas of our work, key features of the strategy include exploring the option of establishing new levels of membership to the Society and driving up our non-subscription income. Last year, we achieved our income forecast - as well as delivering three new commercial partnerships and two new services to members. We plan to do more of this in the years ahead.

Embracing new technology is at the heart of our plans for continued progress. Renewal of practising certificates for 2015/16 was carried out entirely online, making the process quicker and easier for our members. Although short of the ambitious target we set at the start, we also succeeded in issuing around 6,500 Smartcards to our members, representing 58% of those who hold practising certificates. These cards, which facilitate the use of secure digital signatures, have been issued throughout Scotland, in England and in 16 countries overseas.

To ensure members and the public can engage effectively with us and get the information they need, we developed and expanded the information available on our website and redeveloped our Find A Solicitor tool. Those improvements were complemented by the establishment of a new public communications team to deal with general enquiries and correspondence. The team dealt with an average of 966 queries a month, while also gathering valuable information about trends among those who use legal services.

As ever, a big thanks to the Society's staff for their hard work and commitment during such a busy year.



## Full table of actions and results for 2014/15

	Action	Summary of progress for the year	Status
NEW	<p><b>New legislative framework (Project 80/20)</b> To work with the Scottish Government and others to improve the legislative framework covering the Law Society and solicitor profession.</p>	<p>This action was included from April 2015 and followed discussions with the Scottish Government after it became clear ministers were open to a new enabling Bill which would allow the Law Society to meet its strategic objectives. A working party was established by the Council and an initial scoping paper submitted in May. A dedicated member of staff was recruited to help lead this work. A full project plan is in place towards possible new legislation in 2018.</p>	Complete
1.1	<p><b>Consumer protections review</b> We will endeavour to ensure there are effective protections in place for consumers by completing the Bowen review as well as the external review of our Guarantee Fund, taking forward the recommendations of both.</p>	<p>The Bowen review report and recommendations were approved by Council in January. Whilst there remain outstanding issues with the individual cases, the recommendations from the review have been taken forward. The external review of the Guarantee Fund was completed with the recommendations taken to the Regulatory Committee. It was agreed that the name of the fund would change to the Client Protection Fund from 1 November. We launched a consultation on other aspects of the fund, which closed in October.</p>	Complete
1.2	<p><b>Entity / POFR regulation</b> We will ensure that solicitors and the public benefit from a more modern, effective and proportionate system of regulation by reviewing the consultation on entity regulation and principles and outcomes based regulation and implementing the agreed outcomes.</p>	<p>Following a review of the 2014 consultation feedback, the Council agreed early in the operating year not to progress principles and outcomes focused regulation but to progress proposals around entity regulation. A further more detailed consultation on entity regulation was launched in June and closed in October. The results are being analysed and will in the first instance feed into our paper for legislative change.</p>	Complete
2.7	<p><b>Legal aid strategy</b> We will help to ensure there is a sustainable system of legal aid in the long term, both for our members and the public who rely on this help, by considering strategic reforms and learning from other jurisdictions.</p>	<p>A discussion paper was published in November 2014 seeking views on suggested areas for reform of the legal assistance system in Scotland. This received over 30 responses as well as input through a roundtable meeting and other stakeholder meetings. These responses informed the drafting of a recommendations paper, published in May 2015. Publication was followed by sessions at the Legal Aid Conference and an event at the Scottish Parliament. Recommendations from the report will form the basis of ongoing work through the Legal Aid Committee. Contrary to earlier indications, the Scottish</p>	Complete

		Government did not publish a strategic white paper on legal aid during the course of the year.	
5.1	<b>Strategic review</b> We will ensure the Law Society is able to meet the challenges of a changing legal services marketplace by completing our strategic review and publishing a new long-term strategy which explores the option of new levels of membership within the organisation.	The new strategy was approved by the Council in April. This set a new objective of 'leading legal excellence' and new objectives around 'assure, excel, grow, influence and serve'. The strategy was published to our members and stakeholders in August.	Complete
5.7	<b>Commercial income</b> We will increase our non-subscription income and net profit by attracting new commercial and other partners whilst enhancing the services, training and support which we provide to our members.	The commercial objective was achieved, with income increasing as per the budget target and delivery of three new partnerships and two new services.	Complete
5.8	<b>Office relocation</b> We will provide a better working environment for our staff as well as the members and volunteers who contribute to the work of the Society by relocating to a more modern, flexible and efficient office building. We will also ensure best value for our members' money through the appropriate disposal of our current premises.	In May, we announced that we would be moving to Atria One on Morrison Street and sell our current buildings on Drumsheugh Gardens. The new office premises will offer more modern and environmentally-friendly surroundings for staff and visitors. We will move to our new offices from noon on Monday 7 December 2015. At present, the fit-out of our offices is on time and on budget. However, this action was marked as not complete because the physical move was not completed before our operating year end.	Not complete

## Excellent solicitor professionalism and reputation

	Action	Summary of progress for the year	Status
1.3	<b>Commonwealth Law Conference</b> We will successfully showcase Scotland and	Following 18 months of preparation, the 19th Commonwealth Law Conference was held in Glasgow in April. Approximately 600 judges, lawyers and academics from many Commonwealth nations attended and enjoyed	Complete

	its legal profession to the world through our successful hosting of the 2015 Commonwealth Law Conference.	a varied programme with high quality speakers and energetic sessions. The conference also included a moot competition, which showcased the enormous talent of law students from across the Commonwealth. Our hosting was supported by colleagues in the wider Scottish legal profession, all of whom were involved in delivering the conference. This was reflected in the composition of our content committee, which was made up of senior representatives from the judiciary, the Faculty of Advocates, the Scottish Human Rights Commission and the Scottish Law Commission, as well as representatives from academia and from the legal profession across the UK and internationally. Feedback following the event was almost entirely positive, although it cannot be ignored that several senior members of the UK judiciary withdrew from the conference after a day and a half because the programme was changed at short notice and without consultation to include participation by Julian Assange. This could have had reputational repercussions for the Society but, as it was a unilateral decision of the Commonwealth Lawyers Association's Executive Committee, the judiciary made clear that they did not hold the Society responsible. This event did not affect the delegates' enjoyment of the conference.	
1.4	<b>Judicial appointments</b> We will build on our research and engagement by campaigning for a fairer judicial appointments process, which provides more opportunities for our members whilst maintaining confidence amongst the public.	The Society consulted with selected members and various committees to formulate a response to a JABS conference and paper. This response was signed off by Council on 30 October.	Complete
1.5	<b>Smartcard project</b> We will empower our members with secure digital signatures and provide a robust physical ID by progressing our Smartcard project, completing a roll-out to 75% of members and seeking feedback on usage.	By the end of the operating year, we had issued around 6,500 Smartcards, representing 58% of anticipated PC holders. In terms of cards prepped for distribution, there has been 88% engagement of members. Cards have been issued all across Scotland, including Islands, as well as London and Bristol. 28 cards have been issued to members in 16 countries, from the Falklands to USA and the UAE.	Not complete
1.6	<b>Training</b> We will continue to help our members and their support staff teams to develop their expertise	Throughout the year, we held: <ul style="list-style-type: none"> <li>• 58 conferences, including 1,961 delegates (2,127 last year)</li> <li>• 25 new lawyer seminars, with 222 delegates</li> </ul>	Complete



	and skills by offering affordable, accessible and high quality training throughout Scotland which provides a profitable income stream to the Society. This will include new accredited training in a range of areas in response to member feedback.	<ul style="list-style-type: none"> <li>• ILG held ten seminars, with 433 delegates (1,138 last year)</li> <li>• Update Online: 64 online seminars live, with 593 registrations (39/324 last year)</li> <li>• Trainee CPD: 25 new registrations</li> <li>• Update Direct: first two open Practice Management Accreditation Courses, with 15 delegates</li> </ul> <p>The overall position is that Update is expected to make a very small profit for year ending 2014/15 (following deficit last year).</p>	
1.7	<b>Fair access project</b> We will seek to increase the diversity of solicitors and ensure the profession better reflects the public they serve by continuing to review aspects of fair access and implementing actions from our policy findings.	Two Street Law training events were held (in January and October), training 100 students to be Street Law trainers. Street Law sessions were run in schools in Glasgow, Ayrshire, West Lothian, East Lothian, Edinburgh, Dundee and Aberdeen, with universally positive feedback from pupils, schools and trainers. A best practice guide in trainee recruitment was produced and received positive feedback. Council also approved the establishment of a Legal Education Trust. Changes to the Law Society exams undertaken as part of the alternative route have been approved and are ready to be implemented at the next diet. Pressure of other work and consideration of an integrated PEAT proposal from a group of firms has prevented significant work on non-PEAT 1 training contracts.	Not complete
1.8	<b>CPD review</b> We will ensure that our members have the appropriate knowledge and skills to serve their clients by reviewing our CPD requirements and acting on the findings of our review of post-qualification milestones and specialist accreditation.	One of the key recommendations in the review of post-qualification milestones and specialist accreditation was for all such matters to be brought together under one responsible body. This will be effected on 1 November when the new structure is in place and recommendations will be reconsidered from that date. Proposals in relation to CPD requirements were considered at the October meeting and will be taken forward in 2015/16.	Not complete

## Our members are trusted advisers of choice

	Action	Summary of progress for the year	Result
2.1	<b>Scotland's constitution</b> We will help our members and the public to move forward the constitutional debate by playing a full and active role in the events which follow the referendum on	Following the referendum on Scottish independence, we participated fully in the Smith Commission, making a submission and holding an event at the Society bringing together Lord Smith with solicitors from across the profession and constitutional experts. We responded to the UK Government draft clauses and made a submission to the Scottish Parliament Devolution (Further Powers) Committee. We made sure that the Society's priorities for the UK general	Complete

	<p>Scottish independence and considering the implications for us as an organisation.</p>	<p>election for 2015 contained a priority for a stable devolution settlement for Scotland, looking for a stronger Scottish Parliament within the UK, a more accountable and responsible Scottish Parliament, and a more autonomist Scottish Parliament. After the election, and following the introduction of the Scotland Bill, we briefed MPs at the second reading and prepared amendments for committee stage. We also made a submission to the Scottish Parliament's Devolution (Further Powers) Committee and gave oral evidence before that committee. Since parliament resumed after the summer recess, we submitted amendments for report stage and have been in negotiations with the Bill team and Scotland Office ministers over the summer and early autumn. We are hopeful that some of the Society's suggestions for amendments will be taken up by the government or accepted in debate.</p>	
2.2	<p><b>Becoming a partner review</b> We will support members who take on the additional responsibilities and liabilities of partnership whilst better protecting the wider profession and public by examining the consultation responses on this issue and make recommendations for future change.</p>	<p>A paper was considered by the December Board and by the Regulatory Committee in February. Both agreed to implement all main changes, but stopped short of a rule change at this point. An operational plan was create to deliver the changes.</p>	Complete
2.3	<p><b>Access to justice</b> We will campaign for changes to improve access to justice across the justice sector, helping members and the public to access courts through new technology, removing obstacles to dispute resolution, such as tribunal fees, and looking at other areas of improvement for the rule of law in Scotland.</p>	<p>We have worked on a range of areas, including online dispute resolution, courts performance and resourcing following closures and the courts reform programme, and obstacles such as employment tribunal fees, which at least one political party will commit to abolishing within the next parliamentary term. We have expanded our engagement with other organisations, including joining work through the SLAB access to justice reference group, the Citizens Advice Scotland legal services group, and the CCBE access to justice committee. We have supported pro bono, including the work of LawWorks Scotland, law clinics in organising legal walks (and the Access to Justice Foundation in distributing that funding) and have published a first pro bono survey of the profession.</p>	Complete
2.4	<p><b>Master Policy</b> We will ensure firms and their clients are protected by reviewing the long term sustainability of the Master Policy of Professional Indemnity</p>	<p>The Insurance Committee reviewed all aspects of the sustainability of the Master Policy this year. The committee's specific proposal for a radical change in the policy was rejected by the Board. Renewal was completed ahead of schedule for 2015/16. The tender of the brokerage has commenced and is ahead of schedule.</p>	Complete

	Insurance and commencing a tendering process for the brokerage of the policy.		
2.5	<b>Requalification into Scotland</b> We will ensure the Scottish profession can attract legal talent from other jurisdictions by changing the process of requalification into Scotland and implementing a qualified lawyers transfer test.	The structure and content of a new qualified lawyers assessment was approved during the course of the year and will be implemented in the 2015/16 year.	Complete
2.6	<b>First year LLB students</b> We will seek to better understand the career aspirations and considerations of potential future solicitors by commencing a five-year study of first year LLB students.	The survey was completed and analysed in January. Results were shared with individual universities and the Education and Training Committee. An article, Sizing up the Class of 2018, was published in the March Journal.	Complete

## Our members are economically active and sustainable

	Action	Summary of progress for the year	Status
3.1	<b>Licensed provider scheme</b> We will ensure firms have the flexibility to adopt a wider range of business models by starting the first licensing of new licensed legal services providers in Scotland.	Whilst we continued to engage with the Scottish Government and Lord President's Private Office, we were not able to submit a regulatory scheme for formal approval as planned. Work is continuing with a view to finalising a further draft of the scheme for submission to government. Work is also being done to draft the relevant schedule on charging.	Not complete
3.2	<b>Equality standards</b> We will work to improve the employment conditions for solicitors as well as access to services for clients and the public by implementing the new equality standards framework.	The standard was launched in February. The Scottish Government confirmed that equality standards (issued as 'advice and information') would be included in the Scottish Government tender for panel legal services. We also mailed the standards to all firms in Scotland, promoting online and face-to-face training options. The standards were promoted at an equality CPD event in Edinburgh. We also published the third and final qualitative follow-up to our Profile of the Profession work, a case study looking at the experience of transgender lawyers.	Complete

3.3	<p><b>Sectoral pay gap</b> We will strive to improve the conditions for female solicitors by using our recent research and guidance to challenge the sectoral pay gap which persists in both the public and private sectors.</p>	<p>The Society published research on the gender pay gap and gained considerable press coverage. We have published an equal pay audit toolkit.</p> <p>A number of organisations are now working closely with the Society to help close their pay gaps.</p>	Complete
3.4	<p><b>Private practice to in-house</b> We will deliver new online guidance to inform and support solicitors moving from private practice to in-house roles, and help members already working in-house to develop their careers.</p>	<p>The independent consultant completed her review of the guide. However due to re-prioritisation of in-house related work to focus on the set-up of the new In-house Lawyers' Committee and other tasks, the next stage of work was not completed. It is anticipated that any re-writes and updates needed to the guide can be completed and the guide launched in the first quarter of the new year.</p>	Not complete
3.5	<p><b>Conveyancing</b> We will support our members engaged in residential property work by progressing a range of initiatives to support the future of conveyancing based on the recommendations from the working party and member feedback.</p>	<p>The working party concluded its work in May. Plans have been developed to create a joint venture partnership with a software provider and ESPC to produce a digital property platform. Testing with pilot group of firms went well.</p>	Complete
3.6	<p><b>Legal aid operation</b> We will work to ensure there is a sustainable economic future for our members, a competitive legal marketplace as well as proper access to justice for the public by working with our justice sector partners and addressing relevant reform issues, particularly around civil court and costs reform, criminal and civil legal aid provision and models, and lender panel management.</p>	<p>The Legal Aid Committee continued its work for the legal aid profession and access to justice for the public through regular meetings with members of the profession, SLAB, and other stakeholders. The committee commented on a range of draft regulations, including those relating to legal aid arrangements following the implementation of court reforms. This led to a substantial change in the interim arrangements for the criminal Sheriff Appeal Court, ensuring members of the profession and the public would not be disadvantaged on the commencement of the new court. The committee continues to monitor and report on changes in legal aid, including structural changes which have been made by SLAB to Edinburgh and Glasgow court duty plans. The committee also provided comments and feedback on draft guidance and other changes being implemented by SLAB, including funding in late appeals, appointed solicitor ABWOR, taxation decisions, use of sheriff officers and input into the relaunch of Legal Aid Online, and revised guidance for the Handbook. In addition, the committee raised issues from the profession directly with SLAB, for example, achieving a change in policy</p>	Complete

		to allow solicitors to receive printed copies of forms from SLAB rather than having to print the forms in house.	
3.7	<p><b>Cost of time</b></p> <p>We will ensure that we continue to collect relevant economic and financial data for use in supporting our members' firms and accessible reporting of findings by putting out to tender the annual cost of time research.</p>	The decision was taken not to run the cost of time survey this year and to focus instead on the cost of time tenders. Three strong tenders were assessed by the tender panel in September/October and a recommendation has gone to the Board in relation to making the final appointment.	Complete

## The Society is the professional body and regulator of choice

	Action	Summary of progress for the year	Status
4.1	<p><b>General meeting reform</b></p> <p>We will make it easier for our members to take part in our decision-making processes by updating our constitution and reforming the operation of our general meetings.</p>	During the course of the year, the Council decided in favour of having only one general meeting during 2014/15. It was therefore not possible for the working party to bring forward specific amendments to a September general meeting as originally planned. The working party is now working to an amended timetable which concludes at the May 2016 AGM.	Not complete
4.2	<p><b>Complaints handling</b></p> <p>We will ensure those who depend on our effective handling of solicitor complaints get an improved service by reviewing our own procedures and working with stakeholders in further reforming the legal framework for complaints handling.</p>	Work has been done to analyse the SSdT stage of the process. Training has been carried out for PCC members and the next strands of work are being linked in with the recommendations of the SLCC trends analysis report.	Complete
4.3	<p><b>Brand</b></p> <p>We will ensure our members' professional body remains relevant and engaging by initiating the first phase of a review of the Society's brand.</p>	During the year, a consultant was appointed to assist the Society with the brand review. Phase one of that review entailed research of members and staff following the publication of the five-year strategy. The results were reported in October. The recommendation of the leadership team is to proceed with a brand refresh rather than a complete rebrand. This will be taken forward in 2015/16 in line with our annual plan.	Complete
4.4	<p><b>Mentoring scheme</b></p>	We have matched a further set of mentors and mentees in this quarter, and completed a review of the numbers of earlier	Complete

	<p>We will evaluate the benefits to our members of our pilot mentoring scheme and deliver additional training for new mentors. We will also improve the ways we support individual members facing individual concerns.</p>	<p>trained mentors who have stayed with the scheme. The scheme continues to receive positive feedback from the participants.</p>	
4.5	<p><b>England and Wales members</b> We will improve our engagement with, and support for, our private practice and in-house members who are based in England and Wales along with Scottish registered foreign lawyers, setting targets to grow member numbers over the coming years.</p>	<p>We have improved our engagement with members based outside Scotland through our project plan, with quarterly updates to the Board. We improved communication via a dedicated web page, a regular newsletter and by surveying these members specifically. A flagship event and several networking and CPD events were organised throughout the year and a wide-ranging programme of stakeholder and one-to-one meetings was undertaken. We have improved our support to these members in continuing Smartcard roll-out through dedicated events and meetings and now issue a guide and FAQs for our members outside Scotland. The dedicated England and Wales member of staff adds further support for these members. Office bearer visits and targeted wider networking are raising the profile of the Society outside Scotland and supporting our objective to grow member numbers.</p>	Complete
4.6	<p><b>Sole practitioners</b> We will provide more relevant and targeted support to sole practitioners by engaging external assistance from member focus groups to improve the planning, content and management of the monthly networking events.</p>	<p>11 well attended monthly networking meetings (rolling attendance approximately 20) held in Edinburgh throughout the year (excluding December 2014). Trial of remote access video-conferencing of meeting held on 30 September 2015 attracted link-ups from sole practitioners in the Borders, Fife and Central Belt. The final meeting of this year was the annual joint meeting of east and west coast sole practitioners on 28 October 2015. The president spoke on LSS strategy. Panel session were held on the advantages of trainees and successful hour-long 'speed dating' and networking sessions were held among sole practitioners and Diploma graduates. Interest from sole practitioners in future meetings on agreeing the practicalities of sharing trainees...follow up connections possible from the speed dating event. Next year's Edinburgh group speakers booked up to and including 24 February 2016. Glasgow group meets six-weekly and all meetings attract a rolling group of approximately 20 members. Edinburgh meetings were advertised to solicitor staff for their CPD interest. All events advertised on LSS website, LinkedIn and Twitter. Wesleyan have so far attended two out of the three scheduled promotional events with sole practitioners and have been promoted in the quarterly newsletter, Word on the High Street, and by regular tweets. David Carroll of Wesleyan was very pleased by his reception from the audience on 28 October. Their next attendance is the joint meeting on Wednesday 25 November 2015. By</p>	Complete

		agreement with line manager earlier in the year, budget of £2,000 was transferred to Update as the most efficient manner of supporting the sole practitioners and high street conference scheduled for 19 September, which Update managed.	
4.7	<p><b>Local faculty engagement</b></p> <p>We will help our members from across Scotland to input directly into the policy and work of their professional body by commencing the first stage of a two-year cycle of 20 annual local faculty events, ensuring these events contain relevant, lively and engaging content.</p>	<p>AML talks suspended early in year pending decision as to replacement of Richard Farquhar's skills. By agreement with line manager, target of 20 'core topic' visits thereby reduced to ten. Graham Gibson provided pilot talk to sole practitioners on 30 September re Kirkland's AML system with view to considering rolling this out to faculties. Joint complaints avoidance talk with SLCC in Inverness on 26 October. Access to Justice team has visited five faculties throughout the year in response to requests for information on specific legal aid related issues. Professional practice team has visited three faculties by invitation to deliver talks on professional practice 'hot topics'. Timetable of visits for presidential visits (including vice president) during presidential year ahead, starting on 10 September 2015, then early November and March 2016. Ten locations on track to be visited by president/vice president up to the end of May 2016.</p>	Complete
4.8	<p><b>New guidance</b></p> <p>We will ensure our members have access to relevant and topical advice and support by updating our guidance in a way which responds to the developments in law and practice. This will include new guidance on niche areas of law such as immigration and pervasive issues such as around the increased use of technology by solicitors and clients.</p>	<p>Professional Practice have provided new guidance on property work including gazumping and gazundering. They are continuing their work on a revision to the guidance for Immigration solicitors and on Letters of Engagement.</p>	Not complete
4.9	<p><b>Online practising certificate renewal</b></p> <p>We will make it quicker and easier for our members to renew their practising certificates by moving entirely to an online-based process, building on the success of the initiative over the last three years.</p>	<p>PC renewal for 2015/16 was carried out entirely online. Following a comprehensive communications campaign and process improvements plan, a total of 99% of PC holders had renewed their PC online by 31 October 2015.</p>	Complete

## The Society is a high performing organisation

	Action	Summary of progress for the year	Status
5.2	<p><b>Public communications</b> We will improve the service which we provide directly to the public by creating a dedicated and distinct team within the organisation to deal with general enquiries and correspondence whilst redeveloping the public section of our website.</p>	<p>The public communications team was created to deal with general enquiries and correspondence, becoming fully operational in November 2014. The team has dealt with an average of over 1,000 enquiries per month and has gathered detailed statistics, allowing for the analysis of trends. This analysis has been shared with external and internal stakeholders. A 'mystery caller' programme has been developed to monitor and drive improvements in the quality of service provided to the public. The team has also used its experience in dealing with the public to inform the redevelopment of the public-facing section of our website, most notably in a complete redevelopment of the FAQ section.</p>	Complete
5.3	<p><b>EU review</b> We will ensure we are obtaining best value for money in terms of our engagement at an EU level by carrying out a full needs analysis and an external review of our Brussels office.</p>	<p>A comprehensive external review of the Brussels office was commissioned and carried out, including research with members and stakeholders. The Council subsequently approved the recommendations arising from the review report in December. This included negotiation of a new contract with the Law Society of Scotland and an improved service level agreement. This was concluded and signed in October.</p>	Complete
5.4	<p><b>Governance review</b> We will make our structure of governance more efficient and effective by completing the third and final stage of the reforms which reduce the overall number of Council members and initiating a full review of our committee system.</p>	<p>The third and final stage of the reduction in the size of the Council is complete. The working group on governance is focusing entirely on Board and Council governance. It is not looking at a review of the committee system, nor will it next year. If this matter is to be reviewed, the earliest that may happen is 2017.</p>	Not complete
5.5	<p><b>Regulation understanding</b> We will help our stakeholders and the wider public to better understand our regulatory work through new interactive online</p>	<p>A range of project work was successfully completed during the year. New online content was created, including public interest videos and a new FAQ section. Constituency packs were sent out to all newly elected MPs following the general election, explaining the role of the Society and the services we offer. MSP polling for autumn/winter 2014 was used to target our engagement work at those groups with a lower understanding of the role of the Society. MSP polling has been agreed for autumn/winter 2015 and is under way, due</p>	Complete



	content, face-to-face engagement and improved briefing material.	to report in January/February 2016. Three editions of Law Matters were issued to MSPs over the operating year.	
5.6	<b>Staff performance pay and reward</b> We will help to provide a high quality service to all those who depend on the Law Society by embedding a new system of staff performance pay and reward and capture learning for improving the system in future years.	The system was introduced for the start of the operating year with staff performance measured across objectives and competencies and a pay and reward scheme approved by the senior management team.	Complete
5.9	<b>Digital comms</b> We will make it easier for members and the public to access information and to engage with us online by acting on the remaining recommendations from our digital audit and building on the success of our new website and revised e-newsletters.	We thoroughly reviewed and developed the ways in which we deliver information to the public online during the year, including: <ul style="list-style-type: none"> <li>• auditing how our website performs in search engine listings and implementing recommendations for improvements</li> <li>• providing additional training to relevant staff on developing content suitable for the public and training the public comms team on how to use our content management system</li> <li>• adding new content, including an extensive FAQ section (and accompanying promo video), a page showing recent scam alerts and two videos explain solicitor services to the public</li> <li>• carrying out our first ever paid online advertising campaign aimed at the public on the Herald and Scotsman online versions and on Facebook</li> <li>• upgrading the accessibility software on our website</li> <li>• reviewing changes to traffic to the public section of the website as a result of the above actions</li> </ul>	Complete

### Outstanding actions from the 2012/13 corporate plan which are not covered by the 2014/15 action list

	Action	Summary of progress for the year	Status
2.6	We will complete the project to launch a new and improved Find a solicitor service on our website.	The new site was launched earlier this year. Whilst some elements are still to be resolved from the testing stage, the launch project is now complete.	Complete

4.2	We will implement the final package of agreed changes arising from the review of the In-House Lawyers' Group.	The Council approved a remit and membership for a new in-house committee along with standing order changes. This work is now complete.	Complete
-----	---	--	----------

## Membership profile

### Highlights 2015



11,358 members holding a practising certificate, 387 non-practising members, 1,896 roll only.



Solicitors in private practice: 3,778 at large firms (10+ partners), 2,940 at small to medium sized firms (2-9 partners), 1,099 solo practitioners. Total: 7,817.



Solicitors working in-house: 595 local authority, 442 central government, 513 Crown Office 1,909 private sector and other. Total 3,541.



Male solicitors 49% (5,602), female solicitors 51% (5,756).



Total new solicitors: 485, new male solicitors: 178, new female solicitors: 307.  
Total number on the roll **13,641**  
Number restored **53**  
No longer on roll **329**



Solicitors employed outside Scotland : 801, +14% on previous year.  
 Multi-national partnerships **30**  
 Registered foreign lawyers **1,456**  
 Registered paralegals **375**



Traineeships commenced: 540, +2% increase on the previous year.

## Regulation

### Highlights 2015

#### Financial Compliance



371 financial compliance inspections carried out at Scottish firms. That's 27% of all firms.

#### Complaints



Conduct Complaints: New investigations 226, Investigations closed 236, Active investigations at year end 181, Suspended files at year end 107.

#### Investigations closed

Professional Conduct Committee decision **213**

Complaint withdrawn by complainer **15**

Complaint closed for other reasons **7**

No complaint **1**

**Total 236**

## PROFESSIONAL CONDUCT COMMITTEE DECISIONS

	Complaint rejected	127
	Misconduct: solicitor referred to fiscal for prosecution before the tribunal	55
	Unsatisfactory conduct: censure	11
	Unsatisfactory conduct: censure and compensation	4
	Unsatisfactory conduct: censure and fine	3
	Unsatisfactory conduct: censure and training order	1
<b>212 TOTAL</b>		
<b>2 CONTINUED</b>		



Professional Conduct Committee decisions: Total 212/Continued 2

## Scottish Solicitors' Discipline Tribunal

Decisions made during the year

- 30% Struck Off (8)
- 18% Censure (5)
- 18% Censure & Fine (5)
- 4% Censure, Fine & Compensation (1)
- 11% Censure & Restriction (3)
- 15% Censure, Restriction & Compensation (4)
- 4% Suspended (1)

The full report is available from [the SSDT](#).

Details of service complaints can be found on the [SLCC website](#).

## Support and services

### Highlights 2015



Queries from solicitors handled by our Professional Practice team: 6,500 calls, 2,000 written queries



6,500 Smartcards issued to Scottish solicitors - 58% of the profession

#### **Accredited specialists**

**54** Scottish solicitors granted accredited specialist status



**101** consultations responded to across Scottish and UK governments and the European Commission  
**+16%** on the previous year

101 consultations responded to across Scottish and UK governments and the European Commission.  
**30** Bills commented on across Scottish parliament and Westminster  
**79** amendments proposed to legislation across Scottish parliament and Westminster

**The Journal**

**87%** of members think the Journal is a good-quality magazine  
**14%** increase in users of journalonline.co.uk

**lawscotjobs.co.uk**

**1,347** jobs placed

**TRAINING/CPD**

**92%** of our delegates felt that our Update conferences and seminars were 'Excellent'

92% of our delegates felt that our Update conferences and seminars were 'Excellent'.

## Equality and diversity

### Highlights 2015

The Society launched its Equality Standards in early 2015. The standards are an important part of the three-year Equality & Diversity Strategy. It's hoped that law firms and organisations will strive to embed the standards within their processes and help the profession as a whole make further progress.

The Scottish Government included our equality standards as part of the tender for its legal services panel. We began working with organisations on how the standards can work for them and their clients and this work will continue. At the same time we launched our equal pay guidance and toolkit.

Three major pieces of research were published in the summer (i) a transgender experience case study (ii) perceptions and impacts of working patterns within the profession (iii) experience of established professionals within the legal profession.

We held a well-attended conference in April on Improving Gender Balance and, at part of the Society's flagship conference, hosted a seminar on the gender pay gap. We published our own research on the gender pay gap in the summer and, in autumn, published a series of recommendations for improving judicial diversity. In partnership with the Equality & Human Rights Commission we hosted a pregnancy and maternity roundtable. In early 2016, we will publish parental leave and return to work guidance and, later in the year, host an equality and diversity conference. The Society will also run a year-long 'campaign on pay' in relation to gender pay.

## Corporate Social Responsibility (CSR)

### Highlights 2015

Throughout the year, 28 members of staff participated in a 'CSR day', spending time helping out a local charity or cause.

Our staff charity for the year was FreshStart, who help homeless people in Edinburgh return to housing. Through staff donations of crockery and household furnishings, we collected the equivalent of 25 'starter packs' which are used to help people coming out of homelessness get started in their new home. Staff also participated in 'hit squads' which visited three different people's homes to help with painting and decoration.



We raised a total of £6793.79 in cash for FreshStart.

As part of our office relocation we donated computer equipment we no longer needed to a charity that specialises in assisting children with learning difficulties.



In 2014/2015 we collected 1,570 bags of recyclable materials including paper, plastic, cans and food.

## Healthy Working Lives report 2015

To continue to meet the criteria for 'Gold' status, the Healthy Working Lives group ran a number of events and campaigns to promote health and wellbeing among Society staff. These included a smoothie bar, tennis night, and a mental health awareness campaign.

We will continue to promote health and wellbeing in the work place, and the group is currently working on our new three-year plan which will align with the facilities at our new office.

## Financial review 2015

### A full report of our financial performance for 2014/15

We're reporting a surplus of income over expenditure from normal activities (prior to the actuarial charge to the Society's closed final salary pension scheme) of £56,000 for the financial year ended 31 October 2015 (2014 - surplus £116,000). The actuarial charge in respect of the scheme was £219,000 (2014 - £189,000). The Society's income for the year includes a gain on the sale of Heritable Property of £3,135,000, net of corporation tax, resulting in a total recognised surplus for the year of £2,972,000 (2014 - recognised loss £73,000).

### Income & Expenditure Account

Our income (excluding the gain made on the sale of Drumsheugh Gardens) amounted to £10.3 million, an increase of 0.5% from last year. The sources of income were as follows:

- 74% Membership
- 1% Regulation
- 4% Events
- 4% Other Commercial
- 14% Financial Compliance & Interventions
- 3% Other

### Expenditure

Our expenditure was £10.3 million, an increase of 1.1% from last year. Expenditure was split as follows:

- 15% Representation
- 12% Regulation
- 10% Membership
- 5% Corporate Office
- 20% Central Services
- 7% Communication & Marketing
- 7% Commercial
- 2% Final Salary Pension Scheme
- 11% Financial Compliance & Interventions
- 6% Irrecoverable VAT & Corporation Tax
- 2% Council
- 3% Depreciation

### Reserves

The Finance Committee reviewed the Society's reserves policy in light of the proposed move from owned to leased office premises. The reserves policy is now three to six months' average expenditure. Reserves for this purpose are defined as net current assets plus realisable investments less pension scheme deficit (from the most recent valuation less recovery plan payments made subsequently).

At 31 October 2015 this figure amounted to £3 million (excluding the final instalment of £1.25 million from the sale Drumsheugh Gardens, due in February 2017), which is equivalent to between three and four months' expenditure. The committee regards this level as satisfactory.

## Fixed assets

The sale of heritable property of 25, 26 and 27 Drumsheugh Gardens was concluded successfully for a sale price of £4.25 million, payable in two instalments - £3 million on 12th January 2016 and £1.25 million in February 2017. This transaction has been reflected in these accounts given missives were exchanged in August 2015 and the sale was subsequently completed, leading to a book gain (after corporation tax provision) of £3.14 million.

## Investments

Investments are stated at cost and not market value. The market value of investments was less than cost at the year-end. This is viewed as a result of normal market fluctuations, and not a permanent diminution in value.

As part of its review of the Society's reserves during the year, the Finance Committee approved a transfer from cash to investments of £2 million which is reflected in the increase in investment cost in the Balance Sheet.

## Cash

Cash balances at the year-end were £8.4 million. Of this sum, subscription income received in advance of 1 November 2015 was £6.4 million.

## Pension debt

The Society's defined benefit scheme was closed to future accrual from 1 May 2010. A full actuarial valuation was carried out at 31 March 2013 by a qualified actuary, independent of the scheme's sponsoring employer. The overall deficit shown by this valuation was £2 million. A deficit recovery repayment plan has been agreed with the scheme trustees which is scheduled over a seven-year period. The next triennial valuation date is 31 March 2016.

## Annual report

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

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

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

## Key risks

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

- remaining liability on the closed final salary pension scheme and exposure to market risk
- legislative change and risk of changes to current regulatory functions
- loss of public confidence in the Society's ability to act as an effective regulator
- competitive pressures through alternative business structures and the future economic health of the profession
- failure to deliver the Society's 5-year strategy

## Financial year 2015/16

The Society's approved budget for 2015/16 left the cost of the practising certificate unchanged at £550, in accordance with the three-year fee strategy adopted by the Finance Committee in 2013. The retention fee was increased by £10 to £100 and the non-practising member fee increased by £20 to £200.

**John Mulholland**  
**Treasurer**  
**26 February 2016**

## Statement of the Council's responsibilities

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

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

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

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

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

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

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

## Finance Committee – Convener’s report

### Committee members

*John Mulholland (Convener and Treasurer), appointed June 2015*

*Suzanne Dawson*

*Graeme Matthews*

*David Newton*

*David Preston*

*Mark Sim, appointed June 2015*

*Ken Tudhope (Director of Finance, Secretary to the committee)*

### Governance and financial control

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

In order to achieve this, the Finance Committee will:

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

### Financial strategy

The financial strategy of the Society is to:

- Ensure best value for members’ subscriptions. Best value means value for money can be achieved and demonstrated.
- Provide financial resources to support the corporate plan. Consideration will be given to the cost and timing of components within the corporate plan and the departmental plans that are developed so that it is clear when resources will need to be made available. Prioritisation for financial resources takes place to ensure the most important objectives are achieved. All budget holders receive monthly income and expenditure accounts for their cost centres to enable performance against budget to be continuously monitored.
- Maintain reserves at an acceptable level. An acceptable level has been determined to be the equivalent of at least three average months’ expenditure.



## Overview

2014/15 saw the most significant financial decision made by the Society for many years, involving the sale of its premises in Drumsheugh Gardens and lease of new premises Atria One in Morrison Street, Edinburgh.

The Finance Committee scrutinised a number of financial models to support this decision, including the status-quo option and the impact of moving to other alternative premises. Income & expenditure accounts and cash flows for the 15-year lease term were produced and the assumptions behind the figures interrogated. The figures and overall governance behind the project were also reported on by the Society's internal auditors and suitable assurance obtained. As a result the committee was happy to support the paper put to council to approve the move.

The committee also reviewed the reserves policy and the impact on the Society's balance sheet of the proposed move to leased premises. As part of this process it decided to increase the amount of the Society's reserves invested in balanced stock market portfolio in order to achieve a better investment income return and growth potential, balanced with risk and in the context of the other cash reserves.

Looking ahead, the committee's focus in 2015/16 will include managing the cost base of the business to reflect the change in premises, and progress on delivery of the strategy to ensure the Society is not exposed to undue financial risk.

I conclude by thanking my colleagues on the Finance Committee for their diligence and observations throughout the year, in particular the former Treasurer David Newton who stood down from Council in May. I am delighted that he has agreed to remain on the Finance Committee and we will continue to benefit from his knowledge and experience.

**John Mulholland**  
Treasurer  
26 February 2016

## Audit Committee – Convener's report

### Committee members

*Liam McCabe (Convener)*  
*David Bentley, retired 18 September 2015*  
*Simon Brown, appointed 1 January 2015*  
*Kim Leslie, retired 14 November 2014*  
*Amanda Millar, appointed 1 January 2015*  
*Sara Scott*  
*Richard Spilsbury*  
*Eileen Sumpter*  
*David Cullen (Secretary)*

### Governance and membership

The committee's membership benefited from the appointment of two new Council members – Simon Brown and Amanda Millar. Both these new members have greatly enhanced the knowledge base of the committee in terms of solicitor practice.

There was one retirement from the committee this year – David Bentley – who served on the committee for just under five years. David was a valued member of the committee. His contributions, particularly in the area of the presentation and analysis of the Society's annual audit and accounts will be much missed.

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

## Responsibilities

The work of the committee is to review and report on the Society's arrangements for audit, internal control and risk management. The committee oversees the work of the Society's internal and external auditors. With the benefit of its consideration the work of the auditors, the committee comments and make recommendations on the effectiveness in practice of the Society's financial policies and procedures, management controls and its arrangements to identify and manage risk.

In this context the committee reviews the following at each of its meetings:

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

Through that regular review the Committee will question the actions and judgements of the Society's executive, Board and office bearers in relation to the Society's financial stewardship, safeguarding of the Society's assets and the extent to which the Society achieves best value.

The committee oversee the Society's relations with the external auditors. To this end it receives and comments on the Society's annual financial statements prior to their approval by Council and receives the report from the Society's external auditors on their work in forming their opinion on the financial statements. The committee also commissions and oversees the delivery of an agreed programme of work from its appointed internal auditors. It will also follow up to ensure that recommendations contained in internal audit reports are implemented within a reasonable timeframe.

The committee will from time to time carry out reviews into or report on ad hoc matters as it may consider appropriate or as it is requested to do by Council or the Society's office bearers.

## Overview

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

- Review of potential relocation project
- Smartcard project
- Review of IMIS system
- IT systems
- Budgetary & financial controls
- Governance – regulatory sub-committees
- Risk management
- Follow up Review

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

A major issue which the committee reviewed at the end of the year was the Society's internal review of the regulatory systems in relation to the case of the former solicitor Christopher Hales. This review has resulted in a number of planned improvements in the Society's regulatory processes which should be implemented in full by the end of the first quarter of next year.

The committee reviews the principal risk register of the Society at each meeting to again ensure appropriate and timeous risk management actions are taken to mitigate such risks. The committee also reviews the performance of the Society's auditors in terms of their performance, cost and independence.

A thorough review of the risks on the register has resulted in a complete overhaul of these risks as well as the approach to risk mitigation and management. The major risks to the Society all relate to the performance and discharge of the Society's regulatory duties.

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

**Liam McCabe**  
**Convener**  
**26 February 2016**

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

We have audited the accounts of the Law Society of Scotland for the year ended 31 October 2015, which comprise the income and expenditure account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

### **Respective responsibilities of Council and auditors**

As explained more fully in the statement of the Council's responsibilities, the Council is responsible for the preparation of accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the accounts 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.

### **Scope of the audit of the accounts**

An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Society's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council; and the overall presentation of the accounts. In addition, we read all the financial and non-financial information in the annual report to identify material

inconsistencies with the audited accounts 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 accounts:

- give a true and fair view of the state of the Society's affairs as at 31 October 2015 and of its surplus for the year then ended
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice

## Matters on which we are required to report by exception

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

- the information given in the annual report is inconsistent in any material respect with the accounts; or
- proper accounting records have not been kept; or
- the accounts are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit

### Henderson Loggie

Chartered Accountants and Statutory Auditors Edinburgh

Eligible to act as an auditor in terms of section 1212 of the Companies Act 2006

26 February 2016

## Group income and expenditure account

For the year ended 31 October 2015

		2015	2014
<b>Income</b>	<b>Note</b>	<b>£000</b>	<b>£000</b>
Membership	2	7,682	7,566
Regulation	3	138	148
Events	4	450	379
Other commercial	5	432	500
Intervention & judicial factories	6	1,463	1,528
Interest and dividends		140	141
Gain on disposal of investments		11	14
<b>Total income</b>		<b>10,316</b>	<b>10,266</b>

<b>Expenditure</b>			
Council	7	216	230
Board	8	23	31
Corporate	9	504	465
Membership	10	997	964
Regulation	11	1,213	1,114
Representation & Professional Support	12	1,586	1,784
Central Services	13	2,153	1,984
Marketing, Communications & Other	14	752	796
Commercial	15	740	840
Intervention & Judicial Factories	16	1,203	1,192
VAT not recoverable		549	458
Corporation tax	18.1	40	52
Depreciation	19.1	262	220
Loss on disposal of fixed assets		22	-
<b>Total expenditure</b>		<b>10,260</b>	<b>10,150</b>
Operational surplus/(deficit) for the year		56	116
Gain on disposal of heritable property	19.3	3,614	-
Corporation tax on gain on sale	18.2	(479)	-
<b>Overall surplus for the year</b>		<b>3,191</b>	<b>116</b>

#### 6Statement of Total Recognised Gains and Losses

Surplus for the financial year		3,191	116
Actuarial movement in defined benefit pension scheme	24.2	(219)	(189)
<b>Total recognised gains/(losses) for the financial year</b>		<b>2,972</b>	<b>(73)</b>

#### Balance sheet – Group for the year ended 31 October 2015

		2015	2014
--	--	------	------

<b>Fixed assets</b>	Note	£000	£000
Heritable property	19.1	-	586
Leasehold improvements	19.1	1,288	-
Furniture and equipment	19.1	626	430
Listed investments at cost	19.2	1,961	218
		3,875	1,234
<b>Debtors: amounts falling due after more than one year</b>	20	1,250	-
<b>Current assets</b>			
Cash in hand and at bank	32	8,417	7,009
Debtors	20	3,662	742
		12,079	7,751
<b>Creditors: amounts falling due within one year</b>	21	(8,792)	(4,227)
Provisions	33	(682)	-
Net current assets		2,605	3,524
Net assets excluding pension asset and provisions		7,730	4,758
Net assets including pension asset and provisions		7,730	4,758
<b>Represented by:</b>			
Capital account	23	7,730	4,758

**Christine McLintock**  
**President**  
**26 February 2015**

### **Balance sheet - Society for the year ended 31 October 2015**

		2015	2014
<b>Fixed assets</b>	Note	£000	£000
Heritable property	19.1	-	586
Leasehold improvements	19.1	1,288	-

Furniture and equipment	19.1	626	430
Listed investments at cost	19.2	1,961	218
		3,875	1,234
<b>Debtors: amounts falling due after more than one year</b>	20	1,250	-
<b>Current assets</b>			
Cash in hand and at bank	32	8,125	6,757
Debtors	20	3,662	742
		11,788	7,499
<b>Creditors: amounts falling due within one year</b>	21	(8,770)	(4,208)
<b>Provisions</b>	33	(682)	-
Net current assets		2,336	3,291
Net assets excluding pension asset and provisions		7,461	4,525
Net assets including pension asset and provisions		7,461	4,525
<b>Represented by:</b>			
Capital account	23	7,461	4,525

Christine McLintock  
President  
26 February 2015

## Group cash flow statement for the year ended 31 October 2015

		2015	2014
	Note	£000	£000
<b>Net cash inflow/ (outflow) from operating activities</b>	25.1	4,139	600
<b>Returns on investments and servicing of finance</b>			
Interest and dividends received		140	141
<b>Taxation</b>			
Corporation tax paid	18.1	(52)	(75)

<b>Capital expenditure and financial investment</b>			
Payments to acquire investments		(1,902)	(80)
Receipts from sale of investments		170	79
Payments to acquire tangible fixed assets		(1,087)	(344)
Receipts from sale of tangible fixed assets		-	-
		(2,819)	(345)
Increase in cash during the year		1,408	321
Net funds at the start of the year		7,009	6,688
Net funds at the end of the year	25.2	8,417	7,009

## Notes to the financial statements for the year ended 31 October 2015

### NOTE 1 Accounting policies

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

#### Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and accounting rules modified to include the revaluation of land and buildings. The Society has applied transitional rules contained in Financial Reporting Standard 15, Tangible Fixed Assets, to retain previous valuations as the basis on which the assets are held.

#### Basis of consolidation

The consolidated accounts include the accounts of the Society and its subsidiary undertaking, The Law Society of Scotland Services Limited, made up to 31 October 2015.

#### Heritable property

Missives for the sale of Drumsheugh Gardens were concluded in August 2015 and as a result the sale, concluded in January 2016, is incorporated in these accounts.

#### Leasehold improvements

Leasehold improvements are depreciated over the length of the lease.



## **Depreciation**

Depreciation is calculated to write off the cost of items over their estimated useful lives as follows: Office machinery three to five years Office equipment three to ten years Office fixtures and furniture five to ten years Motor cars four years

## **Investments**

Investments are stated at cost. Investments are only stated at below cost where the Council believes their diminution in value is permanent. Where cash is retained by the investment brokers for reinvestment, it is included within investments.

## **Income recognition**

The Society recognises all categories of income in the period to which they relate. Membership income received that relates to future periods is held on the balances sheet as fees in advance.

## **Taxation**

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

## **Running costs**

Running costs include travel, accommodation, legal fees, professional subscriptions, and other direct costs where applicable.

## **Pension scheme - defined benefit pension scheme**

The Society operates a pension scheme providing benefits based on final pensionable pay (closed to new members from 30 June 2003 and closed to future accrual from 1 May 2010). The assets of the scheme are held separately from those of the Society. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

## **Pension scheme - defined contribution pension scheme**

The Society contributes to a group personal pension plan on behalf of certain employees. The assets of this scheme are held separately from those of the Society in an independently administered fund. The amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

## **Provision for liabilities**

Where the Society requests the court to appoint an external Judicial Factor, the Society has a contractual obligation to meet any shortfall where the estate under administration is insufficient to meet the commission payable to the Judicial Factor as fixed by the Accountant of Court. A provision for liabilities and charges is recognised in accordance with Financial Reporting Standard 12. In cases where the Judicial Factor is internal and additional costs require to be incurred in order to carry out the work, a provision is also made. During the administration of an estate, the provision is adjusted based on the best available information.

	2015	2014
	£000	£000
<b>NOTE 2 - Membership</b>		
Practising certificate fees	5,829	5,727
Membership fees	53	52
Retention fees	1,192	1,041
Registered foreign lawyers	242	184
Financial services	69	301
Examinations, admissions & notaries	125	109
Other membership income	172	142
	7,682	7,556
<b>NOTE 3 - Regulation</b>		
Scottish Solicitors' Discipline Tribunal costs recovered	138	148
<b>NOTE 4 - Events</b>		
Annual conference – delegate fees & sponsorship	55	50
Update events	345	317
Update sponsorship	50	12
	450	379
<b>NOTE 5 - Other commercial</b>		
Service Provider Scheme	21	23
Journal (note 17)	295	328
Publications (note 17)	116	143
Other miscellaneous income	-	6
	432	500
<b>NOTE 6 - Financial compliance, interventions &amp; judicial factories</b>		
Accounts fees from members	1,421	1,411

Judicial Factor commission	22	70
Inspection fees	20	47
	1,463	1,528
<b>NOTE 7 - Council</b>		
Travel, catering, training	100	105
AGM & SGM	2	11
President's remuneration	76	76
Vice president's remuneration	38	38
	216	230
<b>NOTE 8 - Board</b>		
Travel, training	6	3
Board compensation (note 27)	17	18
	23	21

<b>NOTE 9 - Corporate</b>		
Employment costs (note 28)	432	397
Corporate office - running costs	69	52
Building review	3	16
	504	465
The CEO's package was £188,964 (2014 - £183,104)		
<b>NOTE 10 - Membership</b>		
Employment costs (note 28)	721	670
Conveners' compensation (note 27)	40	23
Registrar running costs (including Smartcard roll-out)	97	166
Education running costs	139	105
	997	964
<b>NOTE 11 - Regulation</b>		
Employment costs (note 28)	705	652

Conveners' compensation (note 27)	29	26
Scottish Solicitors' Discipline Tribunal expenses	428	392
Regulation expenses	48	37
Licensed providers	3	37
	1,213	1,144
<b>NOTE 12 - Representation and professional support</b>		
Employment costs (note 28)	996	1,076
Conveners' compensation (note 27)	66	53
Annual conference & In-House Lawyers' Group events (note 17)	53	101
American and Canadian Bar Association	12	19
International Bar Association	9	12
Council of Bars and Law Societies in Europe	21	33
Commonwealth Law	26	9
Professional support running costs	92	130
Professional practice running costs	69	97
Diversity running costs	18	31
Law reform running costs	60	58
Rights of audience	67	39
Regulation liaison running costs	-	17
Brussels office running costs	97	109
	1,586	1,784
<b>NOTE 13 - Central services</b>		
Employment costs (note 28)	848	799
Facilities running costs	41	65
Finance running costs	48	47
IT running costs	230	190

Business continuity costs	4	7
Administration running costs	223	237
Building running costs	538	444
Audit fees (note 30)	17	18
Convener compensation	5	5
Human resources:		
Advertising & recruitment	19	11
Staff training	47	38
Other including closed pension scheme fees	204	193
Overhead recovery from Scottish Solicitors' Guarantee Fund & Scottish Legal Aid Board	(71)	(70)
	2,153	1,984
<b>NOTE 14 - Marketing, communication &amp; other</b>		
Employment costs (note 28)	388	375
Society stakeholder engagement	98	101
Communication and marketing running costs	266	320
	752	796
<b>NOTE 15 - Commercial</b>		
Employment costs (note 28)	173	182
Journal running costs (note 17)	308	339
Publications running costs (note 17)	5	26
Update events (note 17)	233	251
Business development running costs (note 17)	7	9
The Law Society of Scotland Services Limited consultancy costs	14	33
	740	840
<b>NOTE 16 - Financial compliance, interventions &amp; judicial factories</b>		
Employment costs (note 28)	892	1,012

Judicial factory costs	157	94
Convener compensation	7	5
Other	147	81
	1,203	1,192

<b>NOTE 17 - Analysis of income earning units of the Society</b>		
a) The Journal		
Income (note 5)	295	328
Expenditure (note 15)	(308)	(339)
Deficit for period	(13)	(11)
b) Publications		
Income (note 5)	116	143
Expenditure (note 15)	(5)	(26)
Surplus for period	111	117
c) Update events		
Income - Update events (note 4)	345	317
- Sponsorship (note 4)	50	12
Expenditure - Update events (note 15)	(233)	(251)
Surplus/(deficit) for period	162	78
d) Annual conference & in-house lawyer events		
Income - delegate fees & sponsorship (note 4)	55	50
Expenditure (note 12)	(53)	(101)
Expenditure relating to prior year	-	10
Surplus/(deficit) for period	2	(41)
e) Service Provider Scheme		
Income (note 5)	21	23
Expenditure (note 15)	(7)	(9)

Surplus/(deficit) for period	14	14
f) Staff costs	(173)	(182)
Overall (deficit)/surplus for period	110	(25)

## NOTE 18 – Corporation tax

### 18.1 Corporation tax on operating activities

	2015	2014
	£000	£000
Current corporation tax charge	40	53
Adjustment for prior years	-	(1)
	40	52
Surplus for the year before tax	56	116
Corporation taxation at 20.4% (2014 – 21.8%)	11	26
Income not subject to corporation tax	(2,065)	(2,193)
Expenditure not allowable for corporation tax	2,095	2,222
Small companies relief	(1)	(2)
Adjustment for prior years	-	(1)
	40	52

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

18.2 Corporation tax on gain on disposal of heritable property	479	-
--	-----	---

This represents the tax charge for the gain on disposal of Drumsheugh Gardens after deducting original cost/1982 valuation, indexation relief and deduction of direct costs.

## NOTE 19 - Fixed assets

### 19.1 Tangible fixed assets

	Heritable property	Leasehold improvements	Office furniture & equipment	Total

	£000	£000	£000	£000
Cost				
At 1 November 2014	586	-	2,886	3,472
Additions	-	1,288	481	1,769
Disposals	(586)	-	(23)	(609)
At 31 October 2015	-	1,288	3,344	4,632
Depreciation				
At 1 November 2014	-	-	2,456	2,456
Charge for year	-	-	262	262
On disposals	-	-	-	-
At 31 October 2015	-	-	2,718	2,718
Net book value 31 October 2015	-	1,288	626	1,914
Net book value 31 October 2014	586	-	430	1,016

## 19.2 Listed investments

Cost	£000
At 1 November 2014	218
Additions	1,902
Disposals	(159)
At 31 October 2015	1,961

The market value at 31 October 2015 was £1,884,000 (2014 - £234,000). No permanent diminution in value is anticipated.

## NOTE 20 - Debtors

Due after more than one year:



	Group		Society	
	2015	2014	2015	2014
	£000	£000	£000	£000
Property sale – final instalment (payable February 2017)	1,250	-	1,250	-

Due within one year:

Trade debtors	268	217	268	217
Other debtors	212	215	213	215
Property sale	3,000	-	3,000	-
Prepayments	1,250	-	1,250	-
	3,662	742	3,663	742

## NOTE 21 - Creditors: amounts falling due within one year

Fees in advance	6,451	3,205	6,451	3,205
Trade creditors	662	507	662	507
Corporation tax	520	53	520	43
Other taxation and social security	117	-	117	-
Other creditors	724	255	702	253
Accruals	318	207	318	200
	8,792	4,227	8,770	4,208

## NOTE 22 - Capital account

At beginning of year	4,758
Add: surplus for the year	3,191
Actuarial (loss) recognised in the pension scheme	(219)
At 31 October 2015	7,730

## NOTE 24 - Pension schemes

### 24.1 Defined contribution pension scheme

The Society operates a group personal pension on behalf of certain employees. The pension cost charge for the year in respect of those employees represents contributions payable by the Society to the scheme and amounted to £395,000 (2014: £365,000). Contributions outstanding at 31 October 2015 amounted to £46,000, being contributions for the month of October 2015.

### 24.2 Defined benefit pension scheme

The company operates a defined benefit pension arrangement called the The Law Society of Scotland Staff Retirement Benefits Scheme. The following disclosures exclude any allowance for defined contribution schemes operated by the company.

The company expects to contribute £219,000 to the scheme during the year to 31 October 2016.

The principal assumptions used to calculate scheme liabilities include:

	31 October 2015	31 October 2014
Discount rate	4.10% pa	4.10% pa
Inflation assumption (RPI)	3.50% pa	3.40% pa
Inflation assumption (CPI)	2.80% pa	2.70% pa
Pension increases – CPI limited to 5%	2.80% pa	2.70% pa
Pension increases – CPI limited to 3%	2.50% pa	2.40% pa
Pension increases – CPI limited to 2.5%	2.20% pa	2.20% pa
Revaluation in deferment	2.80% pa	2.70% pa
Post retirement mortality assumption	110% of S1PxA, projected with CMI 2012 – long-term rate of improvement 1.5% per annum	110% of S1PxA, projected with CMI 2012 – long-term rate of improvement 1.5% per annum
Tax free cash	Members are assumed to convert 25% of their pension into cash at retirement	Members are assumed to convert 25% of their pension into cash at retirement

Under the adopted mortality tables, the future life expectancy at age 65 is as follows:

Life expectancy at age 65	31 October 2015	31 October 2014
Male currently aged 45	24.3	24.1
Female currently aged 45	26.9	26.7
Male currently aged 65	22.1	22.0
Female currently aged 65	24.5	24.3

Long-term expected rate of return on the scheme's assets net of expenses	4.10%	6.40% pa
--	-------	----------

## Assets

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

Asset category	31 October 2015
Equities	71%
Bonds	29%
Cash	Less than 1%
Total	100%

The actual return on the scheme's assets over the period to the review date was £308,000.

The assets do not include any investment in shares or property of the Society.

The expected return on assets is a weighted average of the assumed long-term returns for the various asset classes. Equity and property returns are developed based on the selection of an appropriate risk premium above the risk free rate which is measured in accordance with the yield on government bonds. Bond returns are selected by reference to the yields on government and corporate debt as appropriate to the scheme's holdings of these instruments.

### Amounts recognised in the balance sheet at 31 October 2015

	Value at 31 October 2015	Value at 31 October 2014
Fair value of assets	£6,252,000	£6,188,000
Present value of funded obligations	(£6,132,000)	(£5,788,000)
Surplus/(deficit) *	£120,000	£400,000
Balance sheet asset/(liability)	£0	£0

Amounts disclosed on the balance sheet are made up of:	Value at 31 October 2015	Value at 31 October 2014
Assets Fair value of assets Asset not recognised due to limit on recognisable surplus	£6,252,000 (£120,000)	£6,188,000 (£400,000)
Liabilities Present value of funded obligations Present value of unfunded obligations	£6,132,000 £0	£5,788,000 £0

Unrecognised past service costs	£0	£0
Other liabilities	£0	£0
Surplus/(deficit)	£120,000	£400,000
Net (asset)/liability	£0	£0

#### Amounts recognised in the statement of total recognised gains and losses over the year

	31 October 2015	31 October 2014
Actuarial gains and (losses)	(£659,000)	(£805,000)
Effect of limit on recognisable surplus	£400,000	£616,000
Total amount recognised in statement of total recognised gains and losses	(£259,000)	(£189,000)

#### Amounts recognised in the profit & loss account over the year

	31 October 2015	31 October 2014
Current service cost	£0	£0
Interest cost	£228,000	£243,000
Expected return on assets	(£268,000)	(£243,000)
(Gains)/losses on settlements or curtailments	£0	£0
Past service cost	£0	£0
Total	(£40,000)	£0

Please note that due to part of the surplus being unrecoverable then under the requirements of FRS17, the expected return on assets has been reduced from £388,000 to £268,000 and there is an item of £400,000 in the STRGL which means that overall the disclosed surplus for the funded benefits is limited to £0.

The unadjusted amount of the expected return on assets is shown in the asset and liability reconciliation.

#### Reconciliation of assets and defined benefit obligation

The change in the assets over the period was:

	31 October 2015	31 October 2014
Fair value of assets at the beginning of the period	£6,188,000	£6,711,000
Expected return on assets	£388,000	£436,000

Company contributions	£219,000	£189,000
Contributions by scheme participants	£0	£0
Benefits paid	(£463,000)	(£980,000)
Change due to settlements or curtailments	£0	£0
Actuarial gain/(loss) on assets	(£80,000)	(£168,000)
Fair value of assets at the end of the period	£6,252,000	£6,188,000

The change in the defined benefit obligation over the period was:

	31 October 2015	31 October 2014
Defined benefit obligation at the beginning of the period	£5,788,000	£5,888,000
Current service cost	£0	£0
Contributions by scheme participants	£0	£0
Past service cost	£0	£0
Interest cost	£228,000	£243,000
Benefits paid	(£463,000)	(£980,000)
Change due to settlements or curtailments	£0	£0
Actuarial (gain)/loss on defined benefit obligation	£579,000	£637,000
Defined benefit obligation at the end of the period	£6,132,000	£5,788,000

### Summary of prior year amounts

Period to	31 October 2015	31 October 2014	31 October 2013	31 October 2012	31 October 2011
Present value of defined benefit obligation	(£6,132,000)	(£5,788,000)	(£5,888,000)	(£5,908,000)	(£5,594,000)
Scheme assets	£6,252,000	£6,188,000	£6,711,000	£7,019,000	£6,526,000
Surplus/(deficit)	£120,000	£400,000	£823,000	£1,111,000	£932,000

Experience gains and (losses) on scheme liabilities*	(£54,000)	(£204,000)	(£738,000)	£227,000	£134,000
Changes in assumptions used to value scheme liabilities	(£525,000)	(£433,000)	(£721,000)	(£398,000)	£852,000
Experience adjustments on scheme assets	(£80,000)	(£168,000)	£827,000	(£9,000)	(£437,000)

\*Does not include allowance for changes in assumptions

## NOTE 25 - Notes to the cash flow statement

### 25.1 Reconciliation of surplus to net cash inflow from operational activities

	2015	2014
	£000	£000
Surplus for the year	56	116
Interest and dividends receivable	(140)	(141)
Taxation charge	40	52
Operating (deficit)/surplus	(44)	27
Depreciation charges	262	220
Loss/(gain) on sale of fixed assets and investments	11	(14)
Costs associated with disposal of heritable property	(49)	-
Pension scheme - contributions	(219)	(189)
Change in debtors	80	(157)
Change in creditors	4,098	713
Net cash inflow from operating activities	4,139	600

### 25.2 Analysis of net funds

	2015	2014
Cash in hand and at bank		
Balance at start of year	7,009	6,688

Net cash inflow	1,408	321
Balance at end of year	8,417	7,009

## NOTE 26 - Related party transactions

### 26.1 Scottish Solicitors' Guarantee Fund

Members of the Scottish Solicitors' Guarantee Fund Committee are also members of the Council of the Law Society of Scotland. At the year-end, a balance of £465,933 (2014 - £89,563) was due to the Scottish Solicitors' Guarantee Fund, which included subscriptions received before the year-end for the 2015/16 subscription year. During the year, overheads of £70,529 were charged from the Law Society of Scotland to the Guarantee Fund (2014 - £70,327).

### 26.2 Scottish Solicitors' Benevolent Fund

Three trustees of the Scottish Solicitors' Benevolent Fund are also members of the Council of the Law Society of Scotland. Two trustees of the Scottish Solicitors' Benevolent Fund are employees of the Law Society of Scotland. At the year-end, a balance of £6,619 (2014 - £29,476) was due to the Law Society of Scotland.

### 26.3 The Law Society of Scotland Services Limited

The Society has a wholly owned subsidiary company which in turn holds a 20% shareholding in Legal Post (Scotland) Limited. The shares were acquired for negligible consideration. At the year-end, a balance of £1,014 was due to (2014 - £5,613 due from) the Law Society of Scotland. The Law Society of Scotland Services Limited post-tax profit for the year to 31 October 2015 was £36,334 (2014 - £41,204). During the year, the Society purchased services from Legal Post (Scotland) Limited amounting to £114,228 (2014 - £127,229).

### 26.4 Legal services

Some Council members are partners of firms instructed by the Law Society of Scotland to provide legal services to the Society. Firms of solicitors are appointed to the Society's panel after a competitive tendering process. None of the office bearers' firms provided any services to the Society in the year ended 31 October 2015.

### 26.5 LawCare

During the year, the Society paid £21,150 (2014 - £15,300) to LawCare, a registered charity, for pastoral care services. An employee of the Society is a director of LawCare.

**26.6 Pritchard Trust** During the year, the Society paid £10,225 (2014 - £10,000) to the Pritchard Educational Trust, a registered charity. The Society's President and Vice President are trustees.

NOTE 27 - Committee conveners' allowances claimed	2015	2014
	£000	£000
Regulatory	36	37
Legal aid	27	16
Treasurer	5	5
Property law	7	7
Board	17	18
Professional conduct	32	9
Criminal law	6	7
Admissions	5	7
Education	5	5
Professional practice	13	8

Insurance	5	5
Council of bars and law societies of Europe	-	3
Civil procedure	2	1
Law reform	3	2
	164	130
<b>NOTE 28 - Employment costs by department</b>		
Corporate office (note 9)	432	397
Membership (note 10)	721	670
Regulation (note 11)	705	652
Representation (note 12)	996	1,076
Central services (note 13)	848	799
Marketing & communications (note 14)	388	375
Commercial (note 15)	173	182
Financial compliance, interventions & judicial factories (note 16)	892	1,012
	5,155	5,163
The average number of full-time equivalent employees in the year was 119 (2014 - 120).		
<b>NOTE 29 - Employment costs by item</b>		
Salary	4,303	4,336
Employer's national insurance	441	444
Employer's pension	395	365

<b>NOTE 30 – Auditors' remuneration</b>		
Audit fees	17	16
Other accounting and tax services	-	1

Judicial factory work referred to fees set by the Accountant of Court.

## NOTE 31 - Contingent liabilities

In appointments of external Judicial Factors, the Society has an obligation to meet any shortfall where the estate under administration is insufficient to meet the commission payable to the Judicial Factors as fixed by the Accountant of Court. In cases where a potential shortfall is identified, a provision representing the best available estimate of the liability is made within the accounts. However, the Society may also have a



liability in other cases where a Judicial Factor has been appointed but it is not possible to quantify the liability at the balance sheet date. The existence of these liabilities depends on the funds collected by the Judicial Factor in the administration of the estate and the Society may receive a refund or have to make further payments.

### **NOTE 32 - Secured asset**

In 2014, the Society assigned security over a specific bank account through a Scots law pledge to the trustees of the staff retirement benefits scheme. The sum secured is £1 million. The security becomes enforceable if the Society defaults on its annual repayment obligations, and remains effective until the next triennial valuation is agreed.

### **NOTE 33 – Provision**

The Society entered into a contract for leasehold improvements for £1.04 million on 11 August 2015. At 31 October 2015, there remained £682,000 still to be billed, all of which has been capitalised under leasehold improvements.

## **Governance report 2015**

### **The Society's role**

The Society is the professional body and regulator of Scottish solicitors. It has responsibility for promoting the interests of the solicitors' profession in Scotland and the interests of the public in relation to the profession. The Society's responsibilities as a professional body and regulator are overseen by both its Council and its Regulatory Committee. The changes approved by members at the Society's annual general meeting in 2012 provide for a Council of up to 46 seats, of which 31 are elected solicitor members, up to nine are lay members and up to six others are co-opted solicitor members. The changes to the make-up of the Council were fully implemented by the end of May 2015.

### **The UK Governance Code**

The Society is a statutory body governed by the Solicitors (Scotland) Act 1980, with a constitution made under that Act and accompanying standing orders. The Society is committed to the principles of good corporate governance and seeks to comply with the relevant parts of the UK Corporate Governance Code 2010 where it is practicable given the Society's scale and operations.

### **Strategic management**

The Society's governing body is the Council, which sets the overall strategy as well as the annual corporate plan and associated budget. The Council this year approved the Society's ambitious new five-year strategy, Leading Legal Excellence. The Council manages the overall strategic direction for the Society within the context of the annual corporate plan and annual budget. The Council also measures the Society's performance against the annual corporate plan within the context of the Society's longer-term goals set out in the new five-year strategy. The Council delegates the monthly oversight of the Society's implementation of the plan to the Board. The Board is chaired by the Society's president and is made up of the vice president, past president, treasurer and five other elected Council members. Sitting beneath the Board is the chief executive, the senior leadership team and the management team, who all work together to implement the annual corporate plan, deliver the five-year strategy as well as managing the Society on an operational basis.

### **Governance**

There are a number of checks and balances within the Society's governance model that ensure we carry out our statutory responsibilities appropriately and fairly. These checks and balances include the monthly reporting of progress on the implementation of the annual corporate plan to the Board and the Council. The oversight of the regulatory duties of the Council is carried out by the Regulatory Committee through a delegated authority scheme in conjunction with the various regulatory sub-committees and Society staff. The Society's Audit Committee has, as one of its main roles, responsibility for reviewing and making recommendations about the Society's internal control and risk management system to monitor and assess their effectiveness. The convener of the Audit Committee reports quarterly to the Council on these matters as well as to members at the annual general meeting. The Audit Committee has this year benefited from the first full year of internal audit provided by Wylie & Bisset chartered accountants. The first internal audit report to be considered by the Audit Committee was on the Society's location review project. The Society also has a Finance Committee chaired by a Council member who is the Society's treasurer. The Finance Committee has responsibility for producing and then presenting the annual budget for approval to the Council and then to the annual general meeting in May. There is also a Nominations Committee chaired by a Council member, which oversees the system for the appointment of members to the Society's committees as well as making recommendations for the appointment of committee conveners.

## Office Bearers

The Society has three office bearers: the president, the vice president and the past president. Each of these three takes office for one year. The vice president becomes president, with the handover taking place at the Council meeting in May. The office bearers together with the chief executive are the Society's main ambassadors and represent the Society at home and abroad.

## Chief Executive/Secretary

The chief executive's key responsibilities include the provision of leadership and the vision necessary to create a professional body that effectively regulates and represents the interests of members and delivers a range of services and products to the profession. The chief executive is responsible for advising the Council and the Board on the development and implementation of policy as well as managing the Society's staff and resources. The chief executive works alongside the office bearers and Council in providing effective and meaningful communications and representing the Society. The chief executive is also responsible for ensuring effective relationships with members, external bodies (including governments) at the highest level and internationally, and with all other appropriate third parties, the public and the media. The chief executive is responsible for ensuring that the respective parts of the Society's governance structure operate effectively and efficiently.

## Council

The Council's responsibilities are set out in statute, the constitution and the standing orders. The principal role of the Council is to approve the strategy, annual corporate plan and annual budget for the Society. The Council also sets the most significant fees for members as well as recommending the practising certificate subscription for members to consider at the May annual general meeting. A code of conduct sets out the standards of behaviour for Council members. The chair of the Council is the president. More details about the Society's governance arrangements are available on the Society's website.

## The Board

The principal roles of the Board are to: provide guidance to the Society's executive on initial drafts of strategy and the annual corporate plan – including resource plans – before their submission to the Council for approval provide direction to both the executive and committees on any strategic-level initiative or project before submission to the Council for approval monitor the quarterly performance of the Society against the targets in the annual corporate plan and report any major variance to the Council regularly monitor the Society's financial performance against budget and ensure that all risks identified in the Society's risk register are managed and those the Board considers to have the potential to have a high impact on the work of the Society, and with a medium to high likelihood of occurring, are escalated to the Council The Regulatory Committee The principal roles of the Regulatory Committee are to: ensure that the standards for the profession are set by making relevant and appropriate rules, to be applied in a uniform and consistent way and regularly reviewed ensure that the internal processes, policies and procedures adopted by the regulatory sub-committees are effective, appropriate, proportionate and consistent build and develop relations with appropriate third parties to ensure confidence in the work of the profession and the Society's regulatory regime.

**David Cullen**  
Registrar

# Guarantee Fund report 2015

## Overview

The Guarantee Fund reports a surplus of income over expenditure for the financial year ended 31 October 2015 of £194,000 (2014 – surplus £661,000). This is reflected in an increase in the reserves balances to £6.7 million.

## Income and expenditure

Income to the Fund has remained steady largely due to the decision not to change the subscription rate for 2015. Grant volumes have declined from those of the preceding years and individual payments have been relatively small, albeit at a slightly higher level than in 2014. The majority of the surplus in 2014 arose from unusually high receipts from previous Judicial Factories.

## Balance sheet

Guarantee Fund reserves have risen to £6.7m at 31 October 2015 as a result of the income & expenditure issues noted above. The Guarantee Fund Sub-Committee believes given the unpredictability of the Guarantee Fund's environment that it is essential that a healthy level of reserves is maintained.

During 2015 a review into the operation of the Guarantee Fund was conducted which has resulted in a number of recommendations around the Funds approach to risk management including reserve levels. Following the review the Guarantee Fund Sub-Committee has reviewed the current and projected reserves level and continues to believe that reserves are at appropriate level given the naturally volatile claims environment.

## Looking ahead

Work will continue in the year ahead to complete implementation of a number of recommendations arising from the review of the Guarantee Fund during 2015. However a number of strategic recommendations about the future of the Fund have recently been the subject of a consultation process, the results of which will be reviewed in 2015/2016.

Volumes of new claims have declined during 2015 as the wave of Judicial Factories which were necessary during the downturn wind down. However it should be noted that claim expenditure in the first two months of 2015/2016 has already exceeded the claims expenditure total for 2015. More significant claim expenditure may arise in the year although some significant recoveries from Judicial Factors are expected.

Finally, from 1 November 2015 the fund has been renamed as the Client Protection Fund. It is felt that this name better reflects the purpose of the Fund and should better manage claimant expectations.

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

We have audited the accounts of the Scottish Solicitors' Guarantee Fund (the fund) for the year ended 31 October 2015, which comprise the income and expenditure account, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Council of the Law Society of Scotland, as a body, in accordance with relevant legal and regulatory requirements. Our audit work has been undertaken so that we might state to the Council of the Law Society of Scotland those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume

responsibility to anyone other than the Council of the Law Society of Scotland as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of Council and auditors**

As explained more fully in the Statement of Council's Responsibilities, the Council is responsible for the preparation of accounts which give a true and fair view.

Our responsibility is to audit and express an opinion on the accounts 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.

## **Scope of the audit of the accounts**

An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Society's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council; and the overall presentation of the accounts. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited accounts 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**

In our opinion the accounts:

- give a true and fair view of the state of the fund's affairs as at 31 October 2015 and of its surplus for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice.

## **Matters on which we are required to report by exception**

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

- the information given in the annual report is inconsistent in any material respect with the accounts; or
- proper accounting records have not been kept; or
- the accounts are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

**Henderson Loggie**

**Chartered Accountants and Statutory Auditors**

**Eligible to act as an auditor in terms of section 1212 of the Companies Act 2006**

**Edinburgh**

**26 February 2016**

## Statement of the Council's Responsibilities in Respect of the Accounts of the Scottish Solicitors' Guarantee Fund

The Council of the Law Society of Scotland is responsible for preparing the accounts of the Scottish Solicitors' Guarantee Fund in accordance with the constitution of the Society.

While the constitution of the Society does not contain any accounts requirements in respect of the fund, the Council has decided to prepare accounts for each financial year which give a true and fair view of the state of affairs of the fund and of the surplus or deficit of the fund for that period and to prepare the accounts in accordance with UK Accounting Standards (UK Generally Accepted Accounting Practice).

In preparing these accounts, the Council has undertaken to:

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

The Council has general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the fund and to prevent and detect fraud and other irregularities.

### Income and Expenditure Account

		2015	2014
	Note	£000	£000
<b>Income</b>			
Subscriptions		645	635
Income from investments and deposits		49	36
Gain on disposal of investments		3	-
Dividends in respect of claims		34	439
Claims paid by Judicial Factor		8	68
<b>Total income</b>		<b>739</b>	<b>1,178</b>
<b>Expenditure</b>			
Stop-loss insurance		(145)	(145)
Overheads and staff costs		(89)	(80)
Convener compensation		(8)	(8)
Auditors' fees		(4)	(4)
Other professional fees		-	(15)
Corporation tax	2	(10)	(7)
<b>Total expenditure</b>		<b>(256)</b>	<b>(259)</b>
<b>Surplus of running costs</b>		<b>483</b>	<b>919</b>
<b>Claims</b>		<b>(289)</b>	<b>(258)</b>
<b>Overall fund surplus/(deficit)</b>		<b>194</b>	<b>661</b>

5Balance Sheet  
As at 31 October 2015

		2015	2014
	Note	£000	£000
<b>Assets</b>			
Investments		3,028	-
Cash in bank		3,637	6,439
Sundry debtors		489	257
		7,154	6,696
<b>Less liabilities</b>			
Provision for taxation	2	(10)	(7)
Grants made by the Council unpaid at 31 October		(24)	(130)
Sundry creditors		(459)	(92)
		6,661	6,467
<b>Represented by:</b>			
Reserve available to meet claims			
Balance brought forward from last account		6,467	5,806
Surplus for year		194	661
		6,661	6,467

## Notes to the Financial Statements for the year ended 31 October 2015

### 1. Accounting policies

#### Basis

The accounts are prepared on an accruals basis.

#### Investments

Investments are stated at cost. Investments are only stated at below cost where the committee believes their diminution in value is permanent

#### Income recognition

The Fund recognises all categories of income in the period to which they relate. Subscription income received that relates to future periods is held on the balance sheet as fees in advance.

#### Taxation

The Fund is liable for corporation tax on investment income and chargeable investments gains. Full provision is made for corporation tax on assessable income.

### 2. Corporation tax

	2015	2014
	£000	£000
Current corporation tax charge	10	7
<b>Reconciliation</b>		
Surplus for the year before tax	204	668
Corporation taxation at 20%	40	134

Income not subject to corporation tax	(137)	(229)
Expenditure not allowable for corporation tax	107	102
	10	7

### 3. Related party transactions

#### The Law Society of Scotland

The members of the Guarantee Fund Committee are also members of the Council of the Law Society of Scotland, with the exception of lay members and one solicitor. At the year-end, a balance of £465,933 was due from The Law Society of Scotland (2014 – £89,563), which included subscriptions received before the year-end for 2015/16.

### 4. Contingent liabilities

Claims intimated but not paid are subject to investigation and the sum claimed may or may not be admitted on the basis of whether the claim falls within the criteria of the fund and, if it is admitted, it may not be for the sum claimed. Many claims are straightforward and can be resolved quickly. However in more complex cases or where the records left by the former firm are very poor, a longer resolution timescale will be necessary. In the absence of reliable information to the contrary, outstanding claims are recorded at the sum intimated. As such, the total of claims intimated does not necessarily represent claims that will be paid.

The total of claims intimated but not admitted at 31 October 2015 was £4.1 million representing 35 claims made against 12 firms, (2014: £3.7million, 72 claims, 13 firms).

£3.68 million (90%) of the above total relates to two firms. £2.43 million of this represents historic claims against a ceased firm, whilst there is one claim of £1.25 million (the maximum possible) against an existing firm. This claim remains the subject of action and investigation by the claimant's agent.