

Scottish Solicitors'

Guarantee Fund

Annual Report and Financial Statements for the year ended 31 October 2017

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Overview

The Guarantee Fund trades as the Client Protection Fund and reports a surplus for the financial year ended 31 October 2017 of £114,000 (2016 – deficit £1,010,000).

Income and Expenditure

Income has remained steady largely due to the decision not to change the subscription rate for 2017. Grant expenditure has been at a lower level than in the previous year when grant expenditure included two unusually large payments.

Balance Sheet

Reserves increased to £5,724,000 at 31 October 2017 from the previous level of £5,610,000 as a result of the return on investments. The Client Protection Fund Sub-Committee believes given the unpredictability of the claims environment that it is essential that a healthy level of reserves is maintained.

Looking ahead

Most live judicial factories are now considered to have peaked in terms of their impact on the Guarantee Fund. However there remain a small number of very large claims which are still to be resolved. In such cases agents acting for claimants continue to pursue recoveries from other sources and we are not currently able to predict the value of any grant or the timing of any payment (if approved). Going into 2017/2018 we would continue to expect a low volume of new claims unless new judicial factories or other issues arise.

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

Opinion

We have audited the financial statements of the Scottish Solicitors' Guarantee Fund (the 'fund') of The Law Society of Scotland (the 'Society') for the year ended 31 October 2017 which comprise the income and expenditure account, the balance sheet and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

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

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the fund and its environment obtained in the course of the audit, we have not identified material misstatements in the Annual Report.

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

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

Responsibilities of members of council

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Henderson Loggie
Chartered Accountants
Statutory Auditor

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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 judgements 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

for the year ended 31 October 2017

	2017	2016
Note	£000	£000
INCOME		
Subscriptions	638	666
Income from investments and deposits	103	87
Claims paid by judicial factor	1	1
Total Income	742	754
EXPENDITURE		
Stop loss insurance	(107)	(111)
Overheads	(134)	(128)
Payments to Judicial Factor on final settlement of case	(115)	-
Convener Compensation	(4)	(4)
Other Professional Fees	-	(3)
Auditors Fees	(6)	(4)
Corporation Tax	2 (64)	(65)
Total Expenditure	(430)	(315)
Surplus of running costs	312	439
Gain on disposal of investments	35	
Unrealised gain on investments	255	232
Claims met	(488)	(1,681)
Overall fund surplus/(deficit)	114	(1,010)

Balance Sheet

as at 31 October 2017

	Note	2017 £000	2016 £000
Assets			
Investments		3,345	2,673
Cash in Bank		2,510	2,989
Sundry debtors		470	414
		6,325	6,076
Less Liabilities			
Provision for Taxation		(32)	(17)
Deferred Taxation		(78)	(37)
Grants unpaid at 31st October		-	(14)
Creditors		(491)	(398)
		5,724	5,610
Represented by:			
<i>Reserve available to meet claims</i>			
Balance brought forward from last account		5,610	6,620
(Deficit)/Surplus for year		114	(1,010)
		5,724	5,610

Graham Mathews
President

23 February 2018

Notes to the Financial Statements

for the year ended 31 October 2017

1. Accounting policies

Basis

The accounts are prepared on an accruals basis in accordance with UK GAAP (Generally Accepted Accounting Practice), including Financial Reporting Standard 102, section 1a. The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland.

Going Concern

To the Council's knowledge there are no material uncertainties which would prevent the Fund from operating for 12 months from the date of signing this report.

Investments

Investments are stated at market value. Investments are only stated at below market value 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. Deferred tax is provided on the unrealised gain on the revaluation of investments.

Cash and cash equivalents

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

Debtors

Trade and other debtors are recognised at the settlement amount due after any trade discounts offered. Prepayments are valued at the amount prepaid after taking account of any trade discounts due.

Creditors and provisions

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

Financial instruments

The Fund only has financial assets and financial liabilities of a kind that qualify as basic financial instruments. Basic financial instruments are initially recognised at transaction value and subsequently measured at their settlement value.

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2017

2. Corporation tax

	2017	2016
	£000	£000
Deferred tax	41	47
Current corporation tax charge	23	18
	64	65
Reconciliation		
(Deficit)/Surplus for the year before tax	178	(945)
Corporation taxation at 19% (2016 – 20%)	34	(189)
Income not subject to corporation tax	(100)	(133)
Expenditure not allowable for corporation tax	139	387
Adjustment in relation to prior years	(9)	-
	64	65

3. Investments

	2017	2016
	£000	£000
Market value at beginning of the year	2,673	2,670
Additions during year	748	375
Proceeds on disposals during the year	(366)	(604)
Realised gain	35	16
Unrealised gain	255	216
Market value at end of year	3,345	2,673

The historic cost of the investments is £2,936,000 (2016 £2,491,000).

4. Debtors

	2017	2016
	£000	£000
Due from The Law Society of Scotland	361	307
Prepayments and accrued income	109	107
	470	414

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2017

5. Creditors

	2017	2016
	£000	£000
Accruals	13	9
Fees collected in advance	478	389
	491	398

6. Related party transactions

The Law Society of Scotland

Members of the Client Protection Fund sub-committee are also members of the Council of the Law Society of Scotland, with the exception of lay members and three solicitors. At the year-end, a balance of £361,242 was due to The Law Society of Scotland (2016 due from £307,100), representing grants paid on the Fund's behalf, less subscriptions for 2017/18 received by the Society before the year-end. Overheads of £100,583 (2016: £100,300) were recharged from the Law Society of Scotland.

7. 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 2017 was £3.983 million representing 18 claims made against 9 firms, (2016: £5.062 million, 27 claims, 11 firms).

A stop loss insurance policy is in place to enable the Client Protection Fund to meet any catastrophic accumulation of claims. During 2016/2017 & for 2017/2018 the policy requires the Client Protection Fund to meet self-insured claims intimated in the year up to a limit of £4m, after which a further £4m of cover is available.