



Scottish Solicitors' Guarantee Fund

Annual Report and Financial Statements for the year ended 31 October 2021

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Council's Report

Overview and Principal Activity

The Scottish Solicitors' Guarantee Fund exists to protect clients who have lost money because of the dishonesty of a solicitor or a member of their staff. The fund is paid for entirely by solicitor firms without the use of taxpayer money from government.

The Fund was created by statute under S.43 of the Solicitors (Scotland) Act 1980.

The Scottish Solicitors Guarantee Fund trades as the Client Protection Fund. The Client Protection sub-committee (CPSC) of the Law Society of Scotland has delegated authority for all claims and investment decisions. It further delegates minor claims to the Director of Financial Compliance, with these decisions being sample checked by the CPSC regularly.

Disclosure of information to auditor

The Council members who held office at the date of the approval of this Council report confirm that, so far as they are aware, there is no relevant audit information of which the Fund's auditor is unaware; and each Council member has taken all the steps that they ought to have taken as a member of the Society's Council to make themselves aware of any relevant audit information and to establish that the Fund's auditor is aware of that information.

Major Events

The ongoing COVID 19 pandemic has not to date impacted adversely on the operations of the Client Protection Fund. Volumes of new claims received and claims paid has been very low. The Fund also now has very few open claims although one of these is for a significant amount.

Review of the financial year

Income and Expenditure

The Fund reports an overall surplus for the year of £716,000 (2020: £281,000).

No subscription income (2020: £616,000) was collected in the financial year 2021 following the decision of Council to set the subscription level at zero as a part of support package to help solicitors during the pandemic.

Dividends of £55,000 were received in respect of the winding up of one Judicial Factor in the year (2020: £nil).

Two grants to compensate applicants were approved by the CPSC in the year amounting to £18,000. This was a decrease from the 5 claims approved in 2020 at a cost of £38,000.

After taking additions and disposals into account, the investment portfolio increased in value in the year by £973,000, 18.8% (2020: £155,000 reduction, 2.9%). This increase reflected the overall economic recovery from the initial impact of the covid pandemic in 2020.

Council's Report (continued)

Balance Sheet

Reserves increased to £7,840,000 at 31 October 2021 from the previous level of £7,124,000. This increase is due almost entirely to the recovery of the investment portfolios to and above pre-pandemic valuations. The lack of subscription collected in the year has not had an impact on reserves due to the low value of successful claim payments being made.

The CPSC believes it is essential that a level of reserves in excess of £5m is maintained given the unpredictability of the claims environment. This target continues to be met.

Going Concern

At an early stage following the Covid-19 outbreak, the CPSC undertook a comprehensive review to assess the appropriateness of the going concern basis of preparation for the previous year's financial statements and to guide future decision making regarding the fund's financial position. The review considered key risks facing the fund and the risk management arrangements in place to manage these risks.

Council reviewed this exercise and was content at that point there was no material uncertainty over the going concern basis of preparation for the previous year's financial statements of the Client Protection Fund.

There has been no material change to the position reviewed above other than the increase in investment valuations noted elsewhere. Since the onset of the Covid-19 outbreak the claims environment has remained benign, therefore the Council are satisfied it is appropriate that the accounts are prepared on the going concern basis.

Looking ahead

The CPSC has decided that for the second year, no Client Protection Fund subscription will be collected for 2021/22. Not collecting potential revenue increases the possibility that the fund's reserves will be reduced during the year. The extent of any reduction in reserves will depend on:

- The extent of progress in dealing with a large open claim intimation. Agents on this matter are currently pursuing other options and consideration of the claim would commence when this work has concluded.
- The extent to which the current low level of claims activity continues. Periods of financial turbulence are associated with increased levels of dishonesty, although there is often a time lag before issues become apparent.
- The ongoing performance of the fund's investments.

The CPSC will continue to monitor these indicators during the year.

In the meantime, the Client Protection Fund will continue its valuable work to assist the very small number of clients who suffer loss as result of dishonesty of solicitors or their staff.

Ken Dalling
President, Law Society of Scotland
3 May 2022

Statement of Council's responsibilities

Council of the Law Society of Scotland ('the Society') are responsible for preparing the financial statements of the Scottish Solicitors' Guarantee Fund ('the Fund') in accordance with the constitution of the Society.

The constitution requires Council to prepare financial statements for each financial year. Under the constitution, Council have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Council will not approve the financial statements unless they are satisfied that they 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.

In preparing these financial statements, Council are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Fund will continue in business.

Council are responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund and enable them to ensure that the financial statements comply with the constitution and UK GAAP. They are also responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial statements are published on the Fund's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Fund's website is the responsibility of Council. Council's responsibility also extends to the ongoing integrity of the financial statements contained therein.

Independent Auditor's Report to Council of the Law Society of Scotland

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Fund's affairs as at 31 October 2021 and of its profit for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

We have audited the financial statements of Scottish Solicitors' Guarantee Fund ("the Fund") for the year ended 31 October 2021 which comprise the statement of income and retained earnings, 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 Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Council's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Council with respect to going concern are described in the relevant sections of this report.

Other information

The Council are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Independent Auditor's Report to Council of the Law Society of Scotland (continued)

Responsibilities of Council

As explained more fully in the statement of Council's responsibilities, the 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 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, the 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 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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

The procedures that we designed and executed included:

- Performing analytical procedures to identify unusual or unexpected relationships that may indicate risks of material misstatements due to fraud. Areas of identified risk were then tested substantively;
- assessing the design and implementation of the control environment to identify areas of material weakness to focus the design of our testing;
- assessing the design and implementation of controls over the IT Systems relevant to financial reporting;
- reading minutes of meetings of those charged with governance;
- reviewing correspondence with regulatory bodies and from legal advisors to identify indications of non-compliance with laws and regulations;
- determining whether the accounting policies and presentation adopted in the financial statements are in accordance with applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice);
- addressing the risk of fraud through management override of controls by testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in accounting estimates are indicative of a potential bias; and evaluating the business rationale of significant transactions that are unusual or outside the normal course of business;
- vouching balances and reconciling items in key control account reconciliations to supporting documentation as at 31 October 2021; and
- carrying out detailed testing, on a sample basis, of transactions and balances agreeing to appropriate documentary evidence to verify the completeness, existence and accuracy of the reported financial statements.

Independent Auditor's Report to Council of the Law Society of Scotland (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Council, as a body. Our audit work has been undertaken so that we might state to the Council 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 Fund and the Council as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP
Chartered Accountants
Edinburgh, UK

Date

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Statement of Income and Retained Earnings

for the year ended 31 October 2021

	Note	2021 £000	2020 £000
Continuing Operations			
Income			
Subscriptions		-	616
Income from investments and deposits		141	142
Recovery of grants paid by judicial factor		55	-
Total Income		196	758
Expenditure			
Claims met		(18)	(38)
Overheads		(157)	(151)
Convener compensation		(4)	(4)
Other professional fees		(2)	(4)
Auditor's remuneration		(4)	(3)
Total Expenditure		(185)	(201)
Operating profit		11	557
Gain/(loss) on fair value of investments		879	(297)
Profit before tax		890	260
Taxation on profit	2	(174)	21
Profit for the year		716	281
Retained Reserves at 1 November 2020		7,124	6,843
Profit for the year		716	281
Retained Reserves at 31 October 2021		7,840	7,124

The notes on pages 11 to 14 form part of these financial statements.

Balance Sheet

as at 31 October 2021

	Note	2021 £000	2020 £000
Non-current Assets			
Listed Investments	3	6,146	5,173
		6,146	5,173
Current Assets			
Cash and cash equivalents	4	1,995	1,957
Trade and Other Receivables	5	7	65
		2,002	2,022
Current Liabilities			
Trades and Other Payables	6	(100)	(20)
Provision for Corporation Taxation		(21)	(17)
		(121)	(37)
Net Current Assets			
		1,881	1,985
Provision for Deferred Taxation	7	(187)	(34)
Net Assets			
		7,840	7,124
Reserves			
Funds	8	7,840	7,124

Approved by the Council of the Law Society of Scotland

Ken Dalling
President, Law Society of Scotland

3 May 2022

The notes on pages 11 to 14 form part of these financial statements.

Notes to the Financial Statements

for the year ended 31 October 2021

1. General Information

The Scottish Solicitors Guarantee Fund is a statutory requirement under S.43 of the Solicitors (Scotland) Act 1980. It exists to protect clients who have lost money because of the dishonesty of a solicitor or a member of their staff. The principal office is located at:

Atria One
144 Morrison Street
Edinburgh
EH3 8EX

2. Accounting Policies

Basis of preparation

The financial statements 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.

The financial statements are prepared in £ sterling and rounded to the nearest £,000.

Going Concern

The Council have considered the level of available reserves and the likely claims position for a period of at least 12 months from the date of approval of these financial statements and concluded the use of the going concern basis of accounting is appropriate. To Council's knowledge there are no material uncertainties which would prevent the Fund from operating for that period.

Investments

Investments comprise investments in quoted equity instruments which are measured at fair value where this can be measured reliably. Where fair value cannot be measured reliably then the investment is carried at cost less impairment. Changes in fair value are recognised in the statement of retained earnings.

Income recognition

The Fund recognises all categories of income receivable 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.

Claims

Every claim application is considered on its individual merits and circumstances by the Client Protection sub-committee, and by law, no-one is automatically entitled to a payment of a grant from the Fund. The Client Protection sub-committee will look to assess the claim against base criteria before being accepted

- The claimant has lost money or property.
- The loss was caused by the dishonesty of a solicitor (or their staff) during his or her practice or while a professional trustee of a trust.
- The allegation of dishonesty is supported by the conviction of the solicitor (or their staff), or by a finding of fraud in a civil action, or by other evidence that proves dishonesty.
- The loss is not recoverable from any other source. In some cases, an applicant may have to take civil action, such as insolvency proceedings, against the solicitor to recover all or part of the alleged loss or to quantify the amount of the loss.

Notes to the Financial Statements (continued)

for the year ended 31 October 2021

2. Accounting Policies (continued)

Claims (continued)

Claims are recognised if the Fund has received and admitted the claim by 31 October 2021 which was subsequently paid out.

Claims of which the Client Protection Fund are aware may arise, but have not yet crystallised, are not provided for within these financial statements. There is no conclusive way to determine the likelihood of the claim being accepted or to accurately assess any value of the claim to be paid as financial restitution may be made by another source. Accordingly, these potential claims fail to meet the criteria for a provision and are regarded as unquantifiable contingent liabilities.

The maximum claim payable from the Fund is set at £1.25 million and such a claim may be paid in instalments.

Taxation

The Fund is liable for corporation tax on investment income and chargeable investment capital 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 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

Debtors are recognised at the settlement amount 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 a transfer of funds to a third party, and where the amount due to settle the obligation can be measured or estimated reliably. Creditors and provisions are recognised at their likely settlement amount.

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

Judgements in applying accounting policies and key sources of estimation uncertainty

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

In preparing these financial statements, Council have made the judgement that only claims submitted by the year-end and subsequently approved are included within these financial statements as the extent of any potential outstanding claims cannot be measured accurately until the claim is submitted.

Notes to the Financial Statements (continued)

for the year ended 31 October 2021

2. Corporation tax

	2021 £000	2020 £000
Current corporation tax charge	21	17
Deferred tax (note 7)	153	(38)
	<u>174</u>	<u>(21)</u>
Reconciliation		
Profit for the year before tax	<u>890</u>	<u>260</u>
Corporation taxation at 19% (2020:19%)	169	49
Income not subject to corporation tax	(183)	(70)
Expenditure not allowable for corporation tax	35	38
Movement in deferred tax	153	(38)
Corporation tax charge/(credit)	<u>174</u>	<u>(21)</u>

The SSGF is not considered to be carrying out a trade and the surplus recognised in respect of its core activity is not considered to fall within any other sources of taxable income and therefore the majority of its income and related expenditure is not subject to corporation tax

3. Listed Investments

	2021 £000	2020 £000
Market value at beginning of the year	5,173	5,328
Additions during year	651	758
Disposal at opening market value	(448)	(656)
Realised and unrealised gain/(loss)	770	(257)
Market value at end of year	<u>6,146</u>	<u>5,173</u>

The historic cost of the investments is £5,159,000 (2020: £4,993,000).

4. Cash and Cash Equivalents

	2021 £000	2020 £000
Cash at bank	1,845	1,805
Cash held by investment manager	150	152
Cash and cash equivalents	<u>1,995</u>	<u>1,957</u>

5. Trade and Other Receivables

	2021 £000	2020 £000
Amounts owed by the Law Society of Scotland	-	58
Prepayments and accrued income	7	7
	<u>7</u>	<u>65</u>

Notes to the Financial Statements (continued)

for the year ended 31 October 2021

6. Trade and Other Payables

	2021 £000	2020 £000
Accruals	18	16
Outstanding claims	4	4
Amounts owed to the Law Society of Scotland	78	-
	<u>100</u>	<u>20</u>

7. Deferred Taxation

	2021 £000	2020 £000
Provision brought forward	34	72
Charge/(credit) for unrealised movement on investments	153	(38)
Provision carried forward	<u>187</u>	<u>34</u>

8. Reserves

Funds represent cumulative profits or losses available to cover any future claims made against the Fund.

9. 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. If a claim 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 2021 was £1.318 million representing 4 claims made against 4 firms, (2020: 1.652 million, 3 claims, 3 firms). One claim accounts for 95% of the total claims intimated. To date those claims have not been accepted as valid claims and are not provided for in these financial statements.

10. Ultimate Controlling Party

The Scottish Solicitors' Guarantee Fund is ultimately controlled by the Law Society of Scotland. The financial statements of the Fund are included within the consolidated financial statements of the Law Society of Scotland. The address of the Law Society of Scotland is Atria One, 144 Morrison Street, Edinburgh, EH3 8EX.