



Scottish Solicitors' Guarantee Fund

Annual Report and Financial Statements

For the year ended 31 October 2025



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Council's Report

Overview and Principal Activity

The Scottish Solicitors' Guarantee Fund (the "Fund") exists to protect clients and the public 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

Major geopolitical and economic developments have not had a significant adverse effect on the operations of the Client Protection Fund. Volumes of new claims received, and claims paid has been very low. The fund has open claims of £1.7m, made up of 16 claims over 9 firms.

Review of the financial year

Income and Expenditure

The Fund reports an overall surplus for the year of £224,000 (2024: surplus of £726,000).

£nil (2024: £nil) was collected in the financial year following the decision of Council to set the subscription level at zero due to an adequate reserves position and low levels of open claims. Reserves levels, changes in the economic landscape and claim levels are monitored to assess subscription requirements in the future.

Recovery of claims of nil were received during the year (2024: £183,000).

Two grants to compensate applicants was approved by the CPSC in the year amounting to £69,000. This was in line with the three grants approved in 2023/24 at a decreased cost of £2,000.

After taking additions, disposals and unrealised gains into account, the investment portfolio increased in value in the year by £26,000 0.4% (2024: £628,000 increase, 11.8%). Investment holdings increased modestly, due to change of investment partner resulting in higher cash balances due to the timing of transfer of investments straddling the financial year end.



Council's Report (continued)

Balance Sheet

Reserves increased to £8,079,000 at 31 October 2025 from the previous level of £7,855,000. The movement is primarily attributable to a higher cash balance and investment holdings. There were no subscriptions collected in the year, similar to the prior year, and again, this has not had an impact on reserves.

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

There has been no material change to the Client Protection Fund position other than the change in investment valuations noted elsewhere. The claims environment has seen a marginal increase in activity; however, this has not raised any matters of concern. CPSC continues to monitor developments in the claims environment, therefore Council are satisfied it is appropriate that the financial statements are prepared on the going concern basis.

Looking ahead

The CPSC has decided that for the fifth year, no Client Protection Fund subscription will be collected, for 2025/26. While 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 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.

Signature to be added

Serena Sutherland
President, Law Society of Scotland
18 June 2026



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 2025 and of its profit for the year then ended;
- 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 2025 which comprise Statement of Income and Retained Earnings, 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.



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

Other information

The Council are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements, other than the financial statements and our auditor's report thereon. 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.

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.

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:



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

Non-compliance with laws and regulations

Based on:

- Our understanding of the Fund and the industry in which it operates;
- Discussion with management and those charged with governance;
- Obtaining an understanding of the Fund's policies and procedures regarding compliance with laws and regulations.

We considered the significant laws and regulations to be the applicable accounting framework (UK GAAP) and UK tax legislation.

The Fund is also subject to laws and regulations where the consequence of non-compliance could have a material effect on the amount or disclosures in the financial statements, for example through the imposition of fines or litigations. We identified such laws and regulations to be UK tax legislation.

Our procedures in respect of the above included:

- Review of minutes of meetings of those charged with governance for any instances of non-compliance with laws and regulations;
- Review of correspondence with tax authorities for any instances of non-compliance with laws and regulations;
- Review of financial statement disclosures and agreeing to supporting documentation;
- Review of legal expenditure accounts to understand the nature of expenditure incurred; and
- Review of confirmations received from the Fund's solicitors.

Fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud.

Our risk assessment procedures included:

- Enquiry with management and those charged with governance regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Fund's policies and procedures relating to:
 - Detecting and responding to the risks of fraud; and
 - Internal controls established to mitigate risks related to fraud.
- Review of minutes of meetings of those charged with governance for any known or suspected instances of fraud;
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud.

Based on our risk assessment, we considered the areas most susceptible to fraud to be management override of controls.

Our procedures in respect of the above included:

Testing a sample of journal entries throughout the year, which met a defined risk criteria, by agreeing to supporting documentation;



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

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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 Fund's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Fund'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 Fund and the Fund's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stuart MacDougall (Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Glasgow, UK
Date:

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



Statement of Income and Retained Earnings

	Note	2025 £000	2024 £000
Continuing Operations			
Income			
Subscriptions		-	-
Income from investments and deposits		209	221
Recovery of grants paid by judicial factor		-	183
Total Income		209	404
Expenditure			
Claims met		(6)	(70)
Overheads		(159)	(157)
Convener compensation		-	-
Other professional fees		(4)	(7)
Auditor's remuneration		(5)	(5)
Total Expenditure		(174)	(239)
Operating profit/(Loss)		35	165
Gain/(Loss) on fair value of investments	4	386	548
Profit/(Loss) before tax		421	713
Taxation on profit	3	(197)	13
Profit/(Loss) for the year		224	726
Retained Reserves at 1 November 2024		7,855	7,129
Profit/(Loss) for the year		224	726
Retained Reserves at 31 October 2025		8,079	7,855

The notes on pages 12 to 16 form part of these financial statements.



Balance Sheet

	Note	2025 £000	2024 £000
Non-current Assets			
Listed Investments	4	6,096	6,070
		6,096	6,070
Current Assets			
Cash and Cash Equivalents	5	2,177	1,865
Trade and Other Receivables	6	-	-
		2,177	1,865
Current Liabilities			
Trades and Other Payables	7	(23)	(93)
Provision for Corporation Taxation		(171)	13
		(194)	(80)
Net Current Assets			
		1,983	1,785
Provision for Deferred Taxation	8	-	-
Net Assets			
		8,079	7,855
Reserves			
Funds	9	8,079	7,855

Approved by the Council of the Law Society of Scotland

Signature to be added

Serena Sutherland
 President, Law Society of Scotland
 18 June 2026

The notes on pages 12 to 16 form part of these financial statements.



Notes to the Financial Statements

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.

Following the issue of the FRC's Periodic Review 2024 Amendments to Financial Reporting Standard 102, the Law Society of Scotland has chosen to apply the amendments early, with the date of initial application being 31st October 2024. The adoption of these amendments has not had a material effect on the recognition, measurement, presentation or disclosure of amounts in these financial statements.

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 income and 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 the following 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)

2. Accounting Policies (continued)

Claims (continued)

Claims are recognised if the Fund has received and admitted the claim by 31 October 2025 which was subsequently paid out.

Claims that have been submitted to the Client Protection Fund where the claim process has not yet concluded at the reporting date but it is considered probable that a settlement will be required, a provision is recognised in the financial statements.

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)

3. Corporation tax

	2025 £000	2024 £000
Current corporation tax charge	16	17
Adjustment	26	(27)
Deferred tax (note 8)	-	-
	<u>42</u>	<u>(13)</u>
Reconciliation		
Profit/(Loss) for the year before tax	<u>421</u>	<u>713</u>
Corporation taxation at 25%	105	178
Income not subject to corporation tax	(24)	(164)
Expenditure not allowable for corporation tax	90	-
Movement in deferred tax	-	-
Adjustment	26	(27)
Corporation tax (credit)/charge	<u>197</u>	<u>(13)</u>

The Fund 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.

4. Listed Investments

	2025 £000	2024 £000
Market value at beginning of the year	6,070	5,325
Additions during year	1,856	821
Disposals at opening market value	(2,216)	(704)
Realised and unrealised gain/(loss)	<u>386</u>	<u>628</u>
Market value at end of year	<u>6,096</u>	<u>6,070</u>

The historic cost of the investments is £6,030,229 (2024: £5,682,000).

5. Cash and Cash Equivalents

	2025 £000	2024 £000
Cash at bank	1,572	1,757
Cash held by investment manager	605	108
Cash and cash equivalents	<u>2,177</u>	<u>1,865</u>



Notes to the Financial Statements (continued)

6. Trade and Other Receivables

	2025 £000	2024 £000
Prepayments and accrued income	-	-
	-	-
	-	-

7. Trade and Other Payables

	2025 £000	2024 £000
Trade creditors	-	2
Accruals	23	21
Outstanding claims	-	69
Amounts owed to the Law Society of Scotland	-	1
	<u>23</u>	<u>93</u>

8. Deferred Taxation

	2025 £000	2024 £000
Provision brought forward	-	-
Charge/(credit) for unrealised movement on investments	-	-
Provision carried forward	-	-

9. Reserves

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

10. 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 2025 was £1.7 million representing 16 claims made against 8 firms, (2024: £1.7 million, 15 claims, 11 firms).

Subsequent to the year end, three of the claims totalling £541,000 were dismissed leaving a contingent liability of £1.2 million consisting of 13 claims.



Notes to the Financial Statements (continued)

11. 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.