

Law Society of Scotland

Report and Consolidated Financial Statements

Year ended 31 October 2018

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Council's Report

Overview and Principal Activity

The Law Society of Scotland (the 'Society') is the professional governing body for Scottish solicitors. It promotes excellence among solicitors through the support and regulation of its members. It also promotes the interests of the public in relation to the legal profession.

The Society was established by statute in 1949 and its rules are set out in the Solicitors (Scotland) Act 1980. All practising solicitors are members.

The Society operates through five directorates covering its main areas of work: regulation and standards; member services and engagement; education, training and qualifications; external relations; finance and operations. Within these directorates is a range of teams providing regulatory and representational services to members, the work of which is described within the 2018 Law Society of Scotland Annual Report. The 2018 Law Society of Scotland Annual Report does not form part of these financial statements and can be found on the Law Society of Scotland website.

The work of the Society is supported by solicitors and non-solicitors who contribute their time and expertise through many committees and working groups.

The Society also controls and administers the Client Protection Fund, the operating name of the Scottish Solicitors' Guarantee Fund (SSGF). The fund exists solely to protect clients who have lost money as a result of dishonesty of a solicitor or a member of their staff. It is paid for entirely by solicitor firms without the use of taxpayer money from government. The fund is only available to clients who use solicitors within legal firms regulated by the Society.

Review of financial year

Group

In compliance with Financial Reporting Standard 102, the Society's financial statements have been consolidated with those of the Scottish Solicitors' Guarantee Fund for the first time (and again with those of Law Society of Scotland (Services) Limited) and presented as group financial statements. The statutory basis, day to day management and governance oversight of the SSGF is unaltered by consolidation which is essentially about presentation of the Society group year-end financial statements in accordance with FRS102. The SSGF is included within the consolidated financial statements in recognition of the Society exercising control over the management, governance and operation of the fund.

It should be noted that, as required by statute, all income received by the SSGF is legally ringfenced to meet only future claims and therefore not available under any circumstances for the Society's use. Similarly, the reserves of the SSGF are legally designated for that purpose and do not under any circumstances form part of the Society's free reserves. However, control of the SSGF is bestowed on the Society by law, and, more widely, the SSGF is considered to be of benefit to the Society in helping underpin the positive reputation of the profession. Comparative figures for 2017 have been adjusted to incorporate the SSGF.

The Group (as defined above) reports a loss (prior to the actuarial adjustments to the closed final salary pension scheme liability) of £87,000 for the financial year ended 31 October 2018 (2017 - £5,000 loss). This comprises the following components:

	2018 £,000	2017 £,000
Law Society of Scotland	(312)	(59)
Law Society of Scotland (Services) Ltd.	(27)	(60)
Scottish Solicitors' Guarantee Fund	252	114
Total - Group	(87)	(5)

Society

The Society reports a loss (prior to the actuarial adjustments to the closed final salary pension scheme liability) of £312,000 for the financial year ended 31 October 2018 (2017 - £59,000 loss). Further detail of the Society’s financial performance is given in the Income Statement on page 18.

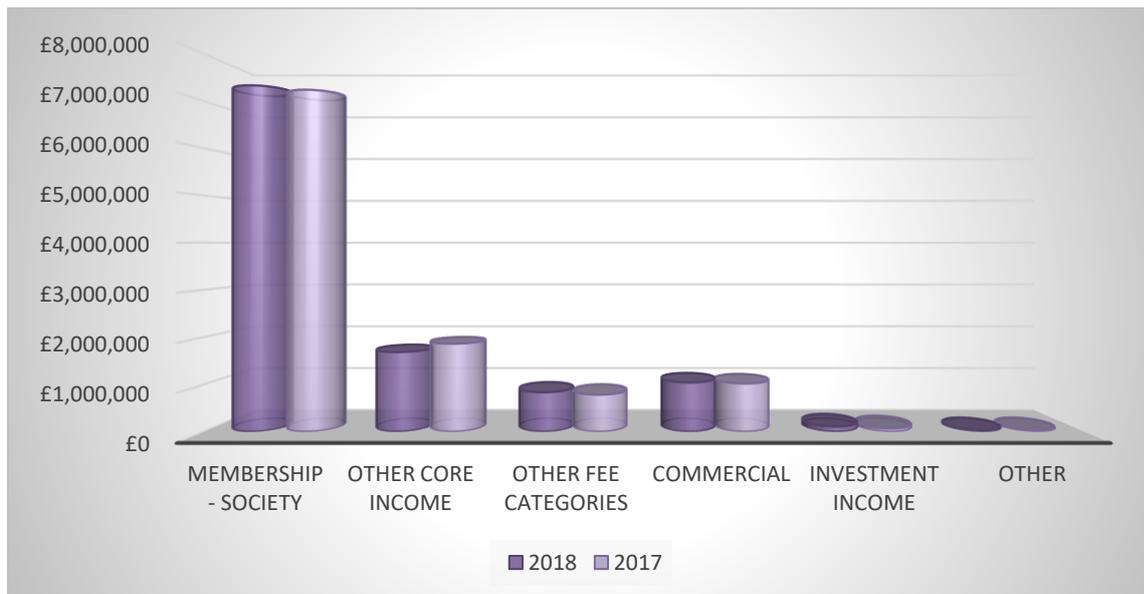
The biggest fluctuation between 2018 and 2017 was in the performance of the investment portfolio. The loss against the previous year’s market value for the portfolios held by the Society was £96,000 (around 4%). In 2017 the equivalent figure was a gain of £277,000. These investments are held for the long term, and produce an income of around £80,000 per annum, so will be subject to market volatility.

Looking ahead, Council is aware of the need to avoid any structural deficit. The increase in the Practising Certificate subscription for 2018/19 is aimed at restoring the Society to at least a break-even position for the year to 31 October 2019. Within the 2018/19 budget is a modest contingency sum to deal with unanticipated expenditure requirements during the year.

The following section refers to the Society’s figures alone.

Operating Income - Society

Income for the year (excluding investment gains) was £11.0 million, an increase of 0.3% from the previous year. Income is analysed as follows:



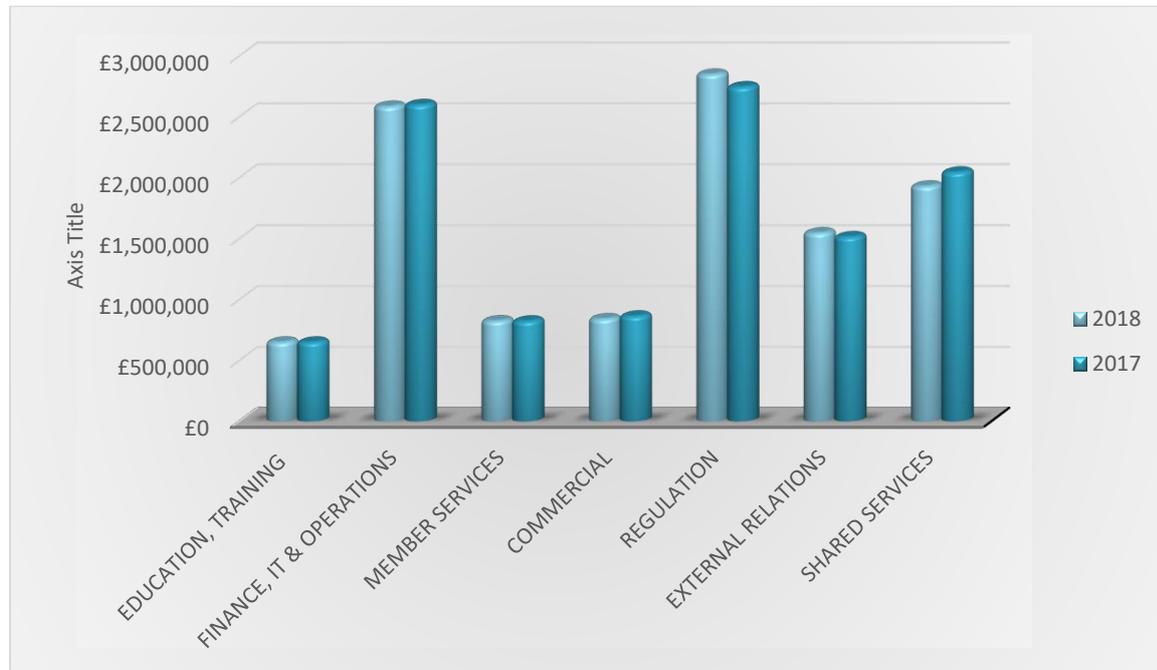
Membership income comprises Practising Certificates, Retentions and Non-Practising Member fees. Other Core Income comprises fees from regulatory activity. This includes the Scottish Solicitors’ Guarantee Fund Accounts fee paid by firm principles towards financial compliance and interventions, recovery of costs awarded to the Society by the Scottish Solicitors Disciplinary Tribunal, and commission and recoveries from Judicial Factories.

Income was lower than 2017 due mainly to two factors – Commission and recoveries from Judicial Factories were unusually high in the previous year following recoveries from two large cases, and Investment Income in 2017 included a special dividend of £261,000 from Legal Post (Scotland) Limited immediately prior to the sale of the investment in the company.

Council's Report (ctd.)

Operating Expenditure - Society

Expenditure (excluding actuarial movements in closed pension scheme and investment losses) was £11.2 million, the same as 2017. Expenditure is analysed as follows:



Cost control in certain areas enabled more resource to be allocated to regulation. The principal reductions in expenditure came from two sources. In 2017 a one-off charitable donation of £261,000 was made to the Law Society of Scotland Educational Foundation from the special dividend received from Legal Post, and Guarantee Fund claims fell by £308,000 compared with the previous year.

Investments

Markets were affected by BREXIT uncertainty and as a result the Group's investment portfolio showed a loss against the market value at 31 October 2018 of £230,000 (2017 – gain of £509,000), equating to approximately 3.7% of investments held. The Finance sub-committee monitors investments at least quarterly and reserves are diversified to enable investments to be held over the long term (defined as 5-10 years). The balance of cash and investments held is monitored. Fluctuations in investment values are accepted and the portfolio produces a much higher dividend yield than achieved by interest rates on deposits.

Cash

Cash balances for the Society and its subsidiaries at the year-end were:

	2018	2017
	£,000	£,000
Law Society of Scotland	9,763	11,038
Law Society of Scotland (Services) Ltd.	229	248
Scottish Solicitors' Guarantee Fund <i>(not available under any circumstances for the Society's use)</i>	2,619	2,510
Total - Group	12,611	13,796

Council's Report (ctd.)

The principal factors in the decrease in the Society's cash balance were a Council decision to invest a special contribution of £1m towards the closed final salary pension scheme deficit, investments purchased from uninvested cash held at the previous year-end, and a reduction in subscriptions received in advance at the year-end (recovered in November).

Pension debt & actuarial movement

The Society is responsible for a defined benefit pension scheme which was closed to future accrual from 1 May 2010. The most recent full actuarial valuation was carried out at 31 March 2016 by a qualified actuary, independent of the scheme's sponsoring employer. The next triennial valuation date is 31 March 2019.

The overall deficit shown by this valuation was £1,722,000 with the value of assets covering 78% of the value of the liabilities. A deficit recovery repayment plan has been agreed with the scheme trustees which resulted in contributions of £170,000 per annum plus a one-off payment of £1,000,000 to the Scheme made during the financial year. In addition, the Society meets the scheme running costs as they fall due. These contributions are designed to remove the deficit by 31 March 2021.

Financial Reporting Standard 102 applies less prudent assumptions than those in the triennial actuarial valuation (as explained in note 13). Consequently, the majority of sums paid to the scheme this year have resulted in a reduction in reserves as the FRS102 valuation resulted in a surplus. The valuation surplus is not carried as an asset in the financial statements as the Society does not have an automatic right to any surplus funds remaining at the cessation of the scheme.

At 31 October 2018 there was no scheme deficit for financial reporting purposes (2017 – deficit £277,000). This change is due the contributions paid by the Society into the Scheme in the year.

Reserves

The Society's reserves fell from £6.89m to £5.65m in the year under review. The principal reason for this reduction was an accelerated contribution of £1m to the Society's closed final salary pension scheme, in line with the recovery plan agreed with the Trustees following the 2016 actuarial valuation. The actuarial movement in the scheme resulted in a charge of £901,000 (2017 – £665,000 credit), giving a total recognised deficit for the year of £1.213m (2017 – recognised surplus £800,000). Closing free reserves of the Society were £5.65m.

Reserves held by the SSGF are legally designated solely for the purposes of the fund and are not under any circumstances available to the Society. At 31 October 2018 the SSGF reserves were £5.96m (2017 - £5.72m).

The Society's policy for free reserves (excluding designated SSGF reserves) is to hold between 3 and 6 months' average expenditure for the Society. Reserves for this purpose are calculated as follows

Free reserves calculation at 31 October 2018:	£,000
Net Current Assets	2,200
Realisable Investments	2,869
Less: Pension Scheme deficit - last full actuarial valuation 31 March 2016	(1,722)
Add: Recovery Plan Payments made since last valuation	1,389
Less: Creditors falling due after more than one year	(1,463)
Reserves per policy (A)	3,273
Expenditure for the year – operating costs, Society only (B)	11,235
Number of months' coverage from reserves (A/ (B/12))	3.5 months

Council's Report (ctd.)

Reserve levels are monitored by the Society's Finance sub-committee at least quarterly. The sub-committee regards this level as reasonable and is seeking a break-even financial performance in 2018/19. In setting reserve targets the committee also recognises the remaining operating lease commitment for the rent of the Society's premises (note 16), as reflected in future cash flow projections.

Corporate Governance

Solicitors elect representatives to sit on the Society's Council, the Society's decision-making body. It has 39 members elected from geographical constituencies, up to nine co-opted members representing other interest groups and nine non-solicitor members. It meets regularly and is chaired by the President. It oversees the work of a wide range of committees and sub-committees. The work of the Council is supported by the Society's Board comprising office bearers, elected representatives and the Society's Chief Executive and the Senior Leadership Team.

The following individuals currently sit on the Society's Council:

Office Bearers:	
President 18/19	Alison Atack
Vice President 2018/19	John Mulholland
Past President 2018/19	Graham Matthews
Ex-officio:	
Convener of the Public Policy Committee	Christine McLintock
Elected members for constituencies:	
Aberdeen, Banff, Peterhead & Stonehaven	Jane Dickers Deborah Wilson-McCuish
Airdrie, Hamilton and Lanark	Paul Gostelow Paul Nicolson
Alloa, Falkirk, Linlithgow and Stirling	Kenneth Dalling John Mulholland
Arbroath, Dundee and Forfar	Murray Etherington
Ayr, Dumfries, Kirkcudbright and Stranraer	Lauren Fowler Paul Matthews
Campbeltown, Dumbarton, Dunoon, Oban, Rothesay and Fort William	Philip Lafferty Campbell Read
Cupar, Dunfermline and Kirkcaldy	Gwen Haggerty Susan Williams
Dingwall, Dornoch, Elgin, Inverness, Kirkwall, Lerwick, Lochmaddy, Portree, Stornoway, Tain and Wick	Sheekha Saha Serena Sutherland
Edinburgh	Colin Anderson Susan Murray Susan Oswald Jim Stephenson Sheila Webster
England and Wales	Naomi Pryde
Glasgow and Strathkelvin	Alison Atack Austin Lafferty Anne Macdonald David Mair Ross Yuill
Greenock, Kilmarnock and Paisley	Waqqas Ashraf Simon Brown

Council's Report (ctd.)

Haddington, Peebles, Jedburgh, Duns and Selkirk	Struan Ferguson Patricia Thom
Perth	Amanda Millar
Co-opted members:	
New lawyers	Amanda Davy
Corporate & banking sector	John Forsyth
Scottish solicitors outside of Great Britain	Siobhan Kahmann
Scottish solicitor advocates	Tom Marshall
Crown Office & Procurator Fiscal Service	Stephen McGowan
In-house lawyers	Graeme McWilliams
Lay members:	
	Sue Carter
	Christopher Fraser
	Fiona Larg
	Catriona Maclean
	Liam McCabe
	Derek McIntyre
	John Reid
	Christine Walsh
	Graham Watson

The following individuals currently sit on the Society's Board:

President	Alison Atack
Vice President	John Mulholland
Past President	Graham Matthews
Treasurer	Graham Watson
Elected Members:	Colin Anderson
	Simon Brown
	Kenneth Dalling
	Christopher Fraser
	Amanda Millar
Appointed Member	Lynsey Walker

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 each are aware, there is no relevant audit information of which the Society'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 Society's auditor is aware of that information.

Going Concern

Council has a reasonable expectation at the time of approving the financial statements that the Society has adequate resources to continue its operations and meet its liabilities as they fall due for the foreseeable future. This conclusion has been reached from an assessment of three-year financial forecasts, existing levels of free reserves and a commitment to balanced budgets. The impact of potential regulatory changes following the recommendation of the Legal Services Review is being modelled and scenario planning carried out. No short-term impact on the Society's viability is anticipated.

Council's Report (ctd.)

Key risks

Council has ultimate responsibility for the management of risk which is discharged through the Audit Committee. The Audit Committee reviews processes in place for risk management with reference to the corporate risk register and through a programme of targeted internal audit activity.

The Senior Leadership Team review the risk register at least monthly. The risk register records corporate risks together with mitigating controls. Reports are made to Board and Audit Committee quarterly to ensure risks are properly recorded and relevant controls documented. Key current risks include:

Area	Risk	Mitigating Action
Legal services regulation	The adoption by the Scottish Government of the primary recommendation of the independent review of the regulation of legal services, recommending the cessation of the Society's regulatory and educational responsibilities.	We are in discussions with all stakeholders on various aspects of the review's recommendations and are carrying out scenario planning to ensure the Society is prepared. We remain committed to promoting the benefits of a single professional body.
Closed defined benefit pension scheme	The actuarial liability on the closed final salary pension scheme and exposure to market risk.	Close liaison with Scheme Trustees, funding plans, de-risking of investments.
Economic impact of BREXIT	The UK leaves the European Union, either with no deal or a deal which has an adverse impact on the UK economy and the interests of our members. Implications on intra-EU transfer test.	Individual risks across all areas of the Society's operations are being monitored and strategies put in place for alternative scenarios. Qualified solicitors in the European Union are currently eligible to apply via the intra-EU aptitude test. If the UK leaves the EU with a negotiated withdrawal agreement in place EU lawyers will still be able to requalify in Scotland under relevant EU law until 31 December 2020.

Financial year 2018/19

The budget approved by the Council for 2018/19 is aimed at restoring a break-even operating position. This resulted in the first increase in the practising certificate fee since 2008/09 (£15) to £565. The retention fee and non-practising member fee are £100 (unchanged) and £205 (increase of £5).

Alison Atack
President, Law Society of Scotland
8 March 2019

Finance Sub-Committee – Convener’s report

Committee members

Graham Watson (Convener and Treasurer – appointed 1 July 2018)
Colin Anderson (appointed 1 July 2018)
Fiona Larg (appointed 1 July 2018)
John Mulholland (ceased 30 June 2018) *
David Newton (ceased 30 June 2018) *
David Preston (ceased 30 June 2018) *
Mark Sim (ceased 30 June 2018) *
Ken Tudhope (Executive Director of Finance & Operations; Secretary to the sub-committee)

** on cessation of the previous Finance Committee, which reported directly to Council.*

Governance and financial control

The Finance sub-committee was formed to replace the previous Finance Committee following an internal governance review. The Finance sub-committee reports directly to the Society’s Board.

The Finance sub-committee is specifically required to:

- 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
- provide advice on any other matters referred to it by the Board
- review the level and nature of the Society’s banking arrangements, investments, borrowings and insurance cover
- report on quarterly management accounts to the Board
- produce an annual report to the Board and Council
- make a recommendation to the Board on the budget for the coming year
- make a recommendation to the Board on the practising certificate and other fees for the forthcoming year

Overview

The sub-committee worked with the Audit Committee to complete a break-even budget for the year to 31 October 2019, which was approved by Council in September 2018. Principal member fees had already been agreed at the Annual General Meeting in May 2018 which resulted in the first increase in the Practising Certificate fee since 2008/09 (£15 or 2.7%). The sub-committee will seek stability in fee levels, whilst prudently managing expenditure and monitoring budgets to enable the Society to meet its strategic goals.

The outcome of the Legal Services Review, published in October 2018, has resulted in some uncertainty of the precise regulatory role and shape of the Society in the years to come. In response to this the sub-committee is undertaking scenario planning with a detailed review of all sources of income and expenditure to ensure the Society will be in a position to adapt to any changes proposed by the Scottish Government in the future.

Graham Watson
Convener and Treasurer
8 March 2019

Audit Committee – Convener’s report

Committee members

Liam McCabe (Convener)
Abigail Clark
David Mair
Peter McCall – appointed 1 January 2019
Susan Murray – appointed 1 January 2018
Amanda Millar – resigned 1 December 2017 *
Sara Scott
Richard Spilsbury – resigned 18 August 2018 *
Eileen Sumpter – resigned 18 August 2018 *
Deborah Wilson-McCuish – appointed 1 January 2018
David Cullen (Secretary)

** on completion of term*

Governance and membership

The committee’s membership changed over the course of the financial year with the resignation of solicitor Council member Amanda Millar, solicitor member Eileen Sumpter and chartered accountant Richard Spilsbury. There were two new solicitor Council members who joined the committee at the beginning of 2018 who are Deborah Wilson-McCuish and Susan Murray, and lay-member Peter McCall joined after the year-end

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 presented 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 effectiveness of the Society’s arrangements for audit, internal control and risk management. The committee oversees the appointment of and monitors the work carried out by the Society’s internal and external auditors. Informed by its consideration of the work of the auditors, the committee comments and makes recommendations on the appropriateness, practical application and effectiveness of the Society’s financial policies and procedures, management controls and its arrangements to identify and manage risk.

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; and
- the Society’s risk register with emphasis on changes in the risk profile and actions taken to mitigate key strategic risks

Through that regular review the committee will question the actions and judgements of the Society’s senior leadership team, the Board and the 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 in the acquisition and use of resources. The committee oversees the Society’s relations with the external auditor. 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 external auditor 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 appropriately and within a reasonable timeframe.

Audit Committee – Convener’s report (ctd.)

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 in accordance with the Society’s protocols on such matters.

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.

A key governance project for the committee was to conduct the tender for the external auditor, Henderson Loggie having been in place as external auditor for 10 years. A period of 10 years is considered the maximum length for term of appointment. The result of the tender was that BDO LLP was appointed for an initial five-year period as the new external auditor. This appointment was made by the Society’s members at the Annual General Meeting on 31 May 2018. The committee sincerely thanks Henderson Loggie for their work as external auditor over the course of the last 10 years.

The committee received five reports from the internal auditor (Wylie and Bisset, an external firm of accountants) who completed their fourth full year of operation. These reports covered a number of key areas as part of a rolling internal audit programme.

The committee was satisfied with the overall conclusion of the internal auditor that the Society has adequate and effective risk management controls and governance processes in place to help achieve the Society’s long-term objectives.

A considerable proportion of the committee’s time in the final quarter of the year was spent reviewing the Society’s response in terms of risk management to the Legal Services Review on the future regulation of Scottish solicitors. This Review and the Society’s response will continue to be a top priority for the committee next year.

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

Liam McCabe
Convener
8 March 2019

Statement of Council's responsibilities

Council of the Law Society of Scotland ('the Society') are responsible for preparing the financial statements of the Society 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 Group and Society 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 Group and Society and of the surplus or deficit of the Group and Society for that period.

In preparing these financial statements, Council are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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 Society will continue in business.

Council are responsible for keeping adequate accounting records that are sufficient to show and explain the Society's transactions and disclose with reasonable accuracy at any time the financial position of the Society 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 Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial statements are published on the Society'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 Society'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

We have audited the financial statements of Law Society of Scotland ("the Parent Entity") and its subsidiaries ("the Group") for the year ended 31 October 2018 which comprise the Group and Society Income Statement, Group and Society Statement of Comprehensive Income, Group and Society Statement of Financial Position, Group and Society Statement of Changes in Reserves, Group and Society Cash Flow Statement 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).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Entity's affairs as at 31 October 2018 and of the Group's loss and the Parent Entity's loss for the year then ended;
- 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 Group and the Parent Entity 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:

- Council's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- Council have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group or the Parent Entity'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

Council are responsible for the other information. The other information comprises the information in the report and consolidated financial statements other than the financial statements and the 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.

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

We have nothing to report in respect of the following matters in respect of which we have agreed to report, if, in our opinion;

- adequate accounting records have not been kept by the Parent Entity, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Entity 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 Council

As explained more fully in the statement of Council's responsibilities, 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 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, Council are responsible for assessing the Group's and the Parent Entity'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 Council either intend to liquidate the Group or the Parent Entity 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 at 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 Council, as a body. Our audit work has been undertaken so that we might state to 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 Parent Entity and Council as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP, statutory auditor
Edinburgh, UK
Date:

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

CONSOLIDATED FINANCIAL STATEMENTS

Group and Society Income Statement

for the year ended 31 October 2018

	Note	Group 2018 £000	Society 2018 £000	Group (Restated) 2017 £000	Society 2017 £000
Continuing Operations					
Subscriptions and Operating Income	2	11,560	10,910	11,447	10,923
Employment Costs	2,3	(5,927)	(5,927)	(5,613)	(5,613)
Other Operating Costs	2	(5,747)	(5,308)	(6,634)	(5,631)
Operating loss	2	(114)	(325)	(800)	(321)
(Loss)/gain on fair value of investments		(230)	(96)	509	277
Income from fixed asset investment		185	80	446	82
Interest receivable and similar income	4	30	28	(17)	(18)
(Loss)/profit before tax		(129)	(313)	138	20
Taxation on (loss)/profit	6	42	1	(143)	(79)
(Loss) for the year		(87)	(312)	(5)	(59)

Group and Society Statement of Comprehensive Income

for the year ended 31 October 2018

	Note	Group 2018 £000	Society 2018 £000	Group (Restated) 2017 £000	Society 2017 £000
(Loss) for the year		(87)	(312)	(5)	(59)
Actuarial (loss)/gain in defined benefit pension scheme	13	(901)	(901)	805	805
Total comprehensive income for the year		(988)	(1,213)	800	746

The notes on pages 21 to 38 form part of these financial statements.

Group and Society Statement of Financial Position

As at 31 October 2018

		Group	Society	Group (Restated)	Society
	Note	2018 £000	2018 £000	2017 £000	2017 £000
Non-Current Assets					
Tangible Assets	7	1,814	1,814	1,957	1,957
Investments	8	6,304	2,869	6,073	2,703
		8,118	4,683	8,030	4,660
Current Assets					
Cash and Cash Equivalents	9	12,611	9,763	13,796	11,038
Trade and Other Receivables	10	862	857	1,056	959
		13,473	10,620	14,852	11,997
Current Liabilities					
Trades and Other Payables	11	(8,441)	(8,393)	(8,786)	(8,622)
Deferred Taxation	12	(59)	(27)	(150)	(72)
		(8,500)	(8,420)	(8,936)	(8,694)
Net Current Assets		4,973	2,200	5,916	3,303
Non-Current Liabilities					
Pension Scheme Liability	13	-	-	(277)	(277)
Net Assets		11,628	5,420	12,616	6,633
Reserves					
General Funds		5,652	5,420	6,892	6,633
Scottish Solicitors' Guarantee Fund		5,976	-	5,724	-
		11,628	5,420	12,616	6,633

Approved by the Council of the Law Society of Scotland on 8 March 2019

Alison Attack,
President, Law Society of Scotland

The notes on pages 21 to 38 form part of these financial statements.

Group and Society Statement of Changes in Reserves

for the year ended 31 October 2018

	General Fund		Group		Society	
	2018 £000	Scottish Solicitors' Guarantee Fund 2018 £000	Total		General Fund	
			2018 £000	2018 £000	2018 £000	
Reserves at 1 November 2017	6,892	5,724	12,616			6,633
Comprehensive loss for the year	(339)	252	(87)			(312)
Loss for year	(339)	252	(87)			(312)
Actuarial (loss) on pension schemes	(901)	-	(901)			(901)
Other comprehensive loss for the year	(901)	-	(901)			(901)
Total comprehensive loss for the year	(1,240)	252	(1,004)			(1,213)
Reserves at 31 October 2018	5,652	5,976	11,628			5,420

	Group (Restated)			Society	
	General Fund 2017 £000	Scottish Solicitors' Guarantee Fund 2017 £000	Total 2017 £000	General Fund	
				2017 £000	
Reserves at 1 November 2016	6,206	5,610	11,816		5,887
Comprehensive (loss)/income for the year	(119)	114	(5)		(59)
(Loss)/profit for year	(119)	114	(5)		(59)
Actuarial gain on pension schemes	805	-	805		805
Other comprehensive income for the year	805	-	805		805
Total comprehensive income for the year	686	114	800		746
Reserves at 31 October 2017	6,892	5,724	12,616		6,633

The notes on pages 21 to 38 form part of these financial statements.

Group and Society Cash Flow Statement

for the year ended 31 October 2018

	Group	Society	Group (Restated)	Society
	2018	2018	2017	2017
	£000	£000	£000	£000
Net cash generated from operating activities				
(Loss)/profit for the year	(87)	(312)	(5)	(59)
Interest and dividends receivable	(207)	(100)	(463)	(98)
Notional interest (credit)/charge on pension liability	(8)	(8)	34	34
Taxation (credit)/charge	(42)	(1)	143	79
Depreciation charges	322	322	302	302
Loss/(gain) on sale of fixed assets and investments	226	92	(509)	(277)
Pension scheme contributions	(1,170)	(1,170)	(219)	(219)
Change in debtors	194	102	42	44
Change in creditors & provisions	48	173	(264)	(288)
Cash from operations	(724)	(902)	(939)	(482)
Taxes paid	(32)	(36)	(59)	(37)
	(756)	(938)	(998)	(519)
Cash flows from investing activities				
Interest and dividends received	207	100	463	98
Payments to acquire investments	(1,351)	(598)	(1,225)	(477)
Receipts from sale of investments	894	340	734	368
Payments to acquire tangible fixed assets	(179)	(179)	(144)	(144)
Receipts from sale of tangible fixed assets	-	-	1,250	1,250
	(429)	(337)	1,078	1,095
(Decrease)/increase in cash during the year	(1,185)	(1,275)	80	576
Net cash & cash equivalents at the start of the year	13,796	11,038	13,716	10,462
Net cash & cash equivalent at the end of the year	12,611	9,763	13,796	11,038

The notes on pages 21 to 38 form part of these financial statements.

Notes to the Financial Statements

for the year ended 31 October 2018

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.

Basis of preparation

The financial statements have been prepared in accordance with accounting standards including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland". The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

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

The financial statements have been prepared on the going concern basis. Council has a reasonable expectation at the time of approving the financial statements that the Society has adequate resources to continue its operations and meet its liabilities as they fall due for the foreseeable future. This conclusion has been reached from an assessment of three-year financial forecasts, existing levels of free reserves and a commitment to balanced budgets. The impact of potential regulatory changes following the recommendation of the Legal Services Review is being modelled and scenario planning carried out. No short-term impact on the Society's viability is anticipated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Society and its subsidiary under The Scottish Solicitors' Guarantee Fund (SSGF) and The Law Society of Scotland Services Limited, made up to 31 October 2018.

The Society's financial statements have been consolidated with those of the SSGF for the first time this year. This is a result of a review on the key principle of control exercised by the parent entity over the fund under the criteria employed by Financial Reporting Standard 102. Subscriptions paid to the SSGF are ringfenced to meet future claims and, consequently, the reserves are disclosed as designated as opposed to forming part of the Society's free reserves. As a result, comparative figures for 2017 in the financial statements have been restated to include the SSGF.

Income recognition

The Society recognises all categories of income on an accruals basis, recognising income as goods and services are delivered. Income, including membership subscriptions, is recognised in the period to which it relates.

Income received in advance which relates to future periods, or where services have not yet been provided or goods delivered, are held within liabilities as fees in advance.

Due to the uncertain nature of Judicial Factories, any commission and recoveries are recognised only where the Society has received funds on notification of final settlement.

Notes to the financial statements (ctd.)

for the year ended 31 October 2018

Expenditure

Expenditure is recognised on an accruals basis as a liability is incurred which is as soon as there is a legal or constructive obligation committing the Society to the expenditure. Running costs include travel, accommodation, legal fees, professional subscriptions, and other direct costs.

Guarantee Fund Claims

Claims are recognised where the Fund has received and admitted a claim by 31 October 2018 which has subsequently been paid out.

Potential claims of which the Client Protection fund are aware, but have not yet crystallised, are not provided for within these financial statements because 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. Accordingly, these potential claims fail to meet the criteria for a provision and are regarded as unquantifiable contingent liabilities.

Taxation

The Society is liable for corporation tax on chargeable investment gains, investment income and assessable profits from commercial activity.

Provision is made for deferred taxation to the extent that timing differences are expected to reverse in future periods. Changes in deferred taxation on assets or liabilities are recognised as a component of tax expense in the Income Statement.

Operating lease

The Society leases the premises at 144 Morrison Street, Edinburgh. Lease incentives are released to profit or loss over the term of the lease.

Tangible fixed assets

Tangible fixed assets are measured at cost less accumulated depreciation.

Depreciation is calculated to write off the cost of fixed assets over their estimated useful lives on a straight-line basis as follows:

Leasehold Improvements	15 years
Office equipment, fixtures and furniture	3-10 years

Notes to the financial statements (ctd.)

for the year ended 31 October 2018

Investments

Investments comprise investments in quoted and unquoted 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 income and expenditure. The Group also has one subsidiary, Law Society of Scotland Services Limited, for which the cost model has been adopted.

Trades and other receivables

Debtors are recognised at the settlement amount due. Prepayments are valued at the amount prepaid.

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.

Trades and other payables

Creditors and provisions are recognised where the Group 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.

Pension scheme liability

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. A pension scheme surplus is not carried as an asset in the financial statements as the Society does not have an automatic right to any funds left at the closure of the defined benefit pension scheme. Any pension scheme deficit is recognised in full. The movement in the scheme deficit is reported within other comprehensive income as actuarial gains and losses.

Notes to the financial statements (ctd.)

for the year ended 31 October 2018

Employee benefits

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 Statement represents the contributions payable to the scheme in respect of the accounting period. Other short-term employee benefits are recognised as an expense in the period in which they are incurred.

Provision for liabilities

In cases where the Society has been appointed by the Court to act as Judicial Factor, a provision is made for additional direct costs including, but not limited to storage costs, court and legal fees identified in the specific cases. During the administration of an estate, the provision is adjusted based on the best available information. 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. No provision has been made as there are currently no external Judicial Factor appointments.

Judgements in applying accounting policies and key sources of estimation uncertainty

In the application of the Group'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 following judgements:

- Actuarial assumptions in respect of the defined benefit pension scheme. In making these assumptions, advice has been taken from an independent, qualified actuary. The assumptions are all shown in note 14.
- Tangible fixed assets depreciated over a period to reflect their estimated useful lives. The applicability of the assumed lives is reviewed annually, taking into account factors such as physical condition, maintenance and obsolescence.
- Fixed assets are also assessed as to whether there are indicators of Impairment. This assessment involves consideration of the economic viability of the purpose for which the asset is used.
- Determining whether leases entered into by the Group as a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.

The following are the Group's key sources of estimation uncertainty:

- The value of the unlisted investments has been assessed with reference to future discounted cash flows and trading prospects. The value can only ultimately be reliably tested in the market.
- Deferred tax has been estimated based on available future corporation tax rates. It is not known what the corporation tax rate will be when the investments are sold.

Notes to the financial statements (ctd.)

for the year ended 31 October 2018

- Potential claims of which the Client Protection Fund are aware, but have not yet crystallised, are not recognised within these financial statements as there is no conclusive way to determine the likelihood of any claim being accepted, or accurately assess the value of any claim to be paid.
- Recoveries from amounts spent on Judicial Factories, Client Protection Fund Claims and Scottish Solicitor Disciplinary Tribunal expenses are only recognised when a repayment is certain or agreement reached, which can occur several years after the related expenditure has been incurred.

Non-consolidated entities

The following entities are not consolidated into the financial statements as they are not considered to be subsidiaries, associates or joint ventures as defined by FRS102; The Scottish Solicitors' Benevolent Fund and The Law Society of Scotland Education Foundation.

Notes to the financial statements (ctd.)

for the year ended 31 October 2018

Note 2 – Segmental Information

All segments of operating activity are continuing and are based in the UK. For management purposes the Society is organised into 5 directorates to reflect different operational and statutory functions. The individual segments of the Society, together with the consolidated entities, Scottish Solicitor's Guarantee Fund and Law Society of Scotland Services Limited, do not include any allocation of the Shared Service overhead.

Group	2018				2017(Restated)			
	Revenue	Employment Costs	Other direct costs	Operating profit/(loss)	Revenue	Employment Costs	Other direct costs	Operating profit/(loss)
	£000	£000	£000	£000	£000	£000	£000	£000
Membership income	9,323	-	-	9,323	9,160	-	-	9,160
Education, Training & Qualification	208	(505)	(146)	(443)	231	(488)	(162)	(419)
Finance, IT & Central Operations	24	(1,534)	(1,053)	(2,563)	25	(1,538)	(1,062)	(2,575)
Member Services								
Non-Commercial	48	(374)	(6)	(332)	47	(354)	(9)	(316)
Professional Practice	-	(268)	(177)	(445)	-	(244)	(216)	(460)
Commercial	1,040	(307)	(535)	198	1,017	(315)	(549)	153
Regulation	267	(2,025)	(825)	(2,583)	443	(1,801)	(945)	(2,303)
External Relations	-	(914)	(634)	(1,548)	-	(873)	(642)	(1,515)
Shared Services	-	-	(1,932)	(1,932)	-	-	(2,046)	(2,046)
Scottish Solicitors' Guarantee Fund	650	-	(437)	213	524	-	(739)	(215)
LSS Services Ltd	-	-	(2)	(2)	-	-	(264)	(264)
	<u>11,560</u>	<u>(5,927)</u>	<u>(5,747)</u>	<u>(114)</u>	<u>11,447</u>	<u>(5,613)</u>	<u>(6,634)</u>	<u>(800)</u>

Education, Training & Qualification deal with all matters relating to the education, training and qualification of members. This includes policy aspects of pre and post-qualification education and training; accreditation of providers of the components of the route to qualification; the registration and admission of trainee solicitors; the Society's equality and diversity work; work with schools; engagement with students

Notes to the financial statements (ctd.)

for the year ended 31 October 2018

and trainee solicitors; and the development of qualifications to underpin new categories of affiliate membership.

Finance & Operations include the Registrar functions, IT, HR, central administrative services, budgeting, production of relevant financial information and long-term financial planning for the Society.

Member Services comprise three main areas of responsibility. Professional Practice offers support and advice to members. Commercial activity includes the creation and delivery of events and webinars to members and the general public, as well as sourcing business sponsorship. The non-commercial team offer a wide range of member support services.

Regulation comprises teams dealing with complaints, financial compliance, interventions, rules and policy matters, and the Civil Legal Quality Assurance regime.

External Relations is responsible for the Society's communications, policy work, research and international work. This includes representing the Society with Government, Stakeholder groups and other influencers.

Society	2018				2017(Restated)			
	Revenue	Employment Costs	Other direct costs	Operating profit/(loss)	Revenue	Employment Costs	Other direct costs	Operating profit/(loss)
	£000	£000	£000	£000	£000	£000	£000	£000
Membership income	9,323	-	-	9,323	9,160	-	-	9,160
Education, Training & Qualification	208	(505)	(146)	(443)	231	(488)	(162)	(419)
Finance, IT & Central Operations	24	(1,534)	(1,053)	(2,563)	25	(1,538)	(1,062)	(2,575)
Member Services								
Non-Commercial	48	(374)	(6)	(332)	47	(354)	(9)	(316)
Professional Practice	-	(268)	(177)	(445)	-	(244)	(216)	(460)
Commercial	1,040	(307)	(535)	198	1,017	(315)	(549)	153
Regulation	267	(2,025)	(825)	(2,583)	443	(1,801)	(945)	(2,303)
External Relations	-	(914)	(634)	(1,548)	-	(873)	(642)	(1,515)
Shared Services	-	-	(1,932)	(1,932)	-	-	(2,046)	(2,046)
	<u>10,910</u>	<u>(5,927)</u>	<u>(5,308)</u>	<u>(325)</u>	<u>10,923</u>	<u>(5,613)</u>	<u>(5,631)</u>	<u>(321)</u>

Notes to the financial statements (ctd.)

for the year ended 31 October 2018

Note 3 – Employment Costs

	Group	Society	Group (Restated)	Society
	2018	2018	2017	2017
	£000	£000	£000	£000
Salary	5,442	5,442	5,119	5,119
Pension	442	442	417	417
Temporary Staff	80	80	77	77
Secondment	(37)	(37)	-	-
	<u>5,927</u>	<u>5,927</u>	<u>5,613</u>	<u>5,613</u>

The Group and Society employment costs include those of the key management personnel.

Senior Leadership Team

The senior leadership team are considered to be the key management personnel of the Society.

The senior leadership team are those persons having authority and responsibility for planning, directing and controlling the activities of the Society. The senior leadership team comprises the chief executive officer and the executive directors of the following five areas: education, training & qualifications; external relations; finance & operations; member services and regulation.

	Senior Leadership Team (excluding Chief Executive)		Chief Executive	
	2018	2017	2018	2017
	£000	£000	£000	£000
Salary	432	428	183	176
Employer's national insurance	53	51	24	23
Pension	41	39	27	26
	<u>526</u>	<u>518</u>	<u>234</u>	<u>225</u>

The remuneration of the Chief Executive package was £234,000 which equates to 5.5 x the median annualised salary of all other employees.

Number of Employees by Directorate	2018	2017
	£000	£000
Education, Training & Qualification	13	12
External Relations	19	19
Finance, IT & Central Operations	37	40
Member Services	21	21
Regulation	46	43
	<u>136</u>	<u>135</u>

Notes to the financial statements (ctd.)

for the year ended 31 October 2018

Note 4 – Interest receivable and similar income

	Group	Society	Group (Restated)	Society
	2018	2018	2017	2017
	£000	£000	£000	£000
Current Account	4	2	3	2
Deposit Account	18	18	14	14
Pension Scheme(note 13)	8	8	(34)	(34)
	<u>30</u>	<u>28</u>	<u>(17)</u>	<u>(18)</u>

Note 5 – Auditor's remuneration

	Group	Society	Group (Restated)	Society
	2018	2018	2017	2017
	£000	£000	£000	£000
External audit fees	26	20	26	18
	<u>26</u>	<u>20</u>	<u>26</u>	<u>18</u>

Note 6 – Corporation tax

	Group	Society	Group (Restated)	Society
	2018	2018	2017	2017
	£000	£000	£000	£000
Current corporation tax charge	49	44	57	34
Movement in deferred tax provision	(91)	(45)	86	45
	<u>(42)</u>	<u>(1)</u>	<u>143</u>	<u>79</u>
Reconciliation:				
(Deficit)/Surplus for the year before tax	(129)	(313)	138	20
Corporation taxation at 19% (2017- 19.42%)	(24)	(59)	27	4
Deferred tax provision c/f	59	27	150	72
Deferred tax provision b/f	(150)	(72)	(64)	(27)
Income not subject to corporation tax	(2,196)	(2,059)	(2,260)	(2,110)
Expenditure not allowable for corporation tax	2,268	2,161	2,302	2,143
(Over) provision previous year	1	1	(12)	(3)
	<u>(42)</u>	<u>(1)</u>	<u>143</u>	<u>79</u>

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

Notes to the financial statements (ctd.)

for the year ended 31 October 2018

Note 7 – Tangible Assets
Group & Society

	Leasehold improvements £000	Office equipment, fixtures and furniture £000	Total £000
Cost			
At 1 November 2017	1,402	3,932	5,334
Additions	-	179	179
At 31 October 2018	1,402	4,111	5,513
Depreciation			
At 1 November 2017	174	3,203	3,377
Charge for year	80	242	322
At 31 October 2018	254	3,445	3,699
Net book value 31 October 2018	1,148	666	1,814
Net book value 31 October 2017	1,228	729	1,957

Note 8 - Investments

	Group 2018 £000	Society 2018 £000	Group (Restated) 2017 £000	Society 2017 £000
Cost or Market value				
At 1 November 2017	6,073	2,703	5,072	2,317
Additions	1,351	598	1,225	477
Disposal at opening market value	(893)	(330)	(674)	(343)
Impairment of Altis Legal	(25)	-	(57)	-
Unrealised (losses)/gains	(202)	(102)	507	252
At 31 October 2018	6,304	2,869	6,073	2,703
<i>Comprises:</i>				
Listed investments	6,304	2,869	6,048	2,703
Unlisted investments	-	-	25	-
	6,304	2,869	6,073	2,703

The historical cost of listed investments at 31 October 2018 was Group £5,804,000 (2017 - £5,281,000) and the Society £2,642,000 (2017 - £2,345,000). The listed investments are valued monthly to market value (bid price).

Notes to the financial statements (ctd.)

for the year ended 31 October 2018

The Society owns 100% of its subsidiary, Law Society of Scotland Services Ltd, registered at Atria One, 144 Morrison Street, Edinburgh, EH3 8EX. The purpose of the Law Society of Scotland Services Ltd is to undertake certain commercial opportunities on behalf of the Society. At 31 October 2018 the Law Society of Scotland Services Ltd. held one unlisted investment, a 10% shareholding in Altis Legal Limited, a company incorporated in Scotland, which commenced trading in 2016. The original cost was £82,500. In 2018 a provision of £24,750 (2017:£57,750) was made against the value of Altis Legal Limited. Altis Legal has failed to meet its sales volume targets; as a consequence, the directors consider it appropriate to increase the provision against the valuation in these financial statements, which has been calculated with reference to both anticipated cash generated over the next three years and current asset values.

Note 9 – Cash and Cash Equivalents

	Group	Society	Group (Restated)	Society
	2018	2018	2017	2017
	£000	£000	£000	£000
Cash at bank	12,611	9,763	13,796	11,038
Cash and cash equivalents	12,611	9,763	13,796	11,038

Note 10 – Debtors

	Group	Society	Group (Restated)	Society
	2018	2018	2017	2017
	£000	£000	£000	£000
Debtors: due within one year				
Trade debtors	256	252	424	327
Other debtors	124	124	183	183
Prepayments	482	481	449	449
	862	857	1,056	959

Notes to the financial statements (ctd.)

for the year ended 31 October 2018

Note 11 – Creditors

	Group	Society	Group (Restated)	Society
	2018	2018	2017	2017
	£000	£000	£000	£000
Fees in advance	6,784	6,784	7,109	7,109
Trade creditors	498	498	377	378
Corporation tax	66	43	65	35
Other taxation and social security	212	212	219	219
Other creditors	622	599	652	518
Accruals	259	257	364	363
	8,441	8,393	8,786	8,622
Accruals falling due after more than one year	1,463	1,463	1,053	1,053

Note 12 – Deferred Tax Provision

	Group	Society	Group (Restated)	Society
	2018	2018	2017	2017
	£000	£000	£000	£000
Provision brought forward	150	72	65	28
Credit/(charge) for unrealised movement on Investments	(91)	(45)	85	44
Provision carried forward	59	27	150	72

Deferred Tax provision is made in respect of unrealised investment gains or losses of the listed investment portfolios held by the Society and the Group

Notes to the financial statements (ctd.)

for the year ended 31 October 2018

Note 13 – Pension Schemes

The most recent comprehensive actuarial valuation of the Scheme was carried out as at 31 March 2016. The Law Society of Scotland (the Society) operates a defined benefit pension arrangement called the The Law Society of Scotland Staff Retirement Benefits Scheme (the “Scheme”). The Scheme provides benefits based on final salary and length of service on retirement, leaving service or death. The Society also operates a defined contribution scheme but this is not included in these disclosures.

The Scheme is subject to the Statutory Funding Objective under the Pensions Act 2004. A valuation of the Scheme is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process the Society must agree with the Trustees of the Scheme the contributions to be paid to address any shortfall against the Statutory Funding Objective.

The most recent comprehensive actuarial valuation of the Scheme was carried out as at 31 March 2016. The results of that valuation were updated for the purposes of financial reporting under FRS102 by an independent qualified actuary to 31 October 2018 allowing for cashflows in and out of the Scheme and changes to assumptions over the period.

Explanation of amounts in the financial statements

Amounts recognised in the Statement of Financial Position at 31 October 2018	Value at 31 October 2018	Value at 31 October 2017
Fair value of assets	£8,409,000	£7,448,000
Present value of funded obligations	(£7,420,000)	(£7,725,000)
Valuation surplus/(deficit)	£989,000	(£277,000)
Impact of asset ceiling *	(£989,000)	£0
Recognised defined benefit liability at 31 October 2018	£0	(£277,000)

* The valuation surplus is not carried as an asset in the financial statements as the Society does not have an automatic right to any surplus funds remaining at the cessation of the Scheme.

Amounts recognised in the Income Statement over the year	31 October 2018	31 October 2017
Current service cost	£0	£0
Interest on liabilities	£214,000	£236,000
Interest on assets	(£222,000)	(£202,000)
Past service cost	£0	£0
Settlement cost	£0	£0
Total	(£8,000)	£34,000

Notes to the financial statements (ctd.)

for the year ended 31 October 2018

Remeasurements over the year	31 October 2018	31 October 2017
Loss/(gain) on scheme assets in excess of interest	£238,000	(£581,000)
Experience (gains)/losses on liabilities	(£135,000)	£80,000
(Gains) from changes to demographic assumptions	(£21,000)	(£377,000)
(Gains)/losses from changes to financial assumptions	(£170,000)	£73,000
Impact of asset ceiling	£989,000	£0
Total remeasurements	£901,000	(£805,000)

Reconciliation of assets and defined benefit obligation

The change in the assets over the period was:

	31 October 2018	31 October 2017
Fair value of assets at 1 November 2017	£7,448,000	£6,776,000
Interest on assets	£222,000	£202,000
Society contributions	£1,170,000	£219,000
Contributions by Scheme participants	£0	£0
Benefits paid	(£193,000)	(£330,000)
Change due to settlements	£0	£0
Return on Scheme assets less interest	(£238,000)	£581,000
Fair value of assets at 31 October 2018	£8,409,000	£7,448,000

Notes to the financial statements (ctd.)

for the year ended 31 October 2018

The change in the Defined Benefit Obligation over the period was:

	31 October 2018	31 October 2017
Defined Benefit Obligation at the 1 November 2017 period	£7,725,000	£8,043,000
Current service cost	£0	£0
Contributions by Scheme participants	£0	£0
Past service cost	£0	£0
Interest cost	£214,000	£236,000
Benefits paid	(£193,000)	(£330,000)
Change due to settlements	£0	£0
Experience (gain)/loss on defined benefit obligation	(£135,000)	£80,000
Changes to demographic assumptions	(£21,000)	(£377,000)
Changes to financial assumptions	(£170,000)	£73,000
Defined Benefit Obligation at 31 October 2018	£7,420,000	£7,725,000

Assets

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

Asset category	31 October 2018	31 October 2017
Corporate bonds	28%	31%
Diversified funds	72%	68%
Cash	Less than 1%	Less than 1%
Total	100%	100%

The return on the assets over the period was -ve £16,000 (2017: +ve £783,000).

Notes to the financial statements (ctd.)

for the year ended 31 October 2018

Actuarial assumptions

The principal assumptions used to calculate the Scheme's liability include:

	31 October 2018	31 October 2017
Discount rate	2.90% pa	2.80% pa
Inflation assumption (RPI)	3.50% pa	3.50% pa
Inflation assumption (CPI)	2.80% pa	2.80% pa
Pension increases – CPI limited to 5%	2.80% pa	2.80% pa
Pension increases – CPI limited to 3%	2.50% pa	2.50% pa
Pension increases – CPI limited to 2.5%	2.20% pa	2.20% pa
Revaluation in deferment	2.80% pa	2.80% pa
Post retirement mortality assumption	110% of S2PxA, projected with CMI 2017 - long term rate of improvement 1.5% pa	110% of S2PxA, projected with CMI 2016 - long term rate of improvement 1.5% pa
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

Note 14 – Related party transactions

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 £0 (2017: £310) was due to the Law Society of Scotland.

Legal services

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

LawCare

During the year the Society paid £22,400 (2017 - £22,400) to LawCare, a registered charity, for pastoral care services. An employee of the Society who left during the financial year is a director of LawCare.

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Pritchard Educational Trust

During the year the Society paid £nil (2017: £75) to the Pritchard Educational Trust, a registered charity. The Society's president and vice president are trustees. £20,465 was due from the Trust at the year-end (2017: £20,465) for grants previously paid on the Trust's behalf.

Law Society of Scotland Educational Foundation

The Society provides administrative support at no charge to Law Society of Scotland Educational Foundation, a registered charity. One staff member is a trustee. In 2017 The Law Society of Scotland (Services) Limited donated £261,585 to the Law Society of Scotland Educational foundation as a result of a special dividend received from Legal Post (Scotland) Limited.

Note 15 - 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 financial statements. 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 Statement of Financial Position 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 incur future costs in bringing the estate to a conclusion.

Guarantee Fund 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 treated as contingent liabilities at the sum intimated. As such, the total of claims intimated does not necessarily represent claims that will be paid. At 31 October 2018 these claims amounted to £2,123k (2017- £3,983k)

Note 16 - Commitments under Operating Leases

At 31 October the Society had the following minimum payments under non-cancellable operating leases:

	Group 2018 £000	Society 2018 £000	Group 2017 £000	Society 2017 £000
Land and Buildings:				
Within 1 year	244	244	-	-
Within 2 to 5 years	1,567	1,567	1,567	1,567
In 5 years or more	5,359	5,359	5,603	5,603
	<u>7,170</u>	<u>7,170</u>	<u>7,170</u>	<u>7,170</u>

Notes to the financial statements (ctd.)

for the year ended 31 October 2018

Operating lease payments represent total rentals in respect of the Society's office premises at Atria One, Morrison Street Edinburgh from 1 November 2018 until the expiry date of the lease, 16th August 2029. Lease break options exist on 17 August 2020 and 17 August 2025. The figures exclude any irrecoverable VAT, which will vary from year to year depending on income sources. The Society has entered into a lease incentive arrangement with the Landlord which comprised of a 45 month rent-free period at the commencement of the lease. The first payment is due in May 2019.

An adjustment was made to the financial statements in respect of this rent free period. Comprising a charge in the year of £398k (2017 - £398k) to the income statement and a corresponding liability which will be released as of May 2019 over the remaining length of the lease.

Note 17 – Financial Instruments

	Group	Society	Group (Restated)	Society
	2018	2018	2017	2017
	£000	£000	£000	£000
Financial assets:				
Financial assets measured at fair value	6,304	2,869	6,073	2,703
Financial assets measured at amortised cost	12,991	10,139	14,403	11,548
Financial liabilities:				
Financial liabilities measured at fair value	-	-	-	-
Financial liabilities measured at amortised cost	2,842	2,817	2,446	2,312

Financial assets and liabilities are initially measured at transaction price (including transaction costs). The Group only has financial assets and liabilities which qualify as a basic financial instrument. Financial assets measured at fair value comprise listed investments which are valued at market value (closing bid price). Financial assets measured at amortised cost comprise cash and cash equivalents, trade debtors and other debtors. The Group has no liabilities requiring measurement at fair value. Financial liabilities measured at amortised cost comprise trade creditors, other creditors and accruals.

Note 18 – Events after the reporting period

After 31 October 2018 the Client Protection sub-committee awarded a 2 further grants for claims to the sum of £5,296. These sums have been incorporated in the financial statements.

At the Client Protection sub-committee meeting of 6 September 2018, the committee members, having delegated powers from the Law Society of Scotland, decided that, having assessed the need to pay claims from the Client Protection Fund as necessary, the Fund would invest further money with Investec in the creation of a low risk portfolio to provide a better return to the profession than cash. In November 2018 a payment of £1.5m was made to Investec Bank PLC for the creation of the second portfolio.