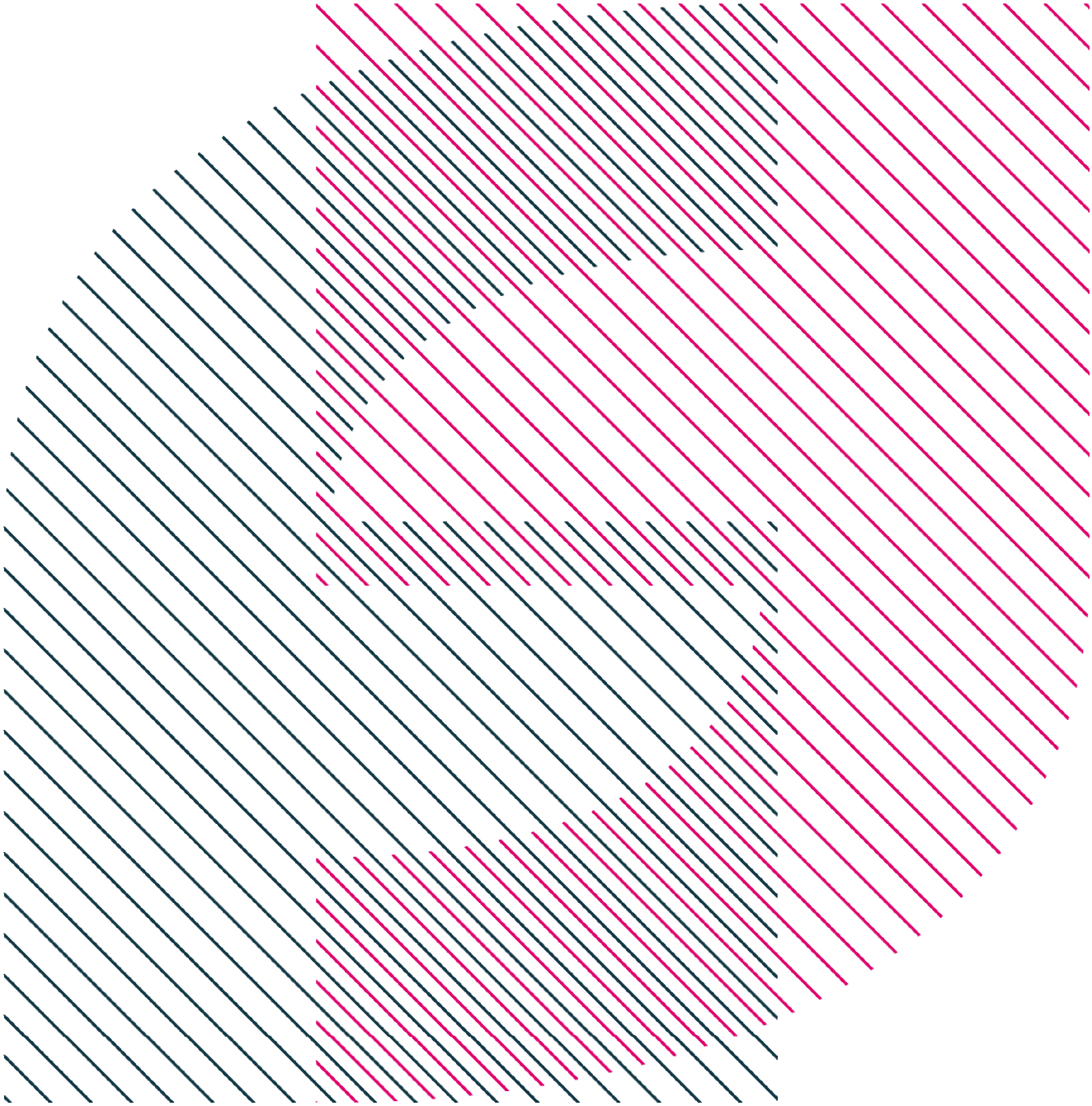
LEGAL OMBUDSMAN

The Office for Legal Complaints

Annual report and accounts

For the year ending 31 March 2014



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For the year ending 31 March 2014

Presented to Parliament pursuant to
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Foreword from our Chair, Steve Green

The Office for Legal Complaints (OLC) and Legal Ombudsman are now an established feature of the Legal Services landscape and, arguably, one of the iconic outcomes of the 2007 Legal Services Act.

2013-14 saw the OLC examine the evidence from a full cost review, seeking to identify what action was required to enable the Legal Ombudsman to deliver excellent services, cost effectively. In the event we agreed a significant restructure, detailed within the report, which led to some redundancies. These were tough decisions. Change of this kind is never easy but it is essential – the OLC's duty is to ensure that the service we provide can meet the demands placed upon it; and where decisions about the change in the nature or number of posts are necessary we must do our best to make quick decisions and support those affected.

The original establishment of the OLC was inevitably an exercise rich in estimation and forecast. Whilst the Act set the bounds within which the new service had to be delivered, it fell to the OLC members, chaired by Elizabeth France and advised by the management team, to research what the likely demands on us would be. They looked at potential numbers, areas of work, and complexity - but ultimately, they could have no way of knowing what would actually come through the door. The organisation went live in July 2010 and took its first cases in October that year. Over the following three years it became clear that volumes were lower than expected and the proportion of complex cases not so high. The OLC recognised that the organisation had some resource and expertise in the wrong places and it took action to reshape the organisation to meet demand as it had actually developed.

This restructuring has reduced our unit costs, which is the essential first step. It also continued the trend of significantly reducing overall costs, year on year. This trend will continue. In early 2015, the OLC relocated to more cost effective space a short distance from its original location. Significant changes and enhancements to our case management system have also been implemented. There is more to do and the shape and structure of the organisation is not yet finalised. Additionally, the work of the OLC is expanding; the Legal Ombudsman expects to take the first complaints about Claims Management Companies (CMCs) in late January 2015. We will also welcome members of the Institute of Chartered Accountants in England and Wales (ICAEW) into our legal services jurisdiction. Ultimately, we would hope to expand our services across the whole of the legal sector (regulated and unregulated).

The Chair, Elizabeth France, completed her term at the end of 2013-14 together with Margaret Doyle and Professor Mary Seneviratne. I joined the OLC in 2014, together with Stella Manzie and Professor Philip Plowden. As Elizabeth's successor, I would like to thank her on behalf of the OLC for her contribution to the successful establishment of the organisation and for chairing it over the first years of its life.

It is unfortunate that the 2013-14 report and accounts are being published much later than would normally be the case. This delay arose because a number of issues were identified at the close of the financial year. These had their origin in the early stages of the OLC's existence, and exposed shortcomings in the

process of ensuring all procedures and agreements were fully in line with public sector requirements for managing public money. Regrettably, this necessitated the re-examination of a number of arrangements and transactions, some of which were judged to be irregular under public sector requirements. These issues are further detailed within the Annual Report and Accounts

Dealing with these historic issues has been a challenge, however, the OLC is fully engaged in taking steps to ensure control and governance arrangements are appropriately modified to guard against any recurrence. We are determined to move forward from these challenges and continue to provide an even better and more efficient service to the legal sector and its consumers.

I would, however, wish to pay a sincere tribute to all members of the organisation for the way in which they have continued despite these challenges to provide an excellent service to all of our stakeholders and ensure that, whatever the circumstances, the Legal Ombudsman remains open for 'business as usual'.

Steve Green
Chair

Chief Ombudsman's report

Introduction

At the start of the last financial year our then Chair, Elizabeth France CBE, suggested that the Legal Ombudsman should broaden its approach. She insisted that consumers of all legal services, including linked professional services, should have access to redress. In essence, she was calling for a new vision, one that recognised the increasing blurring of boundaries between sectors and which enabled us to help drive the simplification of complaints handling necessary to improve ombudsman services for complainants and providers.

This year's Annual Report is to some extent an appraisal of how far the Legal Ombudsman has come in attempting to meet that challenge. It was an ambitious call and one that will take far more than one year to achieve. But we have made progress.

The first, and most significant, hurdle we had to overcome was to bring claims management companies (CMCs) within our jurisdiction. Behind the scenes we have worked tirelessly alongside the Ministry of Justice (MoJ) and Treasury to make this a reality. We're aware that many thousands of people may be in need of help sorting out problems with their claims management provider, which is why we have done everything within our power to bring CMCs under our remit as soon as possible. And that hard work paid off in December when the MoJ announced changes to the Financial Services (Banking Reform) Act 2013, meaning that soon we will indeed be able to resolve CMC related disputes.

Achieving jurisdiction over CMCs was a priority so far as broadening our approach is concerned. But we have been doing much more beyond CMCs. For instance, we have also started speaking to a variety of politicians, officials, professional bodies and consumer groups to explore how some of the problems at the edges of our existing jurisdiction could be resolved, bringing greater simplicity and efficiency to the provision of redress.

This exploration has been taking place in the context of the recently approved EU Directive on Alternative Dispute Resolution (ADR) to be implemented by Government by the middle of 2015. The Directive requires ADR to be available for traders in all sectors and will apply to complaints regarding contractual obligations about services and products instigated by a consumer against a business (including those who provide professional services) from 2015. This, alongside the innovation and evolution happening across the legal services and other professional markets, raises a significant challenge to the existing system of redress. It is therefore incumbent on us to respond and make sure our scheme remains modern and relevant.

Over the past year we have sought to use the experience and evidence gained from legal complaints to work with policy makers (and others) to share our insights and suggest ways of working to create a system that is accessible, transparent, effective and efficient both for consumers and for businesses. Many consumers do not think about who provided a service or where the boundaries in definition lie. Legal services, for one, continue to become entwined with other professional services. This lack of clarity around regulatory

boundaries remains problematic for consumers as well as for businesses as they grapple with more than one set of sometimes conflicting requirements, particularly if they operate in more than one sector. Much of our work, including with regulators new to legal services, such as the Institute for Chartered Accountants for England and Wales (ICAEW), has involved grappling with the intersection of these different regulatory approaches, identifying where gaps and overlaps are, and seeking to inform Government debates about how to ensure both consumers and businesses are best served in terms of access to redress in the short, medium and longer term.

As well as broadening our approach, however, a new vision required us to think about the sustainability of our service now and in the future. In particular, we needed to look at our costs, since cost is not merely a burden on the legal profession but would be an obstacle to us extending our services to other jurisdictions. The Legal Ombudsman cost £19.9m when it was launched (compared with some £32m for the predecessor bodies) and has had a downwards budget trajectory each year of operation. Nevertheless, our unit cost has regularly come under scrutiny; increasingly so as the scheme has begun to settle down and establish itself.

We have taken the feedback on board and, recognising that we needed to act sooner rather than later, we undertook a restructuring process during the summer of 2013.

Our unit cost in 2012-13 was already 5% lower than in the previous financial year, and as a result of the restructuring work has reduced by a further 10% this financial year to £1,950. Our strategy and budget sets out our ambition to further reduce unit cost in 2014-15 by around a further 10%. These measures should make our scheme leaner and stand it in good stead for any future challenges.

Experts in dispute resolution

The Legal Services Act 2007 envisages that our role is to be more than a simple dispute resolution service. We are also charged with the responsibility to contribute towards the other regulatory objectives: helping to inform consumers and creating a fairer, more accessible and competitive market. After four years of operation, we now have insights gained from experience in the day to day mediation of complaints, but also draw on a rich blend of information using our own statistical data alongside commissioned reports to identify trends and provide feedback to the legal profession, regulators and consumers.

We endeavour to share this information as often as resources will allow, particularly where we feel issues present a particular risk to consumers and/ or the reputation of the legal industry. A look back at the year illustrates this feedback loop in action:

In June we warned consumers about the risks associated with buying services from unregulated providers of legal services. Research, which we commissioned, found that thousands of consumers might have to simply accept poor service if they couldn’t afford to seek redress through the courts. It revealed the existence of a significant ‘alternative’ legal market in which services were being supplied by providers beholden to no regulatory body or, in some cases, code of conduct. The report estimated that some 130,000 service providers in England and Wales were operating outside the regulated domain.

This means advice was often provided by professionals working in roles as diverse as accountancy, architecture or probate, creating an overlap between legal and professional services.

We felt – and still feel – that this leaves consumers confused about which advice and services fall within the jurisdiction of an ombudsman scheme. And where services happen to be unregulated it may leave consumers unable to effectively pursue a complaint if the service is poor. Take this case study for example:

Mother-of-two, Mrs A, paid £700 to a will writing firm, who had been employed by her mother, to make sure a family member received her mother's wedding ring following her death.

The unregulated firm took the cash, but lost the ring, which had been a family heirloom.

Mrs A entered into a 12-month long battle with the firm until she was eventually able to recoup some of the money.

However, she was left without the ring or any compensation for its loss because the firm sat within the 'alternative' legal market and was not covered by an ombudsman scheme.

We suggested at the time that a simplified, perhaps single professional services ombudsman would help to address the problems caused by an unregulated sector. This is something that we have been exploring ever since, and we will continue to work with stakeholders and Government to see how it might work in reality. Certainly the Legal Services Act 2007 allows for an extension of our powers, if required, and with an EU Directive insisting on the availability of an alternative dispute resolution service for all consumer transactions by 2015, the political climate is providing further momentum towards creating a simpler, more inclusive redress system.

In August we reported on a case that saw a lawyer hit with £5,000 worth of costs after leaving vulnerable clients in the lurch during a medical negligence claim. The case helped to illustrate our powers to both the profession and consumers, demonstrating that we would utilise court action if required and that we were an ombudsman scheme with teeth.

Mrs B and her husband complained to us after it became apparent that their lawyer was holding up their pursuit of medical negligence compensation.

We originally ordered the lawyer to return their files – which were pivotal to taking the claim forward. However, court action became necessary after the lawyer repeatedly ignored our requests, which are legally binding.

Mrs B was told by the lawyer in the early stages that they had a strong case for claiming compensation. This would have helped to pay for her husband's care and a car so that she could visit him at his care home and take him out to see family. Due to the lawyer's failure to transfer the files on time Mr and Mrs B missed the deadline for bringing a case.

We escalated the case to court where the lawyer was found in contempt and given a large fine of £5,000 plus costs. He was also made to comply with our decision and pay Mr and Mrs B £1500 for the distress and inconvenience caused by his actions.

The majority of lawyers comply with our decisions but in a small number of circumstances, such as the one above, court action is required. Last year, we

started 43 formal enforcement cases and recovered a total of £70,000 through actual or threat of legal action on behalf of customers.

In September we published new guidance on signposting to help address the low numbers of people being told about the Ombudsman by their lawyer. The signposting pack, which is available on our website, provides information that lawyers can use on their websites, in client care letters and for any documents explaining their complaints process. We also produced a poster for lawyers to use in their office, which we felt would boost confidence by reassuring clients that their lawyer was subject to a formal redress system.

We're happy to report that this has contributed to the increase in the number of people who had been made aware of our scheme by their lawyer from 27% in 2012-13 to 34% this year. The increase isn't huge but it's a start, and something we hope to build on moving forward.

Though we prefer this lighter touch approach to helping lawyers signpost, it is worth mentioning that failing to deal with a complaint adequately risks a case fee and potential misconduct referral; whether or not the underlying complaint has any justification. The following case shows why taking complaints seriously and signposting as part of that process makes sense:

Mr C instructed a lawyer to help him register his ownership of some land.

Soon after instructing the lawyer Mr C asked for updates on what work had been completed and any costs that had been built up as a result. It took a long time for the firm to get back to Mr C and when an update finally did come through, the information was unclear. Mr C felt that the some of the costs were incorrect under the payment terms he had agreed with the lawyer.

He raised the issue with his lawyer directly but didn't receive a response. Mr C was becoming increasingly annoyed with the lawyer's lacklustre approach but he was unsure about what he could do about it. He sent further contacts to the lawyer with no success until finally a friend recommended the Legal Ombudsman.

When we investigated we found that the lawyer had in fact completed the work he was instructed to do and that he had adhered to the payment terms. Consequently, we found no merit in the complaints about this part of his service. However, the lawyer did fail to provide an adequate response to Mr C, and had failed to tell Mr C about the Legal Ombudsman.

An investigator recommended that the firm should apologise to Mr C and because the lawyer had not handled the complaint properly, a case fee had to be imposed.

In January we published our latest thematic report on 'no win, no fee' agreements with support from the Advertising Standards Authority. The report highlighted fundamental weaknesses in the agreements, which ultimately led to us calling for the use of the 'no win, no fee' promise to be phased out. In fact, we have ordered significant remedies to put right consumer problems caused by the agreements, which were often sold using misleading price promises.

Around 8% of the complaints handled by our scheme last year were about conditional fee agreements (CFAs), which are the contractual arrangements under which 'no win, no fee' cases are usually sold. Included in the report were six case studies that helped to illustrate the huge impact on people when things go wrong with them.

We found that problems often arise as a result of poorly explained terms and conditions or because lawyers have exploited loopholes in how agreements are written to offset their own financial risks. We shared our findings with legal regulators in a bid to try and improve standards while embarking on a national media campaign to alert consumers to the risks. The case study below illustrates the kind of issues which we were finding:

Mr D instructed a firm to represent him in his litigation claim for unpaid contractual work.

The firm agreed to act on his behalf under a 'no win, no fee' agreement but withdrew representation two weeks prior to the court hearing. As a result, Mr D had to act as litigant in person. He was successful with his case and received an award of around £5,000.

However, despite it being the firm's decision to sever ties with Mr D two weeks before the hearing, they contacted him claiming that they had carried out £24,000 worth of work and that he should settle with them. Mr D felt that this was completely unreasonable as no such costs had been outlined in the contract he signed at the start of the case.

The firm threatened Mr D with legal action and so he brought his complaint to the Legal Ombudsman. When we looked at it we found that the agreement he signed stated only that he should pay disbursements in the event of winning, should the firm withdraw its services. We decided that they were not entitled to claim anything other than disbursements and that they should pay Mr D £200 for the distress and inconvenience it had caused him. Mr D accepted our decision.

And finally, in February, we published our report: "A business case for good complaint handling", produced by independent consultancy Economic Insight. It revealed that the legal sector could expect to see net benefits of between £53m and £80m over 10 years if it took complaints more seriously, while individual law firms and other providers of legal advice could increase operating profits by up to 3%.

In addition, law firms could see an overall increase in demand for legal services as their reputations improve. The findings provide a compelling business case for lawyers to take complaints seriously and avoid the need for intervention by our scheme. And there was good news too for consumers, who could benefit from improved quality of service and, potentially, lower prices.

This should provide encouragement for lawyers beyond simply meeting regulatory requirements. Reassuringly, the financial benefits were worked out as a net benefit i.e. after any investments required to improve processes had been factored into the equation – making it all the more persuasive.

As well as publishing these reports, we have been finding other ways throughout the year to share our knowledge and experience with the legal profession. For instance, we have rolled out continuous professional development courses nationally, helping lawyers and legal professionals to put effective internal complaints processes in place and gain continuous professional development (CPD) points at the same time. We have also improved the way we share information with regulators who now benefit from richer reporting and intelligence rather than a simple summary of activity. This helps to support their risk analysis and help inform their approach to regulation.

Though we are proud of our achievements, we aren't resting on our laurels. We know that there is much more to do to fine-tune our feedback process, widening

access to redress for consumers, and making our own service more efficient and effective. The next phase in the Ombudsman's development now beckons, requiring us to be more mature, more modern, and more effective in the way we inform and serve lawyers and consumers, while supporting the response of regulators. Ultimately, our goal is to support confidence in the market and to share real insight and intelligence to raise standards so that everyone has access to a legal system in which they can trust.

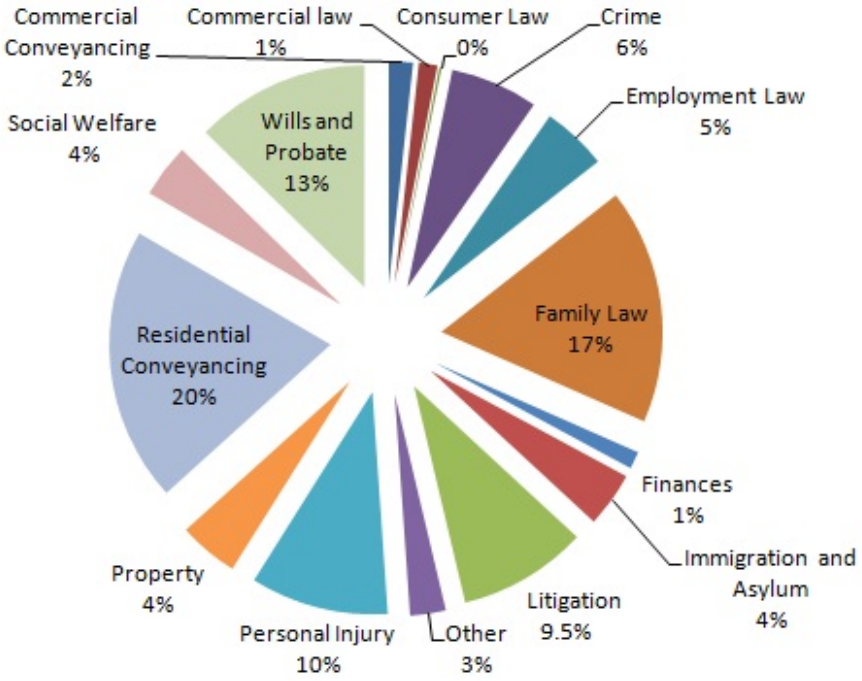
Casework and performance

During the past year we have resolved a total of 8,055 cases – up from 7,630 cases in 2012-13. We received 69,500 contacts by phone, letter or email compared to just over 71,000 in 2012-13, while unique visits to our website numbered approximately 61,000. Business remains broadly steady while our efficiency in resolving complaints continues to improve.

Looking at complaints resolved by area of law, it is interesting to note that residential conveyancing has displaced family law as the single biggest source of complaints. Residential conveyancing accounted for 20% of all complaints resolved by our service last year, while family law sat closely behind on 17%. This may suggest an upturn in the housing market, and if it continues, could be a sign of things to come. Our predecessor, the Legal Complaints Service, saw as much as a quarter of its business comprised of conveyancing complaints prior to the market collapse. As market conditions improve we could see an upward trend in associated complaints.

Wills and probate remained the third highest source of complaints on 13% followed closely by personal injury 10% and litigation 9.5%, suggesting an otherwise steady marketplace as these figures are virtually unchanged compared to 2012-13.

Percentage of complaints resolved by area of law:



The ultimate aim of any remedy is to put the client back in the position they would have been in had there not been poor service. Last year we ordered 2,400 remedies that were classed as “non-financial”, such as telling the lawyer to complete outstanding work or return important papers. The value of our scheme therefore is to be measured not on any cumulative financial sums involving compensation, but in the confidence we give to the market by assuring consumers that they have access to well regulated legal services subject to a formal redress scheme. At the same time, as we have already mentioned, we are able to address systemic issues by learning from the complaints we see and then feeding back.

How we resolved cases

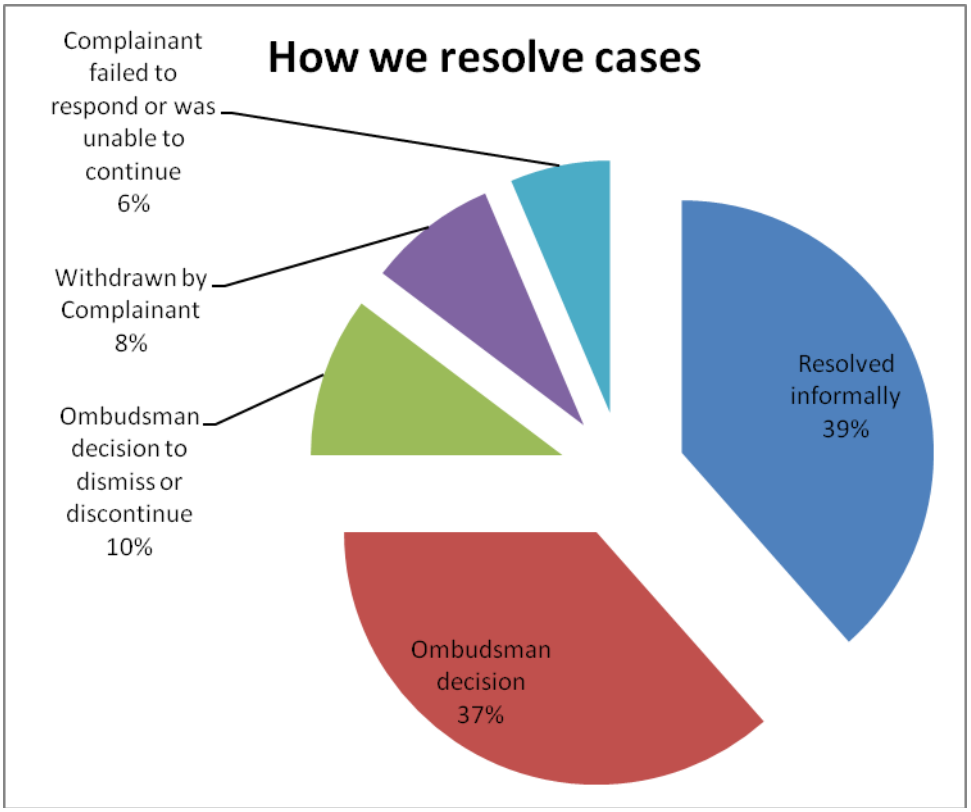
We prefer to resolve complaints by brokering an agreement between the lawyer and the complainant. Therefore, our investigators attempt to settle complaints as amicably as they can, while bringing both parties (both the lawyer and the client) to a swift and mutually beneficial resolution. We call this “informal resolution”.

Where an informal resolution cannot be reached, either party may ask an ombudsman to make a final decision. At this stage the resolution will be based less on resolving the complaint amicably and more on what is deemed fair and reasonable.

We resolved 39% of complaints informally in 2013-14 compared to 44% in the previous year, while the number of resolutions reached by ombudsman decision has increased slightly to 38% compared to 37% previously. This is not the outcome we had hoped for, but as we have said in previous Annual Reports, the complexity of legal complaints means that often people want to exhaust all options before accepting a decision.

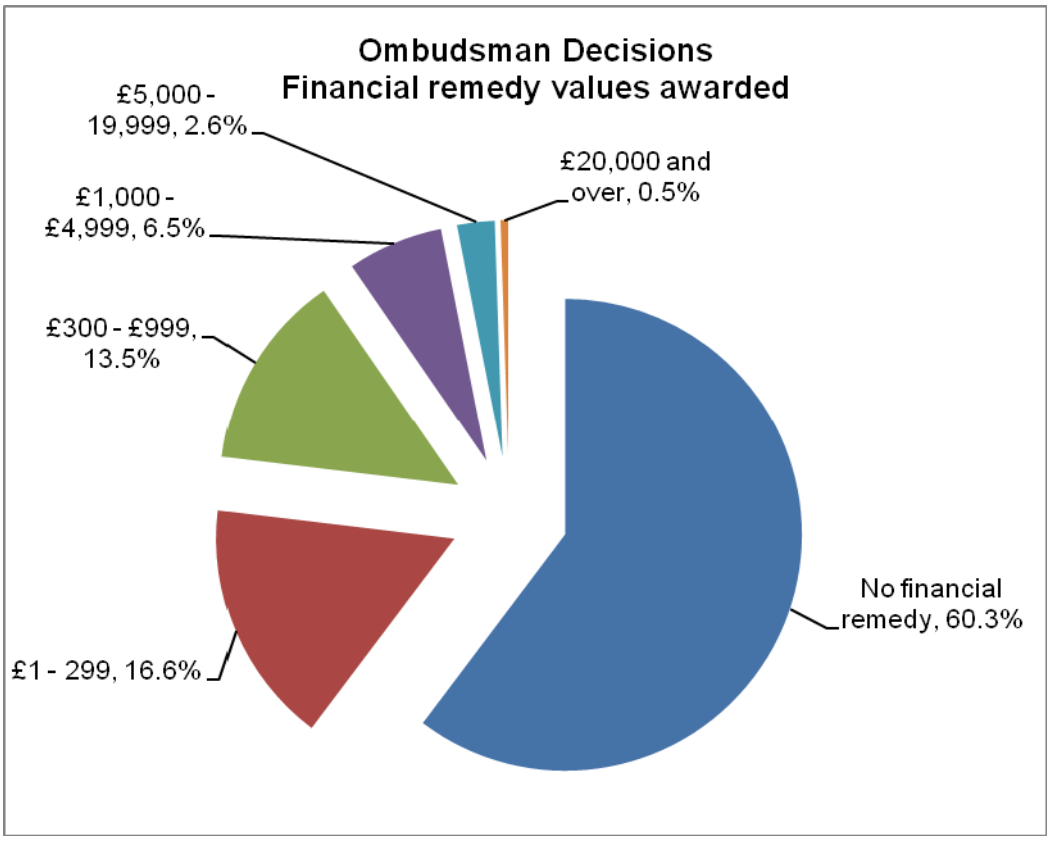
In the majority of cases it is the complainant who requests a decision by an ombudsman. This is consistent with some evidence from other ombudsman schemes that there has been an increase in complainants’ propensity to pursue their complaints as far as possible. It may also reflect an increase in the number of lawyers offering reasonable remedies at the first tier which, if true, is a positive development. Nevertheless, we will continue to work at brokering more informal resolutions moving forward.

In our view, these figures suggest that complainants do as well when accepting an investigator’s recommendation and opt for an informal resolution as they do when insisting on an ombudsman’s decision. While lawyers might be tempted to hold out for an ombudsman decision, they should factor in the additional time and resource they will have to put into managing the complaint and accept that the customer is likely to walk away feeling even less positive about their firm with the increased risk to their reputation that this entails.



Of those cases which were resolved informally or by ombudsman decision the number of complaints where we did not provide a remedy (essentially meaning we found no evidence of poor service) remained broadly the same at around 48%.

Ombudsman decisions:



16.6% of ombudsman decisions resulted in a financial remedy of up to £299.

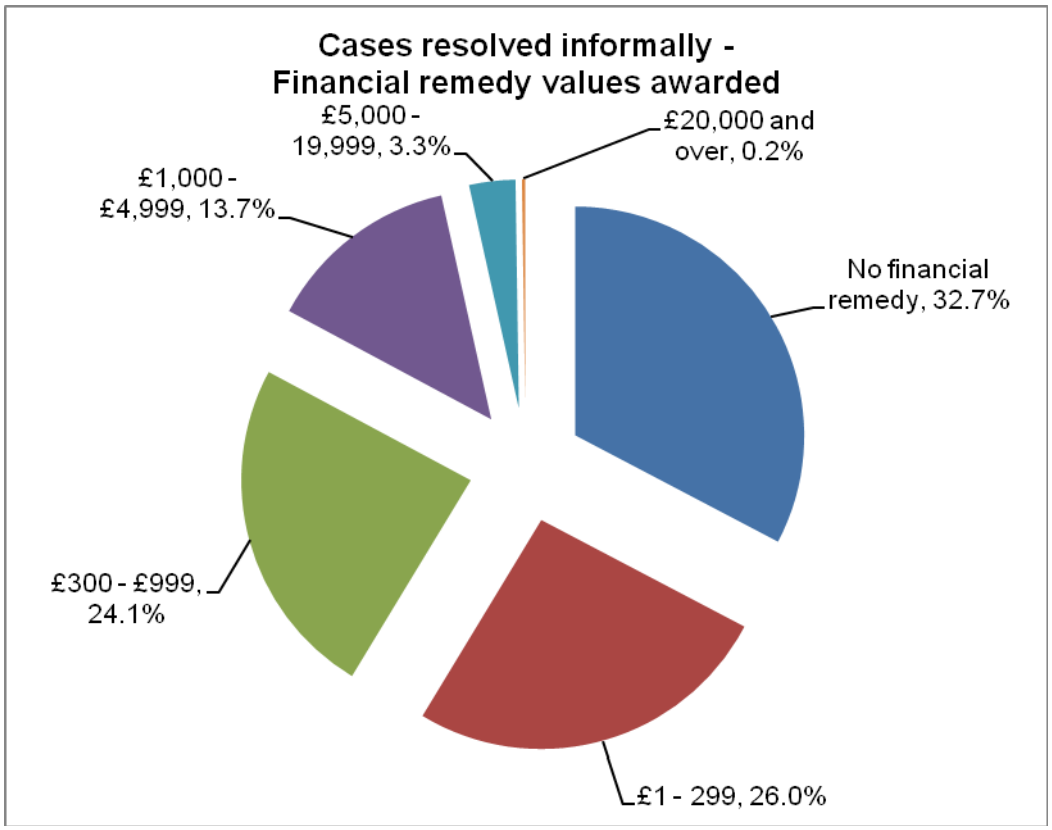
13.5% of ombudsman decisions resulted in a financial remedy of between £300 and £999.

6.5% of ombudsman decisions resulted in a financial remedy of between £1000 and £4,999.

2.6% (78 cases) resulted in a remedy of between £5,000 and £19,999.

0.5% (16 cases) resulted in a remedy of £20,000 or more.

Informal resolution:



26% of informal resolutions resulted in a financial remedy of up to £299.

24% of informal resolutions resulted in a financial remedy of between £300 and £999.

14% of informal resolutions resulted in a financial remedy of between £1000 and £4,999.

3.3% (83 cases) resulted in a remedy of between £5000 and £19,999.

0.2% (6 cases) resulted in a remedy of £20,000 or more.

Judicial review cases

Since its inception the Ombudsman has received just over 300 potential judicial review challenges from a total case file handling of 141,000 with 29,000 of those being allocated cases.

130 of these potential challenges were resolved before pre-action stage and 140 resolved at pre-action stage. 30 cases resulted in the issue of proceedings. Four of those issued have been lost at hearing stage involving one stand alone jurisdiction decision and three final ombudsman decisions. Two have been won at hearing on final ombudsman decision stage and the remainder were either lost at permission stages by the challenger or settled by consent. Eight cases have been or are being reconsidered. Challenges are fairly evenly split between complainants and lawyers.

Lessons learned from these cases are fed back into the business regularly. The unsuccessful cases for the Ombudsman have concerned case specific matters on evidential issues and the two cases that were successful for the Ombudsman concerned wider issues on how the scheme operates within the legal framework.

Overall performance

Customer satisfaction survey results show that while perceptions of the Legal Ombudsman and case process are generally positive, there are some areas which need improvement.

Measuring customer satisfaction is difficult for an ombudsman scheme such as ours since satisfaction and perceptions of fairness are often inextricably linked to case outcome. It seems more than mere coincidence, for instance, that while the number of cases in which we aren't ordering a remedy has risen, so too has lawyer satisfaction; from 80% last year to 86% in 2013-14. Of course, we have sought to improve feedback for the profession with our CPD courses, contributions to legal journals, various guides and thematic reports – and we would like to think that these things have helped to improve perceptions of our scheme within the legal profession. But it is undeniable that case outcome has a close relationship with satisfaction levels.

This view is further evidenced by the satisfaction level of complainants, which has decreased from 72% last year to 64% in 2013-14. Complainants have reported that they are less satisfied with aspects of our process and outcome than lawyers. They are less satisfied, in particular, with written communication at ombudsman stage taking into account their comments and reflecting the case accurately. However, since the decline in consumer satisfaction with process matches almost exactly with the decline in the proportion of cases where we order a remedy, it may well be that these are merely symbols rather than causes of their dissatisfaction.

Nevertheless, the survey does identify a number of areas for improvement and we must take them seriously, ensuring we do everything we can in the coming year to improve standards of service.

For complainants, the main issues include:

- Staff understanding the nature of their complaint;
- The reasons for the recommendation being clearly explained;
- Staff understanding the complainant's desired outcome;
- The investigation process being fair and impartial.

For lawyers, critical factors include:

- The investigation process being fair and impartial;
- Confidence in the handling of a complaint;
- Staff knowing what they were talking about.

Conclusion

Phase one of our journey is about to end as we say goodbye to our founder Chair, Elizabeth France, after two terms at the helm of our board. I have worked for many chairs in my time as a CE and I can say that, hand on heart, none of them have been as important to the shape and ethos of an organisation as she has. If the Legal Ombudsman has been a success, and I think it has, it is largely down to her. She leaves a steady ship behind, one that is well prepared for its voyage into phase two of its lifecycle, and the many challenges that will bring.

Helping us take on these challenges will be our new Chair, Steve Green, who brings with him a wealth of experience gained during his time with the Legal Services Board and a career in the Police force. Steve has already spent time finding out more about the internal workings of the Ombudsman scheme while meeting with employees and stakeholders to establish his vision for the future. We will be working closely with Steve and the rest of the board to help make this vision a reality during the next year.

In the meantime, we are also preparing for claims management complaints. This means thinking about a recruitment campaign; lots of engagement with the claims management industry, regulators and consumer charities; and lots of awareness raising – particularly among consumers – to ensure that when we 'go-live' everybody is ready for what follows. Though it is to some extent a step into the unknown, we do know that payment protection insurance (PPI) claims are still responsible for a huge swathe of the Financial Ombudsman Service's workload. And the claims management regulator received over 10,000 contacts regarding claims management companies last year. This all points to a potentially busy first period when phone lines open.

The changes happening across legal services and other professional markets - as well as a renewed emphasis on consumer rights and access to justice - mean that the next year will be ripe for modernising the Ombudsman and ensuring it is still relevant. That means working with policy makers to share our insights and doing everything we can to develop a system that is accessible, transparent, effective and efficient both for consumers and for businesses.

We want to identify gaps and help inform Government debates about how to ensure they are best served in terms of access to redress moving forward. And we will aim to build on previous years in driving our budget and unit cost down. Our aim is to make the scheme as efficient as it can be while still delivering

good standards of service. Ultimately, lawyers, claims management companies and the consumers they serve should feel they have access to an Ombudsman scheme they can trust.

Adam Sampson
Chief Legal Ombudsman and Chief Executive

Key Performance Indicators

We agreed our Key Performance Indicators (KPIs) for 2013-14 with the Legal Services Board (LSB) and we now publish this information on our website.

These KPIs are:

- **Timeliness:** The proportion of cases resolved within three and six months of a consumer's first contact with us.
- **Quality:** We track against a mix of quality indicators that focus on the accuracy of our work and the quality of customer service provided.
- **Unit cost:** We track the unit cost of our work by reporting the annual cost of the **organisation** averaged according to the number of cases resolved.
- **Reputation:** We commission external, independent measurement of satisfaction **levels** among customers (consumers and lawyers) and stakeholders on an annual basis.
- **Impact:** We undertake annual surveys of stakeholder groups to assess their confidence that we are delivering our objectives and annual surveys of consumers of legal services to determine how many are aware of the Legal Ombudsman.

Timeliness

We want to resolve complaints as quickly and fairly as possible. We measure how long it takes from the point at which the complainant agrees what it is that they want us to investigate until the point at which the complaint is resolved. The only exception to this rule is where the complainant requests, and we agree, to suspend an investigation. In these cases, the period for which the case is suspended is not counted. The time it takes to resolve a complaint is determined to a large extent by the parties to the dispute themselves. If a case can be resolved informally, it takes less time than if a lengthier investigation or an ombudsman's decision is needed. Reducing the time it takes us to settle cases remains a key priority for us in terms of improving our customer service and organisational efficiency.

The OLC and management team, together with the LSB, set a target for 2013-14 of resolving at least 60% of cases within three months, of resolving at least 90% of cases within six months, and of resolving all our cases within a year.

KPI	Apr	May	June	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Resolve 60% of cases within 90 days	64%	64%	63%	68%	69%	68%	65%	66%	72%	67%	70%	62%
Resolve 90% of cases within 180 days	95%	95%	91%	95%	96%	94%	94%	95%	93%	95%	92%	93%
Resolve 100% of cases within 365 days	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

We have met all of the timeliness targets for 2013-14.

In order to continually strive for improvement in this area we have agreed more strenuous targets for 2014-15 with the LSB. For 2014-15 we aim to resolve 40%

of cases within eight weeks, 70% of cases within three months, 95% within six months, and all within a year.

Quality

Delivering a high-quality service is of fundamental importance to us. It is what matters most to our customers and stakeholders. We are committed to improving the standard and consistency of our work and put in place a quality framework that specifies and reinforces the standards that we set ourselves. It helps us monitor and evaluate our performance: identifying areas where we can improve.

Our original internal quality measures were expressed as an index – one in which we aimed to demonstrate gradual improvement over time. Our aim was to exceed an index score of 80%.

We have, however, been in a transition period over the past year. We identified that our quality systems could better help us assure ourselves and others that our decisions were robust and fair, using customer experience as well as internal processes to help us judge our performance. We are still developing our new approach, using a risk and thematic based framework to allow us deeper insight and a more responsive approach. This is supported by strong internal processes.

At present our main external quality measure is our independent customer satisfaction survey. There is more work to be done on a broader measure; currently satisfaction survey results provide us with important feedback from our customers – both people who complain about legal services and lawyers in our jurisdiction – from which we are able to track and monitor our performance.

	Avg 2012–13		**April – June 2013**		**July – Sept 2013**		**Oct – Dec 2013**	
	Complainant	Lawyer	Complainant	Lawyer	Complainant	Lawyer	Complainant	Lawyer
Satisfied with outcome	97%	95%	100%	100%	100%	96%	90%	100%
Dissatisfied with outcome	42%	38%	44%	50%	41%	37%	18%	41%

As satisfaction results are collected quarterly in arrears the results for the quarter ending in March 2014 are not yet available.

Cost

We had two key targets for 2013-14; to remain within our budgeted expenditure and to achieve a unit cost of £2,000.

The total expenditure of the Ombudsman scheme for 2013-14 was £15.8m (2012-13: £16.6m), against a budget expenditure of £17.0m (2012-13: £17.0m). We set our annual budget following public consultation and taking into account expected demand forecasts. Our unit cost for 2013-14 was £1,950 (2012-13: £2,168). Our unit cost is calculated by dividing the total cost of operating the Ombudsman scheme by the number of cases we resolve in each financial year.

When we determined the 2013-14 budget of £17.0m we anticipated that case volumes would increase to around 8,500 cases per annum as a result of changes to our scheme rules in February 2013. It became clear early in 2013-14 that the anticipated increase in volume to the Ombudsman as a result of the scheme rules changes was not significant. Overall case volumes have been stable rather than increasing.

We undertook a review of the cost base during May and June 2013 to ensure that the unit cost target of £2,000 was not exceeded, to improve our efficiency, and to ensure that as a result the scheme would be in a stronger position to respond to an evolving external landscape. This resulted in a re-organisation in July 2013 which reduced the planned total expenditure for 2013-14 to £15.7m and resulted in a reduction in headcount by 44 roles as part of a three year goal to reduce our cost base year on year. This ongoing commitment to improving efficiency is reflected in our budget for 2014-15 of £13.9m.

We remain committed to ensuring value for money in the way we run our service and believe this demonstrates to our stakeholders that we remain committed to ensuring proper financial accountability.

	2011-12	2012-13	2013-14	Budget 2014-15
Budgeted expenditure of the scheme £'m	19.400	16.997	16.994	13.866
Actual expenditure £'m	17.304	16.657	15.831	-
Less non Ombudsman Scheme activity, taxation and interest received £'m	0.302	0.115	0.122	-
Total cost of the ombudsman scheme (A) £'m	17.002	16.542	15.709	13.866
Year on year cost reduction	-	2.7%	5.0%	11.8%
Cases resolved during the year (B)	7,455	7,630	8,055	8,000
Unit cost (A divided by B)	£2,281	£2,168	£1,950	£1,734
Year on year unit cost reduction	-	5.0%	10.1%	11.1%

Reputation

The objective of our reputation measure assesses how users of our service feel about the Legal Ombudsman and to what extent our stakeholders are satisfied that we engage with them enough. To gather this information we commission independent research to survey a sample of users of our service on their views, and satisfaction with our service, and to survey our main stakeholder groups

The key measures that inform our Reputation KPIs are:

- **Advocacy:** The percentage of respondents who are satisfied with the outcome of **their** case and would speak highly of the Legal Ombudsman without being asked / if asked. 93% of complainants and 60% of lawyers agreed.

The survey (conducted between August 2012 and July 2013) includes an indicator for how many of those who have had contact with us would recommend us to others, which we consider to be a significant measure of reputation:

Q. Which of these statements comes closest to how you feel about the Legal Ombudsman?

- *I would speak highly of the Legal Ombudsman without being asked*
- *I would speak highly of the Legal Ombudsman if asked*
- *I would be neutral when speaking about the Legal Ombudsman*
- *I would be critical of the Legal Ombudsman if asked*
- *I would be critical of the Legal Ombudsman without being asked*

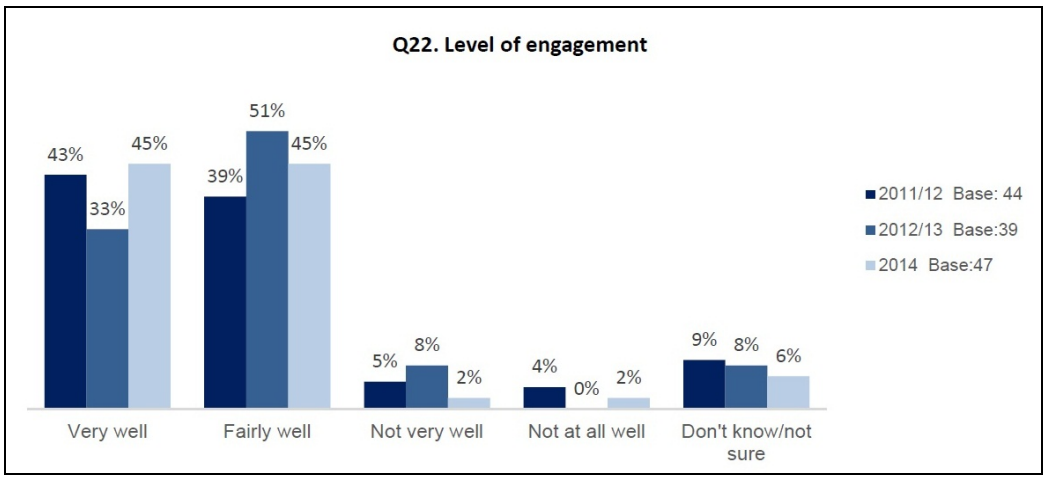
Detailed analysis of survey results has shown that, as is to be expected, satisfaction levels with elements of our service (including advocacy) are heavily influenced by complainants' satisfaction with the outcome of our investigations. To ensure that it is both an accurate and meaningful reflection of our reputation and can be reliably tracked over time, this measure has been developed to account for this unavoidable bias by reflecting levels of advocacy amongst service users who were satisfied with the outcome of their complaint. We have also chosen to report on the level of advocacy by those who were dissatisfied with the outcome of their complaint, as the two factors together give a more meaningful picture of performance.

Complainants	**Very / fairly satisfied with outcome**	**Satisfied with outcome**	**Very / fairly dissatisfied with outcome**
I would speak highly (4-5)	93%	59%	11%
I would be neutral (3)	5%	30%	19%
I would be critical (1-2)	2%	11%	70%

Lawyers	**Very / fairly satisfied with outcome**	**Satisfied with outcome**	**Very / fairly dissatisfied with outcome**
I would speak highly (4-5)	60%	30%	12%
I would be neutral (3)	32%	55%	26%
I would be critical (1-2)	8%	15%	62%

- **Stakeholder satisfaction**: The **percentage** of stakeholders satisfied with overall level of engagement. 90% of stakeholders surveyed agreed.

Reputation Indicator	**2011-12**	**2012-13**	**2013-14**
Percentage of stakeholders satisfied with overall level of engagement.	82%	85%	90%



Stakeholders are very positive about our overall levels of engagement with them. 90% of respondents said that we had engaged well with them and their team in 2013-14, representing an increase of 5% on the previous year, and 8% from the first survey two years ago.

This year, professional groups are most likely to believe that we engage with them and their team 'very well' (formerly it was consumer groups/charities).

However, there has been a strengthening on those saying that we engaged with them 'very well' compared with last year. 45% of stakeholders now believe that we engage with them very well compared with 33% in 2012-13.

Impact

We gather information for this impact measure through an annual survey (the last one was distributed in January 2014) of our stakeholder groups to assess their views about our service, and through an annual survey of the general public and users of legal services to assess the levels of awareness of the Legal Ombudsman.

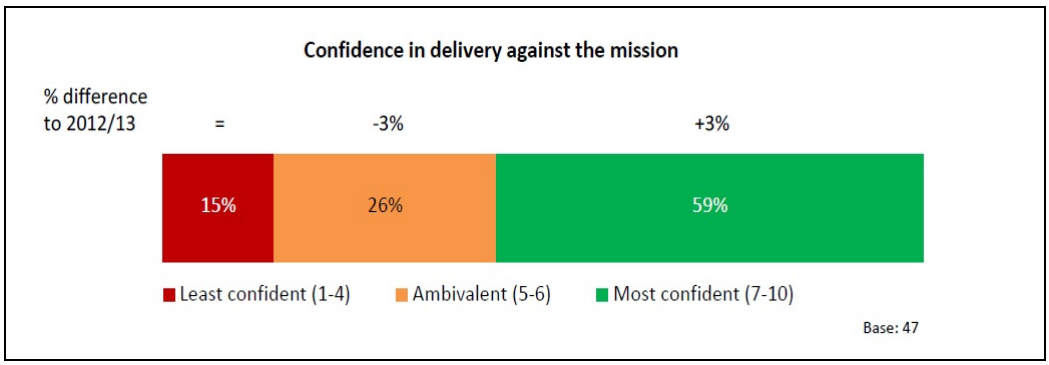
- **Stakeholder confidence:** 59% of our stakeholders are confident that we can deliver against our mission.

As part of our annual stakeholder survey we ask:

Q. How confident are you that the Legal Ombudsman is delivering against its mission:

"Our task is to run an independent ombudsman scheme that resolves complaints about lawyers in a fair and effective way, where we are shrewd and decisive when tackling complex issues and that is open so we can give focused feedback to help drive improvements in legal services."

Impact Indicator	2011-12	2012-13	2013-14
Percentage of stakeholders who have confidence in our delivery against our mission.	56%	56%	59%



59% of our stakeholders are confident that we can deliver against our mission.

Stakeholders speak more positively about the mission statement and believe that it feels more achievable and more realistic based on their understanding of what we deliver in terms of services.

- **Awareness:** 78% of users of legal services in the last two years had heard of the Legal Ombudsman

The annual awareness survey, which first took place in 2012, is designed to measure awareness levels of our service within the general public and users of legal services. The results are used to benchmark and track the impact of our communication and media activity and to identify any trends in awareness levels across demographic groups.

As part of our awareness survey we ask:

"Have you personally used and paid for a legal service in the past 2 years?"

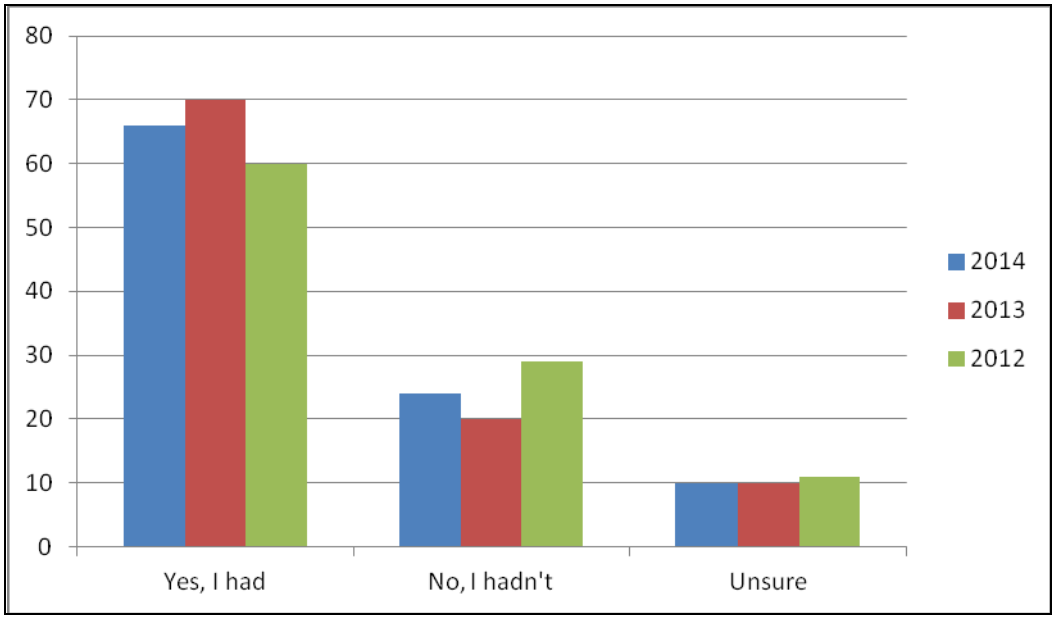
"Before today, had you heard of the Legal Ombudsman?"

Impact Indicator	2012-13	2013-14
Percentage of users of legal services in the last two years that have heard of the Legal Ombudsman	78%	78%

Respondents that had personally used and/or paid for a legal service in the past two years maintained the previous year's figure of 78%.

General awareness levels of the Legal Ombudsman (as opposed to recent users of legal services) have been tracked over the last three years and provide some interesting context to this measure.

Before taking this survey, had you heard of the Legal Ombudsman?



Base: 2014 = 1896, 2013 = 1839, 2012 = 1817 (All adults in England and Wales)

66% of all respondents surveyed said that they had heard of the Legal Ombudsman. This represents a decrease of 4% from 2013 but higher than the starting point for measurement of 60%.

Annual review

Board members' report

Members of the OLC are appointed by the LSB. They may be appointed for a fixed term of up to five years and may then be re-appointed for one further fixed term of up to five years. OLC members may be removed by the LSB only under the circumstances set out in Schedule 15 Section 8(2) of the Legal Services Act 2007, and the Chair may only be removed with the agreement of the Lord Chancellor. If the LSB thinks there are circumstances that make it right for a person ceasing to hold office as Chairman or another member to receive compensation, the OLC may pay that person such compensation as the LSB may determine. Board membership together with the terms of appointment are set out in the Remuneration report.

The OLC is supported by a Management Team, led by the Chief Ombudsman. The OLC has delegated relevant day to day authority to the Management Team, whose role is to deliver day to day operation of the Legal Ombudsman scheme. Further information about governance arrangements, including the report of the Remuneration and Nomination Committee, is set out in the Governance Statement.

Management commentary

The purpose of the Legal Ombudsman scheme is to provide a single gateway for consumers of legal services to channel their complaints while at the same time driving systemic improvement by feeding information and methods to improve back to the profession.

Review of the business

Our primary focus for 2013-14 was to deliver improvement in the efficiency with which we deliver our service, while maintaining the quality of our work.

We received 69,500 contacts (calls, letters and e-mails) (2012-13: 71,195). The number of complaints that were within our jurisdiction continued to reduce slightly from just over 20,000 to just under 19,500. We accepted 8,323 complaints for investigation (2012-13: 8,430) and resolved 8,055 cases (2012-13: 7,630 cases).

We had anticipated a demand for around 8,500 cases in 2013-14, however it became clear during the first quarter that this was unlikely to materialise. In May and June 2013 we undertook a review of our cost base in order to improve our efficiency, to take into account lower than planned volumes, and to ensure that the scheme is in a strong position to respond to an evolving external landscape. This resulted in a reduction in headcount from around 270 to 235 and the consolidation and reorganisation of some support functions.

Our longer term goals are:

1. To continue to improve our efficiency.
2. To implement changes to our jurisdiction and begin to resolve claims management complaints in 2014-15.

3. To help create an improved legal complaints handling system.
4. To replicate what we have learned more widely.

Future development, risks and uncertainties

We have worked with the MoJ over the last two years to enable provisions within the Legal Services Act 2007 which allow us to include CMCs within our jurisdiction. While this has taken some time to develop, these powers have now been enabled and we will be able to start taking complaints from 28 January 2015.

The cost of establishing and operating this new claims management activity are funded separately from our current legal services complaint handling activities. The implementation and operating budget was agreed with the MoJ in July 2014 and authority to proceed with the implementation was provided by the MoJ in November 2014.

In addition to providing consumers of these services with an opportunity for redress and encouraging the sector to improve its complaint handling processes, the extension of our jurisdiction to include CMCs will benefit existing stakeholders by providing economies of scale for the claims management regulator and existing approved regulators of the legal profession.

The initial 5 year term of our office lease ends on 2 March 2015. We decided, in order to continue to improve our unit cost, to move offices rather than to remain in our current premises. In August we formally gave notice to end our current lease and entered into a new lease at alternative premises which more closely match our needs and at lower cost. We moved to these new premises in January 2015 and will benefit from reduced premises costs throughout 2015-16 and beyond.

The principal risks and uncertainties facing the organisation, together with how these are managed, are set out within the Governance Statement below.

Performance, position and resources

The OLC budget for 2013-14 was just under £17.0m. Actual expenditure of the ombudsman scheme was £15.8m following restructuring of the cost base in July and August 2013.

The expenditure of the OLC is met from levy funds received from Approved Regulators on behalf of HM Treasury. Levy funds are paid directly to the OLC annually in arrears in March of each year. In March 2014 the OLC received £14.5m in levy funding relating to the financial year 2013-14 (2012-13: £15.8m).

Grant in Aid was provided by the MoJ as part of the implementation and set up of the organisation. No Grant in Aid was required in 2013-14 or 2012-13.

As a result of restructuring our cost base in July and August we incurred £0.6m in one off voluntary and compulsory redundancy costs. All redundancy payments made were in line with contractual notice periods and existing policies. We also, as a result of the reduction in headcount following the restructuring in July 2013, reduced the space which we occupy. To reflect this we have provided £0.3m for future rent commitments on those parts of our existing office space that we no longer require. We have impaired the cost of

the office equipment that is no longer in use to its residual value and have extended the remaining life of furniture and office equipment to reflect its expected longevity and use in the business.

Technology has moved on significantly in the last three years and our initial reviews of alternative systems and IT architecture have convinced us that different IT has the potential to improve our work. The ability to tailor our IT systems more closely to our business processes also provides an opportunity to increase the timeliness and quality of our work and at the same time to reduce the costs of what we do. We have initiated the upgrade of our case management system and anticipate that this will be completed during 2014-15.

Operational performance and activity

	2011-12	2012-13	2013-14
Contacts	75,420	71,195	69,500
Complaints	22,350	20,500	19,450
Less complaints where complainant has not yet used the lawyer's complaint procedure or which are outside of our time limits.	(13,699)	(11,567)	(10,541)
Less complaints resolved without investigation	(231)	(503)	(586)
Complaints accepted for investigation	8,420	8,430	8,323
Less complaints accepted but subsequently closed as not within our jurisdiction.	(965)	(800)	(704)
Reduction in work in progress	-	-	436
Cases resolved (complaints falling within our jurisdiction) *	7,455	7,630	8,055
- Of which resolved by Ombudsman Decision	2,717	2,990	3,059
Cost of the Ombudsman scheme* £'m	17.002	16.542	15.709
Unit cost	£2,281	£2,168	£1,950

Note: * Used for calculating our unit cost KPI.

We resolved just over 8,000 cases in 2013-14, up by just over 400 on the previous year. This was enabled by improved efficiency resulting in lower levels of work in progress. The underlying demand for full case investigations remains steady at between 7,600 and 7,700 cases per annum.

We do not include the 586 complaints that we are able to resolve without any need for an investigation (2012-13: 503 complaints), nor the 10,541 complaints where a complainant has not yet used the lawyer's complaint procedure or where the complaint is outside of our time limits (2012-13: 11,567 complaints) when calculating our unit cost KPI.

We accept complaints for investigation on the basis of what complainants tell us and once we have confirmed that the complainant has first used the lawyer's complaints procedure. Once we have spoken to the lawyer or obtained more evidence, we sometimes find either that the lawyer has not had an appropriate

opportunity to address the complaint directly, or that the complaint does not, after all, fall within our jurisdiction. Some 704 complaints, which we started to investigate, were closed down for this reason during 2013-14 (2012-13: 800 complaints).

To calculate our unit cost KPI we count only the 8,055 complaints that we have investigated and resolved which fall within our jurisdiction (2012-13: 7,630).

Key relationships

The OLC is directly accountable to the MoJ for its financial performance. This is because while the funding for the Legal Ombudsman comes ultimately from a levy on the legal profession, it is routed through Government and is therefore classified as public spending. However, along with our relationship with the MoJ, the OLC must also report our performance to the LSB, which also agrees our budget and performance targets.

Along with our formal governance relationships, the Legal Ombudsman has a broad range of external stakeholders encompassing regulators, other ombudsmen schemes and complaint handling bodies, professional associations, lawyers themselves, consumer groups/charities and government and judicial bodies.

The success of the Legal Ombudsman hinges in large part on raising the awareness of customers – lawyers, consumers and the bodies that communicate with them. Our success is not simply to exist; people must know that we are here. The profession itself is the most important referral point into the Ombudsman service. Consumer support bodies are also a key point of referral, particularly for complainants who require support to prepare their complaint. These two groups are the key audiences for explaining coming changes and the role of the Ombudsman scheme overall. A core part of our commitment is to make sure that the Legal Ombudsman is accessible to a diverse range of the population.

Gaining profile and exposure in professional circles continues to be essential – both for the reputation of the scheme and to enable the scheme to prepare for the coming changes to the legal landscape. The Legal Ombudsman has in place working arrangements with all of the Approved Regulators of legal services. These are set out in a series of memoranda of understanding (all available to view on the Legal Ombudsman website).

Key Performance Indicators

Our performance against our KPIs is outlined in the data and information section earlier in this report. This and other performance information is also available on the Legal Ombudsman website: www.legalombudsman.org.uk

Employees and social community issues

As at 31 March 2014, the Legal Ombudsman had 203 full time employees (2012-13: 262) and 18 part time employees (2012-13: 20). 65% of the staff complement were women (2012-13: 62%). 2.42% of working days were lost to sickness including absence for planned operations (2012-13: 2.5%).

The OLC and its employees strive to ensure that it has a positive impact on the local community, with increasing levels of involvement as our office and its culture develops. We are committed to meeting the different needs of both the legal community and the users of legal services, as well as our employees and suppliers. To this end we have sought, where possible, to ensure that local and smaller businesses have access to our procurement processes and we facilitate and encourage our employee's charitable fundraising initiatives as well as building links into the broader West Midlands community.

Environmental matters

The OLC is committed to working with its suppliers and employees to ensure that it takes proper account of the impact of all of its activities on the environment. Our office design, location, and infrastructure are designed to ensure sustainability. We have a city centre location, which means the majority of our employees use public transport. Our office is designed to be paperless – this is not only an efficient approach, but given the volumes of paper that lawyers and their clients can generate, is also an acknowledgement that as our service grows and develops, we must take a responsible and ethical view to the use of resources. We also do the small but important things such as encouraging recycling and minimising waste through catering and facilities management.

Sustainability reporting

The OLC is exempt from sustainability reporting requirements.

Equality, diversity and inclusion

The Legal Ombudsman is committed to building an inclusive workplace where staff respect and value each other and where equality and diversity working practices are instinctively taken into account in the way we communicate and behave towards each other, potential employees and our customers.

We are committed to ensuring we have a representative workforce that has a wide range of expertise and experience from a variety of backgrounds to enable us to provide excellent service delivery. We have undertaken an equality impact assessment of the recruitment process with a view to mitigating bias and ensuring greater consistency of practice. Coupled with this is our positive action strategy which aims to address under-representation in the workforce particularly in respect of younger and older workforce, based upon the Census 2011 findings.

Consistent staff engagement has occurred throughout the year on a number of policies, for example, the revised pay and performance policy and framework. Our flexible working policy aims to ensure that all employees are able to balance work with other aspects of their lives resulting in a positive impact on job satisfaction, productivity, and commitment. Our 2013 staff survey identified some gender disparities which we have sought to understand in subsequent focus groups so that we are clear on any specific barriers that employees face. We have an elected Staff Council to support colleagues in communicating with and being consulted more effectively by the Legal Ombudsman on employment matters.

We offer opportunities for internal progression and staff development and this enables us to continue to recruit and retain high performing staff.

Having undertaken a self assessment of our equality performance in 2013, our focus has turned to embedding equality in the organisational quality framework, using structured performance review systems to demonstrate significant improvements. This in turn will deliver enhanced improvements in respect of consumer access, experience, and outcomes. We also continue to understand how our equality data can be used to improve outcomes and the customer experience.

We have provided our staff with specific training and a range of support materials for them to use in developing their understanding of equality and diversity and to promote equality. To support this, we undertake equality assessments of our policies and procedures to understand the implications of protected characteristics for achieving equality in outcomes and service experience.

We are keen that we continue to build our relations with other ombudsman so that we collectively improve the ways in which equality standards and respect for human rights are achieved. To this effect, we initiated an Equality & Diversity Ombudsman Interest group to share good practice.

Payment of creditors

The OLC is committed to paying supplier invoices by the due date or within 30 days of receipt if no due date has been agreed, and to dealing with payment queries promptly and ensuring any undue delay is notified to the supplier in a timely fashion. 95% of invoices were paid within agreed terms and the average number of days taken to pay creditors was 13 days.

Pensions

The OLC has a defined contribution group personal pension scheme to which the OLC makes fixed contributions but has no other liabilities. During the year the OLC allowed employees to elect to sacrifice a proportion of their basic pay in return for correspondingly increased contributions to their pension scheme. The OLC makes matching contributions of twice the amount contributed by individual employees up to a maximum of 10%. Reductions in Employer National Insurance contributions resulting from this salary sacrifice arrangement are also contributed into the employee pension scheme as part of this arrangement.

Auditors

KPMG LLP has been appointed to provide Internal Audit services to the OLC. During the year to 31 March 2014 KPMG has indicated that the cost of internal audit work performed amounts to £54,488 (2012-13: £74,942) and this amount has been accrued for in the accounts.

The OLC's annual accounts are audited by the Comptroller and Auditor General (C&AG) in accordance with the Legal Services Act 2007 Schedule 15 Section 26(5). For the year to 31 March 2014 the C&AG has estimated that the cost of work performed will be £31,000 (2012-13: £31,000) and this amount has been

provided for in the accounts. The audit services provided by C&AG staff relates only to statutory audit work.

So far as the Interim Accounting Officer is aware, there is no relevant information of which the OLC's auditors are unaware. The Interim Accounting Officer has taken all the steps that she ought to have taken to make herself aware of any relevant audit information and to establish that the auditors are aware of that information.

Format of Accounts

The Accounts have been prepared in a form directed by the Lord Chancellor and Secretary of State for Justice with approval of HM Treasury and in accordance with the Legal Services Act 2007.

Ursula Brennan
Interim Accounting Officer
27 January 2015

Remuneration report

The remuneration of the Chief Ombudsman and the Board members is shown in the tables below and has been subject to audit. The Chief Ombudsman's benefits are disclosed below. In accordance with the Government Financial Reporting Manual (FReM) 5.2.13 d) only the Board members and the Chief Ombudsman are included in this report. Board members and the Chief Ombudsman are the individuals who influence the decisions of the OLC as a whole rather than the individual parts.

The Chair and other OLC Board members are remunerated by the LSB and the total remuneration paid to the OLC Board is disclosed in the accounts of that body. The Chief Ombudsman is remunerated by the OLC.

Member	Appointed	Terminates
Elizabeth France * (lay)	1 Nov 2011	31 Mar 2014
Margaret Doyle * (lay)	1 Feb 2012	31 Mar 2014
Mary Seneviratne*	1 Feb 2012	31 Mar 2014
Rosemary Carter*	1 Feb 2012	31 Mar 2015
Tony Foster (lay)*	1 Feb 2012	31 Mar 2015
David Thomas*	1 Feb 2012	31 Mar 2015
Karen Silcock (lay)	1 Feb 2012	31 Mar 2015
Maureen Vevers (lay)	1 Feb 2012	31 Mar 2015
Steve Green (lay)	1 April 2014	31 Mar 2017
Stella Manzie (lay)	1 April 2014	31 Mar 2017
Philip Plowden	1 April 2014	31 Mar 2017

* - Indicates that the member is in their second term of office.

Audited Section

	Board Remuneration		
	Annual Rate £	Year to March 2014 £	Year to March 2013 £
Elizabeth France (Chair)	70,000	70,000	70,000
Rosemary Carter	10,000	10,000	10,000
Margaret Doyle	10,000	10,000	10,000
Tony Foster	10,000	10,000	10,000
Professor Mary Seneviratne	10,000	10,000	10,000
David Thomas	10,000	10,000	10,000
Karen Silcock	10,000	10,000	10,000
Maureen Vevers	10,000	10,000	10,000

The Chair's remuneration reflects the significantly higher proportion of time which the Chair is contracted to spend on OLC matters. Details of expenses claimed by the OLC Board are published and publicly available on the Legal Ombudsman website.

There is no compensation payable for loss of office for Board members.

The Chief Ombudsman, Adam Sampson, was remunerated by the OLC as follows:

	Salary £	Salary Sacrifice Pension Scheme £	Pension £	Other Benefits £	Total £
Year to 31 March 2014	130,972	6,893	13,787	15,158	166,810
Year to 31 March 2013	129,675	6,825	13,650	15,299[1]	165,449

OLC operates a salary sacrifice pension scheme which allows employees to elect to sacrifice a proportion of their basic pay in return for correspondingly increased contributions to their pension scheme.

The Chief Ombudsman's contract provides for six months notice on either side.

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid individual in their organisation (excluding pension contributions) and the median remuneration of the organisation's workforce.

The annualised remuneration of the highest-paid individual in the Legal Ombudsman in the financial year 2013-14 was £153,023 (2012-13: £151,799). This was 4.8 times (2012-13: 5.2[2]) the median remuneration of the workforce in March 2014, which was £31,623 (2012-13: £29,290).

In 2013-14, no employees received remuneration in excess of the highest paid director (2012-13: none). Remuneration ranged from £13,304 to £153,023 (2012-13: £17,786 to £151,799).

Total remuneration includes salary, non-consolidated performance-related pay and benefits in kind. It does not include employer pension contributions and the cash equivalent transfer value of pensions. All employees are eligible for interest free season ticket loans which are repayable over 10 months or on leaving employment. All employees have an element of their remuneration allocated to a flexible benefits scheme and certain individuals have other specific benefits arrangements that form part of their total compensation.

The Chief Ombudsman's other benefits comprise a Total Remuneration Supplement allowance of £7,000 (2012-13: £7,000), a Flexible Benefit allowance of £4,136 (2012-13: £4,095) and benefit in kind of £4,022 (2012-13: £4,204).

All employees are subject to the organisation's pay policy. Under this policy Chief Ombudsman and Chief Executive (CE) remuneration is set by the OLC Board. Promotion or appointment of employees is approved by the Management Team and appointment or promotion of senior management roles by the CE. Promotion or appointment of Heads of Departments is reviewed and approved by the Remuneration and Nomination Committee.

[1] The year to 31 March 2013 figure has been restated to include benefits in kind that have not been disclosed previously.

[2] The pay multiples for the prior year have been recalculated to include amounts that are now deemed to provide benefits in kind.

Proposed performance related pay changes and any revalorisation of pay for senior managers and for the OLC as a whole is reviewed and approved by the Remuneration and Nomination Committee.

During the preparation of these Accounts the OLC identified some issues relating to expenditure incurred by the OLC's then Accounting Officer and CE, Adam Sampson, specifically that there was expenditure identified that has been considered novel and contentious. These issues are described in detail in the Governance Statement (pages 35 to 49).

Several items of expenditure incurred by Mr Sampson that I have considered to be novel and contentious have tax implications because they provide a benefit in kind. The amounts that relate to the 2013-14 and 2012-13 financial years have been included in this Remuneration report. Expenditure now deemed to provide a benefit in kind made to Mr Sampson which was incurred between 2009 and 2012 and not included in the previous Remuneration reports totals £3,772.

Additionally, within Mr Sampson's expenditure, £670 was identified as a benefit in kind for members of the Board, and £1,040 was identified as a benefit in kind for other OLC staff (incurred in 2009 and the first half of 2010). These amounts relate mainly to food and drink and tax will be accounted for where necessary by the OLC under the employer PAYE Settlement Agreement.

In addition to the historical benefit in kind payments not disclosed in previous Remuneration reports, Mr Sampson received travel expense allowances between 2009 and 2012 totalling £10,600. The taxation implications of the amounts provided to Mr Sampson over the last five years, which have now been deemed to be benefits in kind or additional allowances, are currently under review. The amount of the tax liability and penalties has not yet been determined. Action will be taken by the OLC to ensure that the appropriate tax is paid.

As part of the review of Mr Sampson's expenditure and the identification of benefit in kind payments, the OLC also identified several items of expenditure incurred by him, primarily travel related, which have been deemed to be outside the scope of the OLC's expenditure policies. The OLC intends to recover this expenditure and are in discussions with Mr Sampson. The amounts the OLC intends to recover are included within the other benefits amounts disclosed above.

These findings have demonstrated that internal controls in respect of certain aspects of expenses and remuneration were not adequate, and as a result the OLC is undertaking a thorough review of remuneration paid to all senior staff to ensure that all amounts have been correctly identified, recorded, disclosed and authorised. The OLC will also review its internal controls in respect of payments made to senior staff and also its governance in relation to these areas, and will seek to learn from best practice in other organisations.

Ursula Brennan
Interim Accounting Officer
27 January 2015

OLC and Accounting Officer's responsibilities

Under the Legal Services Act 2007 the Lord Chancellor and the Secretary of State for Justice, with the approval of the HM Treasury, in accordance with the OLC's financial memorandum, has directed the OLC to prepare for each financial year a Statement of Accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the OLC and of its net expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by the Lord Chancellor, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

The MoJ appointed the CE as Accounting Officer of the OLC. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the OLCs assets, are set out in the Accounting Officer Memorandum issued by the HM Treasury (published in Managing Public Money).

Subsequent to year end, the CE's delegation as Accounting Officer was removed, and the Permanent Secretary of the MoJ (the sponsoring department) assumed the responsibilities of the Accounting Officer for the OLC. See the Governance Statement for further details.

Governance Statement

The OLC's governance framework

The governance statement sets out the basis on which the OLC is governed and managed; and how it is accountable for what it does; it identifies the risk management processes, major risks and the effectiveness of the governance and risk arrangements.

Accountability of the OLC

The OLC is a statutory body accountable to both the MoJ and the LSB.

The LSB has a number of responsibilities in respect of the OLC:

- With the consent of the Lord Chancellor, to appoint and if necessary remove the OLC Chair.
- After consultation with the Chair, to appoint and if necessary remove the other members of the Board.
- Remunerate the OLC Chair and members of the Board.
- Give consent to scheme rules made by the OLC, and where necessary, direct the OLC to take steps to modify its scheme rules.
- Make rules in consultation with the OLC providing for the imposition of a levy on leviable bodies.
- Approve the annual budget of the OLC, and any subsequent variations to it.

The relationship between the LSB and OLC is governed by a memorandum of understanding, which reflects the respective bodies' independent and separate functions, and facilitates constructive communication, co-operation and co-ordination in the performance of the bodies' respective responsibilities. The memorandum of understanding, which is publicly available on both the LSB and OLC websites, details the core principles underpinning the relationship, and the detailed arrangements for:

- Budget management.
- Scheme rules.
- Performance monitoring and reporting.
- Information exchange.
- Communication.

In respect of the annual budget approval, the OLC provides a budget submission to the LSB with the Accounting Officer and appropriate board members or Legal Ombudsman employees attending LSB meetings to provide any reasonable assurances on the appropriateness of the budget.

The scheme rules and any changes to them must be approved by the OLC and then the LSB. In order to provide assurance that any rules are appropriate and provide a framework for the scheme to operate fairly, impartially and reasonably, and to adhere to good practice of Ombudsman schemes, the OLC

undertakes consultation with key stakeholders including the legal profession and consumers groups.

The OLC and LSB have formed a sub-group of executive and non-executive staff who meet quarterly to review Legal Ombudsman performance and the setting of key performance indicators and targets.

Information exchange and communication is facilitated by the executive teams of both bodies. This is augmented by the Chairs and Chief Executives of the LSB and OLC meeting on a regular basis to discuss issues of common interest and to ensure that the LSB can secure assurances during the course of the year as to the discharge of the OLC's duties. The Chairs of the bodies' respective Audit and Risk Committees also meet regularly to discuss areas of mutual risk and relevant mitigations. Both the LSB and OLC Boards meet jointly on a regular basis.

As an independent organisation sponsored by the MoJ, the OLC also has responsibilities directly to that Department. Both the LSB and the OLC's Framework Documents make reference to these so that there is no confusion over where responsibility for ongoing financial oversight (the MoJ) or OLC performance (the LSB) lies.

Members of the OLC are required to abide by key elements of the LSB's *Governance Manual*, including the Code of Practice, and policies on expenses, gifts and hospitality and interests.

Under the funding agreement between the OLC and the MoJ, the OLC has the authority to incur expenditure as agreed without further reference to the MoJ, however it must comply with the requirements of the Framework Document (within specified delegated limits), as well as the requirements of HM Treasury's Managing Public Money. Specifically, the OLC must obtain the MoJ's prior written approval before incurring expenditure for any purpose that is or might be considered novel and/or contentious, or which has or could have significant future cost implications.

As set out below under 'Issues identified with the Total Remuneration Supplement scheme' and 'Issues identified with the Flexible Benefits Scheme', certain OLC remuneration arrangements were conceived, designed, implemented and operated without obtaining the MoJ's prior written approval. I have subsequently determined that these schemes are novel and contentious and have decided not to retrospectively approve the payments made under them. The total amounts paid under these schemes are therefore considered irregular expenditure, meaning they are outside the ambit of expenditure approved by Parliament.

Appointment and termination of OLC members

On 31 March 2014 three OLC members, Elizabeth France (Chair), Margaret Doyle and Mary Seneviratne completed their second terms of office. Under the OLC's governance arrangements board members may serve only two consecutive terms of office. Hence these individuals were not eligible for re-appointment. During 2013-14 there were no other amendments to the OLC membership.

Three new OLC members were appointed with effect from 1 April 2014 for a three year term ending on 31 March 2017. These OLC members are Steve Green (Chair, lay member), Stella Manzie CBE (lay member) and Professor Philip Plowden (non-lay member).

A table of OLC members for 2013-14 and new OLC members, together with the term of their appointment, is set out in the Remuneration report.

Board performance and corporate governance

Schedule 15 Section 1 of the Legal Services Act 2007 requires that the OLC is to consist of a Chairman and at least six but no more than eight other persons. It must have a lay majority and reflect the experience and knowledge set out in Schedule 15 Section 4.

OLC meetings were fully compliant with the other requirements of its governance arrangements and rules of procedure. 11 OLC meetings took place during 2013-14 and the following table records the attendance of OLC members during this period.

Members' attendance at OLC meetings 2013-14

Elizabeth France (Chair)	Attended 11 of 11
Rosemary Carter	Attended 10 of 11
Margaret Doyle	Attended 11 of 11
Tony Foster	Attended 11 of 11
Professor Mary Seneviratne	Attended 11 of 11
David Thomas	Attended 10 of 11
Karen Silcock	Attended 10 of 11
Maureen Vevers	Attended 10 of 11

Members of the OLC have self-assessed their roles and performance throughout the year, both collectively and through individual discussions with the Chair, and have concluded as a result that the OLC has been, and remains effective. This activity will be ongoing to allow members to enhance their future contribution to the stewardship of the OLC.

The OLC is duty bound to comply with the Corporate Governance in central government departments Code of Good Practice 2011. As a statutory body the OLC complies with the Code where it is deemed practical and relevant to its circumstances.

During this year, the OLC has received assurance from the organisation's independent internal auditors. Details of the work undertaken and the internal auditor's opinion are set out later in this statement.

Other Committees

The OLC is supported in its stewardship by two sub-committees:

Audit and Risk Committee

The Audit and Risk Committee is responsible for reviewing the establishment and maintenance of an effective system of integrated management control of risk across the whole of the organisation's activities. During the period April 2013 to March 2014 four Audit and Risk Committee meetings took place and the following table records the attendance of committee members during this period.

Members	Meeting attendance 2013-14
Tony Foster (Chair from 1 April to 30 September 2013)	Attended 4 of 4
Karen Silcock (Chair from 1 October 2013 onwards)	Attended 3 of 4
Mary Seneviratne	Attended 4 of 4

Audit and Risk Committee report

During this financial year the committee agreed internal and external audit plans and received updates from both internal and external auditors on the effectiveness of the organisation's internal control systems. During the year a revised risk management approach was developed and implemented by the executive management in consultation with the Chair of the committee. This has been approved by this committee and the OLC. The Audit and Risk Committee review the risk system and the risk register as part of each meeting. The OLC also review the risk register periodically.

The committee also fulfilled the important role of agreeing the annual Governance Statement, overseeing key financial and budgetary matters and draft and final statutory accounts prior to ratification by the OLC and presentation to the LSB.

Audit and Risk Committee members and attendees also completed a self assessment review of its effectiveness based on the January 2012 National Audit Office publication "*The Audit Committee Self Assessment Checklist*".

On a personal note, I would like to thank all those who have shown such commitment to the work of our Committee, committee members, the management team and their staff, and our internal and external audit partners.

Karen Silcock
May 2014

Remuneration and Nomination Committee

The Remuneration and Nomination Committee is responsible for the overall remuneration approach and policy relating to all members of staff working within the Legal Ombudsman scheme. During the period April 2013 to March 2014 four Remuneration and Nomination Committee meetings took place and the following table records the attendance of committee members during this period.

Members	Meeting attendance 2013-14
Rosemary Carter (Chair)	Attended 4 of 4
Margaret Doyle	Attended 4 of 4
Maureen Vevers	Attended 4 of 4

Remuneration and Nomination Committee report

Foreword

I am pleased to present the fifth annual report of the OLC Remuneration and Nomination Committee. The committee was set up in May 2009 and is responsible for implementing and reviewing the human resources strategy across the whole of the organisation's activities.

During the year the work of the committee has continued to review the range of HR policies and procedures to ensure that they remain relevant and in line with best practice. However, the committee has focused in particular on two major pieces of work: supporting the management efforts substantially to reduce unit costs through a restructuring process; and reviewing and overhauling the pay and progression structure. In addition, the committee has retained a particular focus on equality and diversity, seeking to build on the good progress made in previous years.

The committee has continued to support management in their fulfilment of their duties but offer challenge and advice where necessary. The committee is presented with a comprehensive range of management information to enable it to exercise its proper scrutiny and governance function.

Along with acknowledging Tony Foster's departure from the committee (albeit not the OLC), I would like to extend my personal thanks to Margaret Doyle, who has been a member of the committee from the start and whose input, particularly in the area of equalities and diversity has been invaluable. Finally the committee extends its grateful thanks to Legal Ombudsman staff for their support of the work of the committee.

Rosemary Carter
May 2014

OLC oversight of the Legal Ombudsman

The OLC met together 11 times during the year with the CE, Chief Operating Officer, Head of Policy & Communications and General Counsel. One of the meetings is specifically dedicated to considering strategy. Meetings are held in an open, consultative way and the management team are transparent about the organisational issues with which they are dealing and with the performance of the organisation. The OLC is briefed on matters of strategic importance and materiality and asked to verify or make decisions in these areas. The management team have a good record of accountability and of delivering actions agreed by the OLC.

The OLC receives monthly reports on organisational performance and financial performance and quarterly updates on key issues for the business such as risk, human resources and legal challenges. The OLC reviews a suite of internal and externally reportable KPIs. These external KPIs provide stakeholders with an effective overview of Legal Ombudsman performance. Further details can be found in the OLC's published business plan.

Any changes to organisational design are discussed with, and where appropriate, agreed by the OLC. During the year and as part of the wider re-organisation the organisation has reviewed its senior management structure.

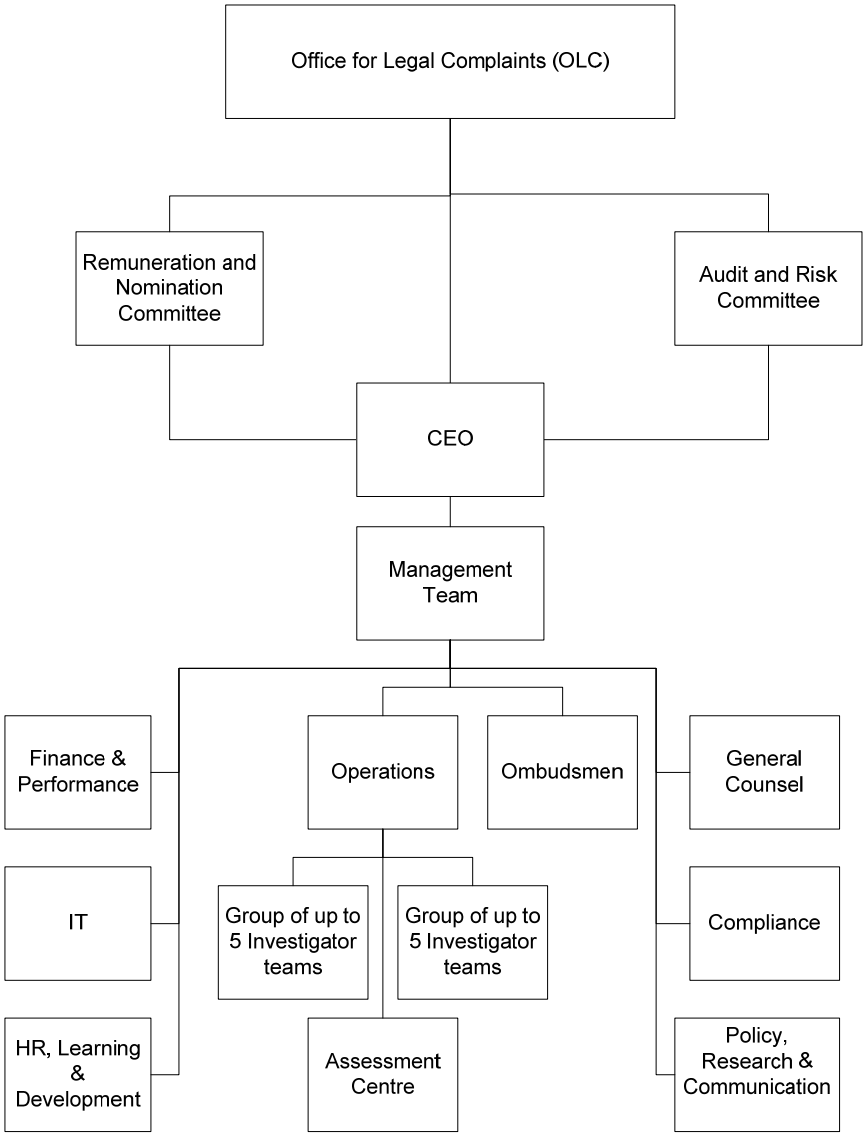
The OLC was consulted upon and approved these changes as part of their approval of the wider re-organisation.

OLC members shadow key areas of the business and form links with relevant LSB members. These continue to prove fruitful in areas such as KPI development, IT strategy, and Quality and Risk Management.

The OLC considers the quality of data provided to it to be acceptable. While there are routine reports provided to the OLC, the format and content of information evolves to include new issues as these arise, or to continually improve the content and relevance of information provided. Board papers are reviewed by executive management prior to distribution to ensure that these are of appropriate quality.

Executive management of the Legal Ombudsman

Executive management of the Legal Ombudsman is delegated to the CE who is also the Chief Ombudsman. The CE is supported by a Management Team which comprises the Chief Operating Officer and other senior mangers responsible for each of the core functions of the organisation. The Management Team meets regularly to discuss strategic and operational issues and performance and take relevant decisions.



Operationally each area of the business ensures effective communication is maintained through a variety of meetings, forums and one to one sessions. Communication across the organisation is further facilitated by all staff presentations, a daily updated intranet hub and the use of audio visual displays around the office.

Risk management and key risks

The Corporate risk register was revised during the year. This now identifies "Risk Assurance measures" which are used to identify activities or occurrences which might indicate a heightened risk. Risk measures are reported using a Red, Amber, Green (RAG) status based on pre-agreed thresholds for each measure. In addition the register identifies specific areas of risk ("risk elements") where control and monitoring are required.

Each risk element is given a one to five "Risk Status" level which identifies how urgent, or how much effort and resource is required to further mitigate the risk. Each risk element also has an "Action Status" which identifies whether the action required is on target to be delivered within the planned timescale.

The OLC reviews risks regularly, normally quarterly. It is confident that it has robust systems in place to recognise and mitigate risk. All staff are encouraged to report risks for inclusion on functional risk registers. The Management Team reviews the corporate risk register monthly whilst the Audit and Risk Committee and OLC reviews all risk assurance measure indicators, plus the planned activity for any risk elements where substantial mitigating action is required.

Management team members are accountable for monitoring and evaluating specific risk measures and risk elements which are then reviewed collectively by the management team each month. Any element where more than minor housekeeping activity is required are reported to the OLC Board and Audit and Risk Committee, as are any risk elements where the planned activity is not expected to be delivered within the previously reported planned timescale.

This revised format provides greater accountability for and visibility of risk and also provides a more effective reporting of action plans in place to manage risks.

The OLC currently has three risk elements where these risks require some material rectification or further enhancement action and one risk measure which indicates a higher than desired level of risk:

- Reliance on a key supplier: The organisation is reliant on a key supplier for the delivery of its outsourced IT infrastructure. While effective business continuity plans are in place to mitigate the impact of major IT hardware and network failures these plans do not mitigate the risk that the IT supplier's business fails because both primary and backup infrastructure is currently provided by the same supplier. The supplier has also recently moved the backup IT infrastructure solution to a new location and a full test of the backup, while planned, has not yet been performed. While some of this risk will be mitigated as part of plans to renew its core case management system the desired mitigation of this risk has not yet been achieved. This remains an area of focus.
- Changes to our existing jurisdiction: We need to ensure that proposed changes to our existing jurisdiction do not undermine our ability to continue to deliver a high quality complaint handling service for our existing stakeholders. At the same time, in order to ensure that the business remains relevant, we also need to ensure that the Ombudsman scheme is best placed to provide relevant complaint handling services that will be required as a result of the European ADR Directive.

- Key projects do not deliver to time or budget: There are four significant projects which need to be delivered during 2014-15.
  - First, subject to final approvals we anticipate we will need to recruit and train dedicated teams to take complaints about CMCs and then to start taking those complaints. We will need to configure some of our IT systems to enable some aspects of this new activity.
  - Second, we need to implement an improved case management IT system and as part of this implementation to review and improve our current business process in order to deliver the efficiencies potentially available from this new technology.
  - Thirdly, we need to relocate the organisation to new offices within Birmingham prior to the end of the initial term of our lease on 2 March 2015.
  - Finally, we need to re-procure, and if required, transition our IT infrastructure to a new provider by 30 June 2015. This provides an opportunity for significant enhancements in cost and functionality, but will also require careful management in order to avoid business disruption.

In order to mitigate and manage the combined risk of these projects a programme management office will be established as these projects are initiated.

Other key risks to the delivery of our financial plan were communicated as part of the budget setting process. These focus on the potential impact of the following issues:

- Investigator efficiency being lower than planned leading to the need to recruit additional Investigators to prevent a backlog of cases from developing.
- Higher than planned call and case volumes resulting in the need to increase headcount to respond to increased demand.
- Lower than planned case volumes resulting in the need to reduce headcount in order to prevent unit costs from increasing significantly.
- Large legal costs arising from Judicial reviews.
- Staff turnover varying significantly from budgeted plans.

The OLC is updated monthly on these issues as part of the reports that it receives and discusses with the executive. These risks are also covered within the corporate risk register.

The Legal Ombudsman has in place strong information assurance systems. During 2013-14 there were seven near misses and the loss of one encrypted laptop. These near misses and the loss of the laptop was duly reported to the Audit and Risk Committee and the Senior Information Risk Owner (SIRO). As the laptop was encrypted and contained no personal data we do not consider this to constitute a breach of information security.

Performance

The Accounting Officer has responsibility for reviewing the effectiveness of the system of internal control. The review of the effectiveness of the system of

internal control is informed by the work of the internal auditors and the executive managers within the Legal Ombudsman who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

KPMG has delivered seven audits in total during 2013-14. Six of the seven planned reviews for 2013-14 were completed (one with an amended scope to reflect business changes).

One audit was deferred and one additional audit was requested. These changes were agreed to ensure that the work of internal audit was flexed to address changing business risk. The Audit Committee initially agreed to an input of 41 days in total. In total 50.5 days have been delivered during 2013-14.

Implementation dates have been agreed for all recommendations as part of the reporting protocol. In addition, management report progress on the implementation of recommended improvements on a regular basis to the Audit Committee.

KPMG have issued the following assurance opinion for 2013-14 to the OLC:

‘We have reviewed the Office for Legal Complaints systems in accordance with the 2013-14 Internal Audit plan.

We are satisfied that we can provide reasonable assurance as to the adequacy and effectiveness of the Office for Legal Complaints internal control and governance processes within the areas of Financial Systems, Complaints Handling, Human Resources Service Complaints, and Business Continuity and Disaster Recovery.’

The Audit and Risk Committee has reviewed the management responses and actions in response to the audits. The internal audit work performed and the KPMG annual report and opinion provide adequate assurance that sufficient and effective controls are either in place or being implemented to address the current level of activity.

Accounting Officer of the OLC

Subsequent to the year end, as Principal Accounting Officer (PAO) of the MoJ, the sponsoring Department of the OLC, I was alerted by the Chair of the OLC to potential issues with expense claims and credit card expenditure incurred by the OLC’s CE and Accounting Officer, Mr Adam Sampson. These potential issues came to light as a result of anonymous correspondence that was received by the OLC, LSB, the MoJ and the National Audit Office (NAO).

In order to properly investigate these potential issues, the MoJ, in co-operation with the OLC Chairman and Non-Executive Directors, undertook a detailed review of all CE expense claims processed and credit card expenditure incurred since the inception of the OLC, to 31 March 2014.

The review identified a number of specific issues both within the expense claims and the credit card expenditure, as well as a general lack of appropriate oversight, approval and control of expenses incurred by the CE during this period. The specific issues identified are detailed under the ‘Issues identified in Chief Executive expenses’ sub heading below.

The review also identified issues with a benefits scheme implemented by the OLC and paid to the CE and other senior members of staff, as well as a benefits scheme that was paid to all staff. The specific issues identified are detailed under the 'Issues identified with the Total Remuneration Supplement scheme' and the 'Issues identified with the Flexible Benefit Scheme' sub headings below.

As PAO of the OLC's sponsor Department, I am responsible for delegating Accounting Officer responsibilities to relevant Chief Executives of Agencies and Arms Length Bodies and where it may be relevant, withdrawing them. One of the responsibilities of an Accounting Officer is to sign the Annual Report and Accounts of the organisation for which they are responsible.

The presence of the issues detailed below, caused me significant concern and raised questions as to whether Mr Sampson was a fit and proper person to continue in his role as Accounting Officer of the OLC. As such, I took the decision on 13 November 2014 to suspend Mr Sampson's Accounting Officer delegation whilst I awaited representations from Mr Sampson on the issues identified by the review. I was subsequently appointed Accounting Officer for the OLC on 14 November 2014 by HM Treasury on an interim basis in the intervening period. Following my decision to suspend Mr Sampson's Accounting Officer delegation, the OLC Chairman on behalf of the OLC Board, independently took the decision on 19 November 2014 to also suspend Mr Sampson from his role as CE of the OLC.

Following receipt of Mr Sampson's representations on the issues identified and after careful consideration of these against the evidence obtained during the review, I took the decision to formally remove Mr Sampson's delegation as Accounting Officer of the OLC on 8 January 2015 on the basis that I did not consider he was a fit and proper person to retain this responsibility. For this reason, I am signing the 2013-14 Annual Report and Accounts in my capacity as interim Accounting Officer of the OLC.

Issues identified in Chief Executive Expenses

During the period from 1 July 2009 to 31 March 2014, Mr Sampson incurred expenditure that I have since deemed to be novel and contentious. The full quantum of this is shown in the table below.

Travel	
London – Birmingham travel during season ticket arrangement	10,600
London – Birmingham travel after season ticket arrangement	10,152
Other travel	760
Total travel	**21,512**
Other expenditure	820
Total expenditure	**22,332**

Details of how the expenditure was incurred and my reasons for determining that it was novel and contentious are set out below.

Travel expenses between London and Birmingham

The review determined that during the 2009-10, 2010-11 and 2011-12 financial years, an arrangement was in place that, with effect from 1 January 2010, 'deemed' Mr Sampson to be living in Birmingham (where the OLC offices were based from January 2010) despite him only spending up to two nights a week in Birmingham away from his London home. This arrangement was negotiated principally between the then Chair of the OLC Board and Mr Sampson.

This arrangement allowed Mr Sampson to claim travel expenses between London and Birmingham provided there was a specific business purpose for the journey. Under this arrangement Mr Sampson was initially able to claim £100 for each return journey he made between London and Birmingham.

It was documented that this arrangement was in place to 'reimburse' Mr Sampson for the cost of season tickets that he had purchased at his own expense. Between January 2010 and July 2011, a total of £10,600 was claimed by Mr Sampson under this arrangement.

The principles and application of the arrangement continued to apply after the season ticket expired, with subsequent travel between London and Birmingham being claimed either via an expense claim form, or paid for by Mr Sampson directly, using his OLC corporate credit card. Between July 2011 and March 2014 a total of £10,152 was claimed by Mr Sampson under this arrangement. This is dealt with further under the heading 'Travel and other expenses' below.

I have concluded that the design of this arrangement, its implementation, operation and the amount of £10,600 claimed under it, are of a novel and contentious nature for the following reasons:

- It assumed Mr Sampson to be 'deemed' to be living in Birmingham when he typically only spent up to two nights a week in Birmingham away from his London home for the duration of the arrangement;
- It concerned journeys that not only involved attendance at business meetings but travel that was preceded or followed by his return to his home in London where he continued to live with his family during the week;
- It involved the reimbursement of notional rather than actual travel expenses as Mr Sampson was travelling using his season ticket which the OLC Board had refused to pay for; and
- Payments were made to Mr Sampson without him providing sufficient third party evidence that supported the business purpose of the journeys.

Under the Framework Document between the OLC and the MoJ, and HM Treasury's Managing Public Money guidance, spend that is of a novel and/or a contentious nature requires approval from the sponsoring Department and subsequent formal approval from HM Treasury. As the PAO of the MoJ, the OLC's sponsoring Department, I have decided not to retrospectively approve the amounts claimed under the arrangement. As such, the £10,600 claimed by Mr Sampson under this arrangement is considered to be irregular expenditure, meaning it is outside the ambit of expenditure approved by Parliament.

Travel and other expenses

As referred to above, in addition to the £10,600 of travel expenses, a further £10,152 of travel expenses were claimed after Mr Sampson's season ticket expired under the principles that applied to the season ticket arrangement. The review also considered all other instances of travel and other expenses incurred by Mr Sampson on his OLC corporate credit card, or claimed by him for reimbursement. As a result of this review I have deemed the £10,152 claimed under the conditions of the arrangement described in the section above, together with a further £760 of other travel expenditure and £820 of other expenditure, incurred between July 2009 and March 2014, not to be claimable because they:

- Lacked sufficient third party, independently verifiable evidence to support the expenditure incurred; or
- Were supported by sufficient third party, independently verifiable evidence but no clear business purpose for the expenditure could be determined from the evidence that existed.

Given that these expenses lacked sufficient evidence or were not for a clear business purpose, I have also concluded that these amounts are of a novel and contentious nature and I have decided not to retrospectively approve them. As such, the £10,152 of travel expenses claimed after his season ticket expired under the principles that applied to the season ticket arrangement, together with the £760 of other travel expenditure and the £820 of other expenditure, incurred during the period between July 2009 and March 2014, a total value of £11,732, is considered to be irregular expenditure.

Taxation implications

The £10,600 claimed in total by Mr Sampson under the travel expenses arrangement while he held a London to Birmingham season ticket are deemed to be a taxable allowance. These amounts should have been disclosed as part of Mr Sampson's remuneration, but they were not included in the Remuneration reports published in the years they were incurred.

In addition, the total of £11,732 comprised of elements of travel and other expenses identified above that I have deemed to not be claimable, have benefit in kind tax implications. These have been presented as such in the Remuneration report contained on pages 31 to 33.

The expense amounts were not subject to the correct tax treatment at the time they were claimed or incurred and it is likely penalties and interest will be added to the tax due. The exact tax implications of these payments are under review in conjunction with HM Revenue and Customs and action will be taken to ensure the appropriate tax, along with any penalties, are paid.

Issues identified with the Total Remuneration Supplement scheme

The review undertaken of CE expenses also looked at the total remuneration of the CE, in particular the presence of the 'Total Remuneration Supplement' (TRS) which was paid in addition to the CE's salary. The TRS scheme was incorrectly named in prior Annual Reports and Accounts as a 'Travel Remuneration Supplement' and formed part of other benefits paid to the CE in addition to his salary.

The TRS scheme has been in place since the 2010-11 financial year and it has applied to the CE and other senior members of staff. A total of £348,109 (as at 31 March 2014) has been paid by the OLC under the scheme since its inception. The review identified that the scheme was intended to act as a benefit in addition to salary and was believed by the OLC at the time it was introduced to be necessary to attract and retain the best candidates nationally to senior posts within the organisation.

The review identified that the TRS supplement was not a contractual pay element for employees who received it, including the CE. Under HM Treasury's Managing Public Money guidance, payments which, though not legally due under contract, appear to place an obligation on a public sector organisation which the courts might uphold, are deemed to be extra-contractual payments. Extra-contractual payments are in turn defined under HM Treasury's Managing Public Money as 'special payments' which require approval by sponsoring Departments (within specified delegated limits) and HM Treasury. The review confirmed that the OLC did not seek specific approval for the TRS scheme before it was introduced in the 2010-11 financial year or at any time since.

As PAO of the OLC's sponsoring Department, I have considered the manner in which the TRS scheme was conceived, designed, implemented and operated. I have concluded that the scheme itself and all amounts that have been paid under it are of a novel and contentious nature, and I have decided not to retrospectively approve the total payments made under the scheme since its inception, to the balance date. As such, the total amount paid under the scheme from inception to the balance date of £348,109 is considered to be irregular expenditure.

Taxation implications

The £348,109 in TRS payments has had the appropriate tax treatment applied; as such there is no tax liability.

Issues identified with the Flexible Benefits Scheme

When establishing the Legal Ombudsman Scheme in 2009-10 the OLC considered that the organisation's remuneration package should provide an element of employee choice and flexibility in order to attract and retain the right people. In establishing remuneration packages the OLC therefore included a Flexible Benefits Scheme (FBS) as part of the organisation's remuneration. When initially discussed by the OLC it appears that they were considering a scheme that operated on a salary sacrifice basis.

The FBS is available to all members of staff. Under the scheme employees are able to access a range of benefits that are available under the scheme. The OLC funds the cost of these benefits up to a maximum of 3% of employees' base salary. It is made available to staff over and above their base salaries. For taxation purposes this additional 3% is subject to PAYE and NI taxes in the normal manner. Although included in employees' remuneration packages, for administrative reasons the FBS could not be made available to employees prior to September 2011. To compensate employees for the loss of these benefits during the period from 1 April 2010 until September 2011 the OLC made one off payments equal to 3% of employees' basic pay. The FBS was implemented in full in September 2011. A total of £874,940 (as at 31 March 2014) has been paid by the OLC since 1 April 2010.

I believe the FBS is novel and contentious as there is clear evidence that this was not a salary sacrifice scheme but rather a scheme for paying additional benefits, up to 3% of salary, on top of base salaries. Furthermore, it was never formally agreed with the MoJ.

Under the Framework Document between the OLC and the MoJ, and HM Treasury's Managing Public Money guidance, spend that is of a novel and/or contentious nature requires approval from the sponsoring Department and subsequent formal approval from HM Treasury.

As was the case with the TRS scheme, the review confirmed that the OLC did not seek specific approval for the FBS before it was implemented in September 2011 or at any time since. I have decided not to retrospectively approve the total payments made under the scheme. As such, the total amount paid under the scheme from inception to the balance date of £874,940 is considered to be irregular expenditure.

Taxation implications

The £874,940 in FBS payments has had the appropriate tax treatment applied; as such there is no tax liability.

Improvement activities

The presence of the issues identified above has demonstrated that processes and controls in relation to CE expenditure and some elements of remuneration within the OLC are not sufficient. As a result, the OLC Chairman and Non-Executive Directors, in co-operation with the MoJ, are in the process of undertaking a comprehensive review of all key financial processes and controls throughout the organisation, not just those relating to CE expenditure and remuneration, with the aim of gaining assurance that no other such issues exist.

This work will incorporate a risk based review of internal governance and oversight structures, along with the operation of the key Committees, and, where necessary, will seek to implement enhanced processes and controls, drawing on best practice from other organisations. As interim Accounting Officer of the OLC, and as PAO of the OLC's sponsoring Department, I will make a formal assessment of this review and will take such action as is necessary to mitigate against any such issues arising again in the future.

It is expected that the findings of this comprehensive review will be disclosed in the OLC's Annual Report and Accounts for 2014-15.

I am advised that the OLC are now reviewing the TRS scheme and the FBS and in due course will bring forward to the MoJ, as sponsoring department, a business case with proposals for further consideration of these schemes, or appropriate variants of them, in accordance with all relevant policies and approvals processes.

Ursula Brennan
Interim Accounting Officer
27 January 2015

The Certificate of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Office for Legal Complaints for the year ended 31 March 2014 under the Legal Services Act 2007. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Board, Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Board and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Legal Services Act 2007. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Office for Legal Complaints' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Office for Legal Complaints; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for qualified opinion on regularity

Between July 2009 and March 2014 the Office for Legal Complaints have made payments in respect of expenses paid to the Chief Executive, a Total Remuneration Supplement scheme for senior staff and the Flexible Benefit Scheme which I consider to be novel and contentious. The nature of these payments has come to light during the course of my audit of these accounts. The Ministry of Justice has not provided retrospective approval for the novel and contentious expenditure. I have concluded that this expenditure is not in conformity with the authorities which govern it and is, therefore, irregular. Further details can be found in my report on page 53.

Opinion on regularity

In my opinion, except for the matter described in the basis for qualified opinion paragraph above, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Office for Legal Complaints' affairs as at 31 March 2014 and of the net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Legal Services Act 2007 and Secretary of State directions, with the approval of HM Treasury, issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with directions made under the Legal Services Act 2007 by the Lord Chancellor and Secretary of State for Justice with the approval of HM Treasury; and
- the information given in the Office for Legal Complaints' Board Members' Report and the Management Commentary sections of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Sir Amyas C E Morse
Comptroller and Auditor General

Date: 28 January 2015

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Report of the Comptroller and Auditor General on the 2013-14 Accounts of the Office for Legal Complaints

Introduction

1. The Office for Legal Complaints (OLC) is an Arm's Length Body created under the Legal Services Act 2007 and sponsored by the Ministry of Justice (the Ministry). The OLC is an independent and impartial body established to handle complaints about the legal profession.

2. This report explains the basis for the qualification of my opinion on regularity on the OLC's 2013-14 financial statements.

Qualification of my regularity opinion

3. An anonymous correspondent alerted me to concerns about the remuneration and expenses of the previous Accounting Officer and Chief Executive. These had been separately raised with the OLC, Legal Services Board and Ministry who had started to look into the concerns. I made further enquiries of the OLC, which lead to a detailed review of the remuneration, expenses and benefit payments of senior staff since the OLC's creation in 2009, undertaken by the Ministry and the OLC.

4. This review identified a number of novel and contentious payments incurred since OLC's inception in July 2009 to 31 March 2014, which are summarised below:

   - Expenses being paid to the previous Accounting Officer which were for travel from home to work (of which £10,600 is a taxable allowance and £10,152 a benefit in kind);
   - Travel expenses and other expense claims that were not supported by sufficient evidence to confirm they were for legitimate business purposes (£1,580);
   - The payment of an extra-contractual 'Total Remuneration Supplement' to the previous Accounting Officer and other senior members of staff (£348,109); and
   - Payments made under a Flexible Benefits Scheme to the previous Accounting Officer and all members of staff (£874,940).

5. These payments have not been retrospectively authorised by the Ministry and therefore they do not conform with the authorities which govern them. I have therefore qualified my opinion on regularity.

6. Further details on how these issues arose, the amounts involved and the Ministry's conclusions, are outlined in the Remuneration Report and Governance Statement.

Action taken by the Office for Legal Complaints and Ministry of Justice

7. The OLC Chairman and Non-Executive Directors, in co-operation with the Ministry, are undertaking a comprehensive review of all key financial processes and controls, to ensure that no other issues exist. This work includes a risk-based review of internal governance and oversight structures, the operation of key committees, and draw on best practice from other organisations.

8. The Ministry of Justice have determined that the former accounting officer of the OLC was not a fit and proper person to continue to hold the position of accounting officer. The failure to maintain a high standard of financial management in relation to his own expenses was a significant factor in this decision.

9. The OLC are also reviewing the Total Remuneration Supplement scheme and the Flexible Benefits Scheme. Following this review, the OLC will submit a business case to the Ministry for further consideration of these schemes or appropriate variants of them.

10. I will review the outcome of these actions as part of my audit of the OLC's 2014-15 financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

Date: 28 January 2015

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Financial statements

Statement of comprehensive net expenditure

For the year ended 31 March 2014

Expenditure	Note	2013-14 £'000	2012-13 £'000
Staff costs	3	10,513	10,752
Depreciation, amortisation and impairment	4	998	1,893
Other expenditures	4	4,341	4,012
Total		**15,852**	**16,657**
Income			
Income from operating activities	5	15,709	16,542
Other Income	5	122	96
Total		**15,831**	**16,638**
Net expenditure		(21)	(19)
Interest receivable		26	24
Taxation		(5)	(5)
Net expenditure after interest and taxation		**-**	**-**

All expenditure is derived from continuing activities. There has been no other comprehensive expenditure in the year.

The notes on pages 59 to 72 are part of these financial statements.

Statement of financial position

As at 31 March 2014	Note	2014 £'000	2014 £'000	2013 £'000	2013 £'000
Non-current assets					
Property, plant and equipment	6	597		918	
Intangible assets	7	61		481	
Total non-current assets			**658**		**1,399**
Current assets					
Trade and other receivables	9	515		433	
Cash and cash equivalents	10	18,858		18,080	
Total current assets			**19,373**		**18,513**
Total assets			**20,031**		**19,912**
Current liabilities					
Trade and other payables	11	303		457	
Other liabilities	11	1,394		1,434	
Total current liabilities			**1,697**		**1,891**
Non-current assets plus net current assets			**18,334**		**18,021**
Non-current liabilities					
Provisions	12	583		195	
Financial liabilities	11	-		75	
Total non-current liabilities			**583**		**270**
Assets less liabilities			**17,751**		**17,751**
Reserves					
General reserve		17,751		17,751	
Total			**17,751**		**17,751**

Ursula Brennan
Interim Accounting Officer
27 January 2015

The notes on pages 59 to 72 are part of these financial statements.

Statement of cash flows

For the year ended 31 March 2014

Cash flows from operating activities	**Note**	**2013-14 £'000**	**2012-13 £'000**
Net surplus after interest		-	-
(Increase)/decrease in trade and other receivables	9	(82)	(123)
Increase/(decrease) in trade payables	11	(269)	(171)
Use of provisions	12	389	-
Add back depreciation charge and impairment	4	557	539
Add back amortisation charge	4	441	1,354
Net cash outflow from operating activities		**1,036**	**1,599**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(239)	(39)
Purchase of intangible assets	7	(21)	(164)
Proceeds from disposal		2	-
Net cash outflow from investing activities		**(258)**	**(203)**
Cash flows from financing activities			
Grants from parent department		-	-
Net financing		**-**	**-**
Net increase/(decrease) in cash and cash equivalents in the year		**778**	**1,396**
Cash and cash equivalents at the beginning of the year	**10**	**18,080**	**16,684**
Cash and cash equivalents at the end of the year	**10**	**18,858**	**18,080**

The notes on pages 59 to 72 are part of these financial statements.

Statement of changes in taxpayers' equity

For the year ended 31 March 2014	General reserve £'000	Total reserves £'000
Balance at 31 March 2012	**17,751**	**17,751**
Changes in taxpayers' equity for 2012-13		
Retained surplus/deficit	-	-
Net expenditure for the year	-	-
Grant from Ministry of Justice	-	-
Balance at 31 March 2013	**17,751**	**17,751**
Changes in taxpayers' equity for 2013-14		
Retained surplus/deficit	-	-
Net expenditure for the year	-	-
Grant from Ministry of Justice	-	-
Notional transfer to Consolidated Funds	(15,421)	-
Notional receipts from Sponsor	15,421	-
Balance at 31 March 2014	**17,751**	**17,751**

The notes on pages 59 to 72 are part of these financial statements.

Notes to the Office for Legal Complaints Accounts

1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2013-14 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the OLC for the purpose of giving a true and fair view has been selected. The particular policies adopted by the OLC are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment, intangible assets and inventories.

1.2 Going concern

The OLC is a statutory body established by the Legal Services Act 2007. Under the Legal Services Act 2007, the OLC is funded by a levy upon the legal profession. Levy funding is provided by the Approved Regulators annually in arrears. As at 31 March 2013, the OLC has sufficient cash resources to meet anticipated expenditure for financial year ending 31 March 2014. The MoJ also provides Grant in Aid where required to meet the net cash needs of the OLC. The OLC has assurances from the MoJ that, in the unlikely event that this is necessary, Grant in Aid will continue to be provided to meet the cash needs of the organisation. The OLC continues to have the support of Ministers and the legal profession. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

1.3 Income

The OLC is funded by a levy on the legal profession which is collected from the legal profession's Approved Regulators. Amounts due in respect of the levy are recognised as income in the year to which related expenditure is recognised in the statement of comprehensive net expenditure.

The Legal Services Act 2007 requires the Legal Ombudsman to set charges for complaints we accept. A case fee is potentially chargeable on closure of the case. Where a complaint is resolved "in favour of the lawyer", and an Ombudsman is satisfied that the lawyer took all reasonable steps to try to resolve the complaint under their own procedure, the case will not be treated as chargeable. Case fee income is therefore recognised in the year that the chargeable case is closed and the fee becomes chargeable. Amounts charged in respect of case fees correspondingly reduce amounts due in respect of the levy due from Approved Regulators. As soon as it becomes apparent that there is doubt that an amount due is not recoverable, such amounts are provided for in full.

The LSB, in conjunction with the MoJ and HM Treasury, are seeking to identify a suitable legislative vehicle to make an amendment to s175 of the Act. This is to confirm the current practice whereby the OLC retains all amounts received through the levy and any prescribed fees rather than passing this over to the Consolidated Fund and then having the same amounts returned to it by the MoJ. The LSB and OLC believes that this was the intention of Parliament when debating the Bill setting up the LSB and OLC although some of the drafting of s175 does not capture this intent correctly. To comply with the requirements of s175 for the year ended 31 March 2014 the MoJ will be responsible for making a payment on behalf of the OLC to the Consolidated Fund equivalent to the income received by the OLC for the year from the levy and prescribed fees. Accordingly, a notional transfer to the Consolidated Fund has been shown in the Statement of Changes to Taxpayers' Equity. An equal amount is shown as a notional receipt from the sponsoring department.

As there would be no net effect on the financial position of OLC, no equivalent adjustment has been made to the financial statements in respect of prior years.

1.4 CMC income and expenditure

During the year the OLC made significant steps towards extending its jurisdiction to include CMC complaints. Set up costs incurred by OLC that are in direct relation to this project are recovered from MoJ. Amounts due in respect of this activity are recognised as income in the year to which the related expenditure is incurred.

1.5 Government grants

The net cash needs of the OLC are financed by the MoJ through the Grant in Aid regime. Grant in Aid is not shown as income, but in line with FReM guidance, is shown as financing in the General Reserve.

1.6 Property, plant and equipment

The OLC recognises property plant and equipment under International Accounting Standard (IAS) 16 and writes off in the year of acquisition any individual expenditure of less than £1,000 on capital equipment and furnishings. Capital assets with a purchase cost of at least £1,000 are depreciated down to residual value over their useful economic life by equal monthly instalments, the first instalments being charged in the month of bringing the asset into use and no charge being made in the month of disposal.

During the year the life of furniture and equipment was reviewed. Furniture and equipment which is no longer in use was impaired to its residual value. The useful economic life of remaining furniture and equipment was revised from five to ten years to reflect its current state of repair and estimated remaining useful life.

The following rates of depreciation are applied on a straight line basis over the following periods:

- Leasehold improvements: over the residual life of lease.
- Furniture and equipment: from five to ten years
- Computer hardware: three to five years

1.7 Intangible assets

Expenditure on major information technology projects is capitalised. This also includes expenditure on software, and the costs of design consultancy exceeding £1,000, and the up front development and configuration costs incurred in establishing and developing the OLC's outsourced IT infrastructure. The following rates of depreciation are applied on a straight line basis over the following periods:

- Software licenses: in equal monthly instalments over three years; and
- Information technology: in equal monthly instalments over the residual life of the contract.

1.8 Impairment and revaluation policy on non-current assets

A specific impairment review was undertaken during the year. The carrying value of assets considered to have no further economic value to the organisation were reduced to their residual market value. Otherwise, depreciated historical cost is used as a proxy for fair value as this realistically reflects the consumption of the assets as allowed by the FReM para. 6.2.6(h). Revaluation of these assets would not cause a material difference.

1.9 Leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

1.10 Finance leases

The OLC treats contracts which transfer substantially all the risks and rewards incidental to ownership to the OLC in accordance with IAS17.

1.11 Value Added Tax

The OLC is registered for VAT. VAT incurred on direct costs incurred in the provision of training and other services provided where VAT is charged on invoices is recoverable. The OLC is unable to recover VAT on expenditure relating to its primary operation of providing complaint handling services and therefore all expenditure and the capitalised value of non-current assets includes this irrecoverable VAT.

1.12 Pensions

The OLC has established a defined contribution group personal pension scheme to which the OLC makes contributions but has no other liabilities. The OLC makes matching contributions of twice the amount contributed by employees up to a maximum of 10% of the employee's salary.

1.13 Corporation tax

The OLC earns interest on cash deposits held with the Government Banking Service. This interest is subject to corporation tax in the normal manner.

1.14 Provisions

The OLC provides for financial liabilities in the statement of financial position in accordance with IAS37 where there is a legal, constructive or contractual obligation as a result of a past event, where it is probable that financial

resources will be required to settle the obligation, and where a reasonable estimate can be made of the amount of the obligation.

1.15 Impending application of newly issued accounting standards not yet effective

There is no anticipated material impact to the OLC of IFRSs that have been issued by the International Accounting Standards Board but are not yet effective at the end of the reporting period.

2 Analysis of net expenditure by segment

The OLC principal operation is the provision of independent and impartial Ombudsman schemes to resolve consumers' disputes involving their lawyer. No other income or expenditure was received or incurred during the year to 31 March 2014.

	Operation of the Legal Ombudsman Scheme £'000	Outward Secondments to Other Organisations £'000	Claims Management Jurisdiction Implementation £'000	Total £'000
Gross expenditure	15,709	46	76	15,831
Income	15,709	46	76	15,831
Net expenditure	**-**	**-**	**-**	**-**
Total assets	**20,031**	**-**	**-**	**20,031**

All OLC assets have been dedicated to the provision of the operation of the Legal Ombudsman scheme.

3 Staff numbers and related costs

The remuneration of the OLC Board is borne by the LSB. The Chief Ombudsman is remunerated by the Legal Ombudsman scheme and is included within the staff costs below.

Staff costs comprise	Total 2013-14	Permanent staff 2013-14	Other staff 2013-14	Total 2012-13	Permanent staff 2012-13	Other staff 2012-13
	£'000	£'000	£'000	£'000	£'000	£'000
Wages and salaries	8,435	8,154	281	9,204	8,714	490
Social security costs	864	858	6	886	870	16
Other pension costs	654	654	-	662	662	-
Exit packages	560	560	-	-	-	-
Sub total	**10,513**	**10,226**	**287**	**10,752**	**10,246**	**506**
Less recoveries in respect of outward secondments	(121)	(121)	-	(46)	(46)	-
Total net costs	**10,392**	**10,105**	**287**	**10,706**	**10,200**	**506**

Average number of persons employed

The average number of whole-time equivalent persons employed during the year was as follows.

	Total 2013-14	Permanent staff 2013-14	Other staff 2013-14	Total 2012-13	Permanent staff 2012-13	Other staff 2012-13
	No.	No.	No.	No.	No.	No.
Directly employed	239	237	2	262	257	5
Not directly employed	2	-	2	4	-	4
Total	**241**	**237**	**4**	**266**	**257**	**9**

3.1 Reporting of exit packages

During July and August 2013 the organisation restructured its operations in response to lower than anticipated demand and to ensure that it delivered improved value for money. As a result of this restructuring activity a number of individuals were made redundant and a voluntary redundancy scheme was made available for all staff. Nil exit packages occurred in 2012-13.

Exit Package Cost Band	Number of Compulsory Redundancies	Number of Other Departures Agreed	Total Number of Exit Packages by Costs Band
< £10,000	3	17	20
£10,000 - £25,000	3	11	14
£25,000 - £50,000	1	6	7
£50,000 - £100,000	-	-	-
£100,000 - £150,000	-	-	-
£150,000 - £200,000	-	-	-
Total Number of Exit Packages	**7**	**34**	**41**
Total Cost / £	**95,768**	**464,095**	**559,863**

4 Other expenditure

	Note	2013-14 £'000	2012-13 £'000
Travel and subsistence		37	43
Consultancy		33	5
Training		82	350
IT and telecoms		1,071	1,193
Premises costs		564	637
Facilities services		391	450
Rentals under operating leases		763	686
Legal and professional fees		184	68
Recruitment costs		48	156
Other running costs		68	92
External communications		231	174
Uncollectible debts		288	52
Audit fees		31	31
Internal audit fees		55	75
Total cash items		**3,846**	**4,012**
Provision for onerous lease in the year		285	-
Increase in dilapidations provision		210	-
Impairment of assets		150	-
Depreciation	6	407	539
Amortisation	7	441	1,354
Total non cash items		**1,493**	**1,893**
Total		**5,339**	**5,905**

Uncollectible debts include amounts provided for during the year. These relate primarily to case fees charged to law firms, most of whom had ceased to operate either before the relevant complaint was brought to us or by the time the investigation was completed and the case fee became chargeable.

5 Income

	2013-14 £'000	2012-13 £'000
Levy income from the Legal Ombudsman Scheme	14,513	16,278
Case fee income	1,196	264
Sub total	**15,709**	**16,542**
Income from Support Services & Secondments	46	60
Claims Management jurisdiction on behalf of the Ministry of Justice	76	36
Total	**15,831**	**16,638**

Levy income represents amounts due in respect of the annual levy due for Approved Regulators (see note 1.3). Case fee income represents amounts due in respect of case fees chargeable in respect of cases closed in 2012-13 (see note 1.3).

6 Property, plant and equipment

2013-14	**Information technology £'000**	**Leasehold improvements £'000**	**Furniture and fittings £'000**	**Payments on account and assets under construction £'000**	**Total £'000**
Cost or valuation					
At 1 April 2013	723	770	877	-	2,370
Additions	195	29	15	-	239
Disposals	(6)	-	-	-	(6)
Transfers	-	-	-	-	-
At 31 March 2014	**912**	**799**	**892**	**-**	**2,603**
Depreciation					
At 1 April 2013	552	438	462	-	1,452
Charged in year	138	191	78	-	407
Impairment charge	5	70	75	-	150
Disposals	(3)	-	-	-	(3)
At 31 March 2014	**692**	**699**	**615**	**-**	**2,006**
Net book value at 31 March 2014	**220**	**100**	**277**	**-**	**597**
Net book value at 31 March 2013	**171**	**332**	**415**	**-**	**918**

2012-13	Information technology £'000	Leasehold improvements £'000	Furniture and fittings £'000	Payments on account and assets under construction £'000	Total £'000
Cost or valuation					
At 1 April 2012	718	728	874	11	2,331
Additions	5	31	3	-	39
Disposals	-	-	-	-	-
Transfers	-	11	-	(11)	-
At 31 March 2013	**723**	**770**	**877**	**-**	**2,370**
Depreciation					
At 1 April 2012	369	257	287	-	913
Charged in year	183	181	175	-	539
Disposals	-	-	-	-	-
At 31 March 2013	**552**	**438**	**462**	**-**	**1,452**
Net book value at 31 March 2013	**171**	**332**	**415**	**-**	**918**
Net book value at 31 March 2012	**349**	**471**	**587**	**11**	**1,418**

No property, plant and equipment have been purchased under finance lease arrangements.

7 Intangible assets

2013-14	Information technology £'000	Software licenses £'000	Payments on account and assets under construction £'000	Total £'000
Cost or valuation				
At 1 April 2013	2,555	1,151	-	3,706
Additions	10	11	-	21
Disposals	-	-	-	-
Transfers	-	-	-	-
At 31 March 2014	**2,565**	**1,162**	**-**	**3,727**
Amortisation				
At 1 April 2013	2,110	1,115	-	3,225
Charged in year	399	42	-	441
Disposals	-	-	-	-
At 31 March 2014	**2,509**	**1,157**	**-**	**3,666**
Net book value at 31 March 2014	**56**	**5**	**-**	**61**
Net book value at 31 March 2013	**445**	**36**	**-**	**481**

2012-13	Information technology £'000	Software licenses £'000	Payments on account and assets under construction £'000	Total £'000
Cost or valuation				
At 1 April 2012	2,565	916	61	3,542
Additions	(10)	174	-	164
Disposals	-	-	-	-
Transfers	-	61	(61)	-
At 31 March 2013	**2,555**	**1,151**	**-**	**3,706**
Amortisation				
At 1 April 2012	1,310	561	-	1,871
Charged in year	800	554	-	1,354
Disposals	-	-	-	-
At 31 March 2013	**2,110**	**1,115**	**-**	**3,225**
Net book value at 31 March 2013	**445**	**36**	**-**	**481**
Net book value at 31 March 2012	**1,255**	**355**	**61**	**1,671**

8 Impairments

During the year the organisation reviewed its facilities requirements. The value of fixtures and fittings which are no longer in use was impaired to residual value. The impact of this impairment was to reduce the carrying value of property, plant and equipment by £150,000. (2012-13: Nil).

9 Trade receivables and other current assets

Amounts falling due within one year:	As at 31 March 2014 £'000	As at 31 March 2013 £'000
Case fee receivables	175	74
Deposits and advances	19	22
Intra-government balances – Ministry of Justice	42	36
Prepayments and accrued income	279	301
Total	**515**	**433**

No accrued income relating to unbilled case fees is included in prepayments and accrued income (2012-13: £54,800).

10 Cash and cash equivalents

	As at 31 March 2014 £'000	As at 31 March 2013 £'000
Opening balance	18,080	16,684
Net change in cash and cash equivalent balances	778	1,396
Closing balance	**18,858**	**18,080**
The following balances at 31 March were held at:		
Government Banking Services	18,858	18,080
Short term investments	-	-
Balance at 31 March 2014	**18,858**	**18,080**

11 Trade payables and other liabilities

	Note	As at 31 March 2014 £'000	As at 31 March 2013 £'000
Amounts falling due within one year			
Trade payables		227	290
Other payables		76	167
Trade and other payables		**303**	**457**
Intra-government balances – other taxation and social security		196	261
Intra-government balances – Ministry of Justice		-	-
Current part of finance lease	14.2	75	75
Accruals and deferred Income		1,123	1,098
Other liabilities		**1,394**	**1,434**
Total		**1,697**	**1,891**

Amounts falling due after more than one year

Finance leases	14.2	-	75
Total		**-**	**75**

Accruals and deferred income includes £17,000 in respect of capital additions (2012-13: £31,000).

12 Provisions for liabilities and charges

	Other £'000	Leasehold dilapidation & onerous lease £'000	Total provisions £'000
Balance as at 1 April 2013	115	80	195
Provided in the year	39	495	534
Provisions not required written back	-	-	-
Provisions utilised in the year	(146)	-	(146)
Balance as at 31 March 2014	**8**	**575**	**583**

Expected timing of cash flows:	Other £'000	Leasehold dilapidation & onerous lease £'000	Total provisions £'000
Not later than one year	8	575	583
Later than one year and not later than five years	-	-	-
Later than five years	-	-	-
Balance as at 31 March 2014	**8**	**575**	**583**

Leasehold dilapidation in respect of anticipated costs required to reinstate the OLC's office premises at the end of the leasehold. The costs anticipated have been determined by an independent assessment of the potential liability undertaken during the year. During 2013-14 the space requirements of the organisation were reviewed and office space no longer occupied was identified. A provision has been made to reflect the cost of this surplus space over the remaining period of the lease. Other provisions relate to amounts provided in respect of legal challenges.

13 Capital commitments

Contracted capital commitments at 31 March 2014 not otherwise included in these financial statements amounted to Nil (2012-13: Nil).

14 Commitments under leases

14.1 Operating leases

The future minimum lease payments under operating leases are given in the table below for each of the following periods:

Obligations under operating leases for the following periods comprise	**2013-14 £'000**	**2012-13 £'000**
Buildings		
Not later than one year	964	518
Later than one year and not later than five years	-	964
Balance as at 31 March 2014	**964**	**1,482**

14.2 Finance leases

The OLC has a contract for the provision of software licenses over five years payable in annual instalments. The nature of this agreement transfers substantially all of the risks and rewards of these software licenses to the OLC and therefore this has been accounted for as a finance lease under IAS17. The future minimum lease payments under finance leases are given in the table below for each of the following periods:

Obligations under finance leases for the following periods comprise	**2013-14 £'000**	**2012-13 £'000**
Not later than one year	75	75
Later than one year and not later than five years	-	75
Balance as at 31 March 2014	**75**	**150**

The present value of obligations under finance leases for the following periods comprise	**2013-14 £'000**	**2012-13 £'000**
Not later than one year	75	75
Later than one year and not later than five years	-	72
Balance as at 31 March 2014	**75**	**147**

15 Contingent liabilities disclosed under IAS 37

Given the nature of the Legal Ombudsman scheme it is inevitable that we will be challenged on some of our Ombudsman's decisions. The OLC has a small number of ongoing challenges to decisions where Judicial Review proceedings have been started. These challenges are at an early stage in proceedings and management does not currently believe that these have a realistic prospect of success.

During the preparation of these accounts, OLC has identified an issue relating to the remuneration of the Chief Ombudsman, which resulted in certain payments which are deemed to result in benefits in kind to the Chief Ombudsman as well as additional allowances that should have been deemed taxable earnings, being made in addition to those stipulated within the Chief Ombudsman's contract over the past five years. These payments constitute taxable income for the Chief Ombudsman and give rise to a tax liability and penalties for the OLC. The full taxation implications of the benefit in kind and additional allowances provided to the Chief Ombudsman over the last five years are currently under review and the amount of the tax liability and penalties has not yet been determined. Action will be taken by OLC to ensure that the appropriate tax is paid.

16 Financial instruments

As the cash requirements of the OLC are met through Grant in Aid provided by the MoJ, through levy funding provided by Approved Regulators of the legal profession, and through case fees charged to individual law firms, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. The OLC is therefore currently exposed to little credit, liquidity or market risk.

17 Related-party transactions

The OLC has a direct relationship with the LSB. The LSB has some oversight responsibilities for the Ombudsman scheme that the OLC established. Under the Legal Services Act 2007 the LSB is responsible for appointing and paying the salaries and expenses of the OLC board members, which for the whole reporting period amounted to £163k (2012-13: £167k). The payment for salaries of the OLC board members for 2013-14 was £140k (2012-13: £140k).

The MoJ is the OLC's parent body and provides working capital financing to the OLC under the Grant in Aid scheme. During the year to 31 March 2014 no Grant in Aid was provided by MoJ (2012-13: Nil).

During the year the OLC provided staff resources to the MoJ to support the extension of the Legal Ombudsman's jurisdiction to include Claims Management complaints, the total cost of this is £76k (2012-13: £60k), in addition to the notional transactions as shown in the Statement of Taxpayers' Equity.

No board member, key manager or other related parties has undertaken any material transactions with the OLC during the year.

The OLC, in conjunction with the LSB, MoJ and HM Treasury, are seeking to identify a suitable legislative vehicle to make an amendment to s175 of the Legal Services Act 2007. This to confirm the current practice whereby the OLC retains all amounts received through the levy and any prescribed fees rather than passing this over the Consolidated Fund and then having the same amounts returned to it by the MoJ. This was the intention of Parliament when debating the Bill setting up the LSB although some of the drafting of s175 does not capture this intent correctly.

18 Special Payments

Special Payment	**2013-14**	**2012-13**
Extra-contractual payments	63,301	90,675
Total	**63,301**	**90,675**

The Chief Ombudsman and other senior members of staff receive remuneration under the Total Remuneration Supplement allowance scheme. These allowances are extra-contractual remuneration and as such have been deemed a 'Special Payment' by HM Treasury and require separate disclosure in the Accounts. These allowances have not previously been disclosed in the OLC's accounts as special payments and the total payments made under the scheme since its inception in 2010-11 amounts to £348,109. See the Governance Statement on pages 35 to 49 for further details.

19 Events after the reporting period

In accordance with IAS10 (Events after the Reporting Period) events after the reporting period are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the certificate and report of the Comptroller and Auditor General.

During the preparation of these accounts, OLC has identified issues with the Chief Ombudsman's expenditure which give rise to taxation implications. Issues relating to the Total Remuneration Supplement scheme were also identified. See the Governance Statement on pages 35 to 49 for further details.

There are no other events after the reporting period to report.

Service complaint adjudicator's report

In last year's report I stated my view that a decline in service complaints referred to me reflected that the Legal Ombudsman, then entering its third full year, had settled down and that its investigators and ombudsmen had gained in experience and confidence. The quality of the handling of the even smaller number of service complaints had, I remarked, continued to improve. I can now repeat these remarks with added confidence. The thoroughness with which service complaints are reviewed and the seriousness with which they are taken indicates to me that the process is working well.

Volumes

This year the number of service complaints referred to me for review continued to fall, from 56 last year to 18 this year. I noted in last year's report that the numbers had reduced in the latter part of the period under review. At one point in the summer of 2013 I became concerned that no service complaints had been referred to me for a period of months and that this might have indicated that something was deterring people from referring matters to me. I suggested undertaking a review of the handling of a sample of second stage reviews and the OLC board requested me to do so. I report on this below.

Outcomes

In only one of the 18 service complaint files referred to me for review did I uphold the complaint and require that redress be offered: this case involved poor service that had been provided to a serving prisoner during the handling of his lawyer complaint. The poor service concerned documents sent by the complainant to the Legal Ombudsman office. I observed that to long term prisoners, the safekeeping of all letters, documents and particularly legal materials has a value that those on the outside may not appreciate. None had actually been lost, but the complainant had justified fears. I required the Chief Ombudsman to apologise to him.

In some other cases there had been elements of poor service, but these had been acknowledged at an earlier stage in the service complaint process and appropriate apologies or remedy had been offered. It was left for me to confirm that in my view the apologies or remedy offered had indeed been an appropriate response. In four other cases, while I identified aspects of poor service for which apologies had not been offered, I declined to require any apology or other remedy. In these cases the conduct of the complainants towards staff of the Legal Ombudsman had been so persistent, disagreeable or offensive that it would have been unjust to require a one-sided apology. In one case in a period of 65 working days the complainant had telephoned the office on no less than 57 days, and on some days more than once. In a number of my reviews I have commended high standards of professionalism, patience and calmness displayed by members of staff.

In only one case was the service complaint made by a lawyer. This concerned the process for applying for a waiver to be relieved from paying a case fee. I identified some deficiencies in the process adopted and elements of poor service, and I pointed to lessons that could be learned by the Legal Ombudsman. There were however such shortcomings in the conduct and

cooperation of the lawyer that in all the circumstances I did not regard justice as requiring the lawyer to be compensated for time he had spent applying for the waiver.

Stage Two review

I was provided with a list of 36 cases that had reached stage two of the service complaints process where the matter appeared to have terminated there and the complainant had not requested that the matter be escalated to me. I selected 12 cases at random for examination and I reviewed the way in which the service complaint process had been followed and in particular the stage two response on behalf of the Legal Ombudsman, and any reply by the complainant. In all the cases selected the process had been followed in a timely manner in accordance with the process, the stage two response letter had concluded by giving the complainant the opportunity to request access to me, and none had done so. It was interesting to note that in four of the cases some remedy had been offered. One of the four complaints was from a lawyer.

I concluded that the service complaint process had been working well and that nothing untoward was happening during the spell during which no matters were referred to me. That spell did come to an end in the autumn of 2013 and the flow of a small number of complaints resumed.

Other activity

I continue to maintain contact with other independent reviewers carrying out similar functions for other ombudsman schemes or public institutions. This allows us valuable opportunities to exchange reflections and views about our role and function. I made a presentation on my role to a well attended session on “Complaints Against Us” at the conference of the Ombudsman Association in May 2013.

Conclusion

This role, offering an external and independent source of finality and assurance for users of the Legal Ombudsman, continues to contribute a certain value to the scheme as a whole despite the decreasing demand.

Walter Merricks
Service Complaint Adjudicator
31 March 2014

Appendix 1: Regulatory objectives

Section 1(1) of the Legal Services Act 2007 refers to eight regulatory objectives:

(a) Protecting and promoting the public interest;

(b) Supporting the constitutional principle of the rule of law;

(c) Improving access to justice;

(d) Protecting and promoting the interests of consumers;

(e) promoting competition in the provision of services within subsection (2) [defined as services such as are provided by authorised persons (including services which do not involve the carrying on of activities which are reserved legal activities)];

(f) Encouraging an independent, strong, diverse and effective legal profession;

(g) Increasing public understanding of the citizen's legal rights and duties;

(h) Promoting and maintaining adherence to the professional principles.

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