



The Office for Legal Complaints

# **Annual report and accounts**

For the year ending 31 March 2015

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to Section 118 of the Legal Services  
Act 2007.

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## **Foreword by Steve Green, Chair of the Office for Legal Complaints**

**When I arrived here, as newly appointed Chair of the OLC, I had a very clear idea of what my priorities were likely to be. I wanted to see the organisation of the Legal Ombudsman develop beyond the status of a promising newcomer and into a state of established maturity.**



I wanted to continue to improve performance, I wanted to oversee the smooth introduction of the claims management jurisdiction, and I wanted to take positive steps towards rationalising the apparent inconsistency of our legal jurisdictional reach, in that we are unable to offer a service to the users of non-regulated legal services.

Sadly, the events of the past twelve months have afforded me little time to address any of those priorities with anything like the rigour I would have preferred. Disappointingly, the 2014-15 business year has been dominated by the need to resolve a range of difficult internal issues.

These issues largely relate to or derive from some of the many decisions taken at the time that the Legal Ombudsman was being set up in 2010 but which only came to light in early 2014.

These issues are extremely complex and have inevitably taken up much of the Board and the management team's time as we have worked around the clock to resolve them and ensure that they can never be repeated again.

My Board and I take seriously our responsibility for oversight of the management of public money and we take equally seriously our responsibility to demonstrate to those who pay the levy that we are spending their money wisely. I am confident that we are now well on the way to bringing these issues to a resolution.

In spite of these internal challenges the Legal Ombudsman has continued to deliver a consistently effective service while significantly driving down its costs. During 2014-15 it also underwent substantial internal change: it moved offices, created a new jurisdiction – extending access to redress to thousands of claims management customers, and implemented a new case management IT system.

The office move, combined with a number of other efficiency measures initiated in 2013-14, meant that the scheme cost the legal profession £3m less per year in 2014-15 than it did in 2013-14 and it will cost the profession less again in 2015-16. This translates into greater value to the

professionals that ultimately pay for our scheme and lower costs for their customers. With legal services having to innovate more than ever before so that people still have access to justice, I am keen to ensure we do our bit by keeping costs as low as they can be without taking anything from the quality of the service the Ombudsman provides. The evidence that shows we have largely managed to achieve this includes: customer satisfaction results, which remained high during the last financial year, while stakeholder satisfaction continued to increase.

In January 2015 the scheme began to accept complaints about claims management companies (CMCs). It is still early days as far as this jurisdiction goes, but all the evidence seems to suggest that it has been a successful launch. The Ombudsman is receiving a regular flow of complaints and has been able to effectively resolve many of them – providing a much needed safety net for service users. This bodes well for the future of the Ombudsman; particularly as it now looks to a voluntary jurisdiction and at how it can use powers within the Legal Services Act to extend redress to as many users of professional services as possible. The new jurisdiction has also given the scheme a chance to try new ways of working, particularly in how it involves ombudsmen in the resolution process.

Certain challenges remain however. The scheme's timeliness KPIs have suffered as a result of the recent office move and the bedding in of a new case management system. This is something that the management team has been asked to look at closely. I and the rest of the Board understand how important it is for customers to have their complaints looked at and dealt with as speedily as possible – particularly as the Ombudsman prides itself on being a quicker and less formal route to redress than the courts. If the Ombudsman's high-quality decisions can be complemented by improved efficiency, the scheme will be heading in the right direction.

I'd like to extend a warm welcome to Michael Kaltz, Tony King, Dr Bernard Herdan, Jane McCall and Caroline Coates who have joined as new members of the Office for Legal Complaints (OLC). This is an exciting time for them to get involved as we continue to oversee the development of an ombudsman fit for purpose amidst fast changing legal and claims management industries.

Finally, I would like to thank everyone at the Legal Ombudsman for their hard work and dedication, but particularly their professionalism during what has been a difficult period for the scheme. I am now looking forward to getting back to business-as-usual and to striving to achieve the ambitions I had when I first joined the OLC – that is to see the Legal Ombudsman become a best-in-class service with a first-class reputation.



**Steve Green**  
**Chair of the Office for Legal Complaints**

# Chief Ombudsman's report

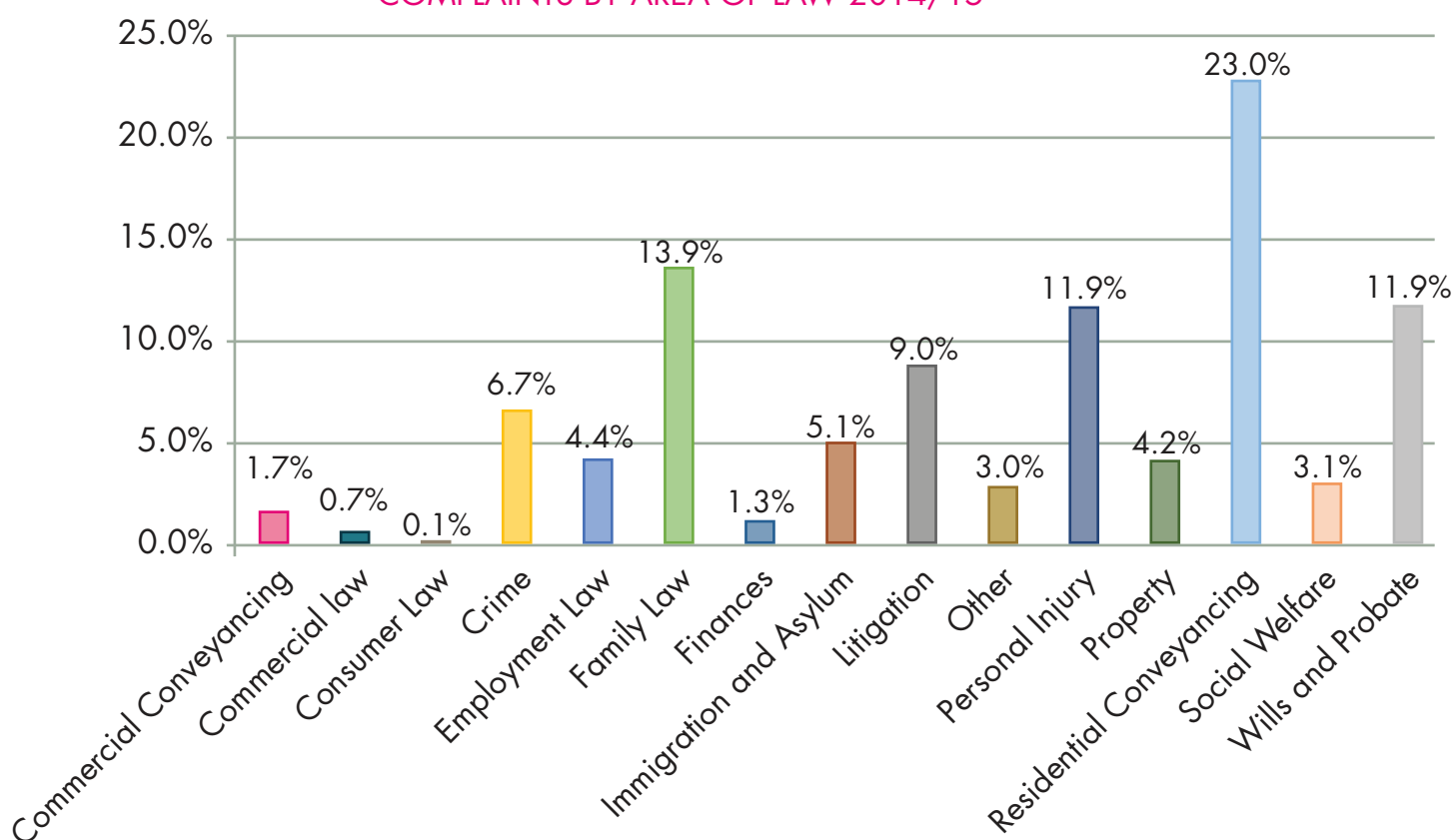
**At the Legal Ombudsman we believe in a just society and fair service for all. We exist to improve today's services and tomorrow's legal and claims management sectors' reputations by resolving disputes impartially, promoting service excellence and being a champion of best practice - for the benefit of consumers, providers, and in the best interests of business and society.**



This is important work.

We have now been doing this work for more than four years. During that time we have made a vital difference to thousands of people, cutting through complexity to seek a fair resolution in every case. This year alone, we have helped to resolve almost 7,500 complaints. And we know that at the heart of each of those complaints, behind the facts and the files, are people; people trying to solve problems. People who, without the Legal Ombudsman, may have had no other right of redress.

## COMPLAINTS BY AREA OF LAW 2014/15



During the last four years we have made significant progress. Almost 80 percent of legal service users are aware of us, and those who use our services continue to give us high approval ratings. Our professional development courses are well attended and well regarded, and our publications well received. This progress has been vital to the Legal Ombudsman's successful transition to the established feature of the legal services landscape it has become, and the customer-focused organisation it is becoming.

But we are committed to doing more. This year, during which I began my twelve-month term as interim Chief Ombudsman, we have made good progress. We have extended our jurisdiction for the first time: to provide redress to people with complaints that they cannot resolve about claims management companies ("CMCs"), and, in respect of probate matters, about accountants registered with the Institute of Chartered Accountants in England and Wales (ICAEW).

We have also relocated all of our operations to more efficient, cost-effective premises, and we have launched a new case management system to allow us to realise the potential of the data we hold for the benefit of consumers, lawyers, CMCs and stakeholders. We are also working hard on a range of initiatives to further improve the quality of the service we offer.

The dedication and commitment of the Legal Ombudsman's staff have meant that alongside the important business transformation projects we have implemented this year, we have continued to deliver 'business as usual' - answering the calls, investigating the complaints, and resolving the disputes of the people who have come to us for help.

## OUR PERFORMANCE

Independent annual customer satisfaction research, covering the period September 2013 to October 2014, found that more than 90% of complainants and lawyers who were satisfied with the outcome of their complaint were satisfied with the Legal Ombudsman's service.

	AVG 2012-13		AVG 2013-14		AVG 2014-15	
	COMPLAINANT	LAWYER	COMPLAINANT	LAWYER	COMPLAINANT	LAWYER
% of respondents satisfied with the outcome of their case who were satisfied with the Legal Ombudsman's service.	97%	95%	96%	97%	96%	93%

## Chief Ombudsman's report

However, we know that by surveying customers only after they have received the final outcome of their complaint, we only have a snapshot of their experience of using our service. We also understand the enormous impact the outcome itself has on people's perception of the experience we have provided.

We are committed to improving both our understanding of our customers' experience and our service itself, so we are undertaking a range of initiatives focussed on putting our customers at the centre of our thinking. For example, we are carrying out a major research exercise to engage with users of our service. The findings this will produce will help to inform the development of a new set of customer-led, customer-focussed service principles which will place the customer voice at the centre of our operations. We are also enhancing our regular customer survey methods to capture people's views across their journey with us. In parallel, we are revisiting our quality indicators and measures, and refocusing our quality systems to bring them into line with our new strategic objectives.

Stakeholder satisfaction with the services we offer is also increasing. Improving the wider value we add to the sectors in which we operate is a key priority, building on the work we have done so far. Last year, this included the production of three major focus reports. These highlighted the main issues we see in complaints regarding stamp duty payments, 'no win, no fee' services, and wills and probate practices. They included detailed analyses of the types of complaint we receive, what causes them, and guidance on how similar complaints could be prevented – or quickly resolved – in future.

Research suggests that good first-tier complaints-handling can increase a firm's operating profits by 2-3% each year. The knowledge we gather from the complaints we resolve affords us rare insight into complaint-handling in the sectors in which we work, and we take seriously our responsibility to share what we know. We have developed a programme of professional development courses, tailored to help practitioners to improve their own and their firms' complaints-handling.

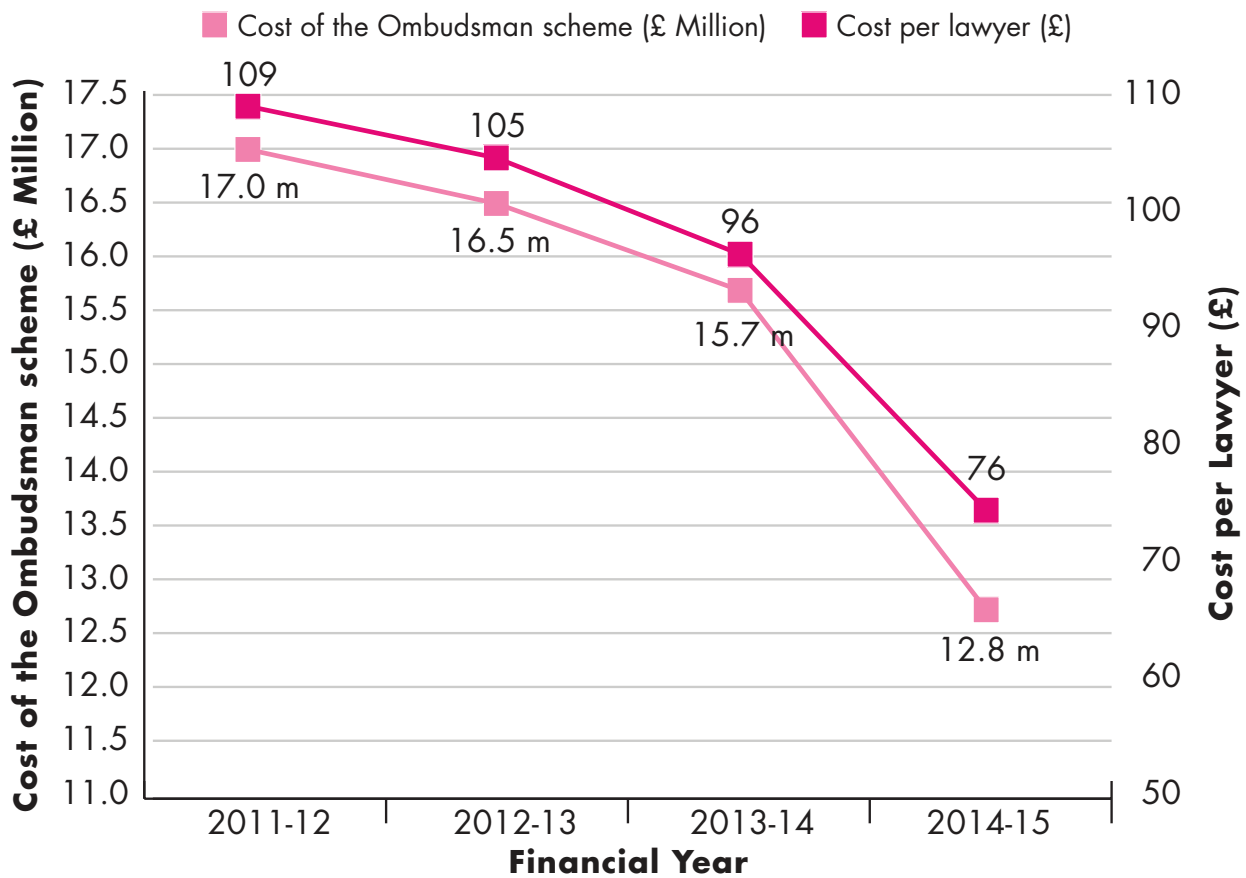
Impact Indicator	2011-12	2012-13	2013-14	2014-15
Percentage of stakeholders who have confidence in our delivery against our mission.	56%	56%	59%	65%

Independent research also tells us that our impact as a service has improved. In 2014-15, 65% of our stakeholders were confident that we could deliver against our mission, up from 59%. We want to continue to build on this improvement, and central to this aim is the further development of our insight and analysis capabilities.

In addition, by making changes to improve our efficiency, we have cut the costs of our legal jurisdiction substantially, from almost £16m in 2013-14 to just under £13m in 2014-15. The budget for our legal activities in 2015-16 is just over £12m.



## COST OF THE OMBUDSMAN SCHEME'S LEGAL JURISDICTION



At the same time we are further increasing our emphasis on quality, to ensure we maintain an effective service to our customers and to the sectors which we serve. However, in the latter part of 2014-15, we did not meet the ambitious timeliness targets we set for ourselves. During much of this period, we were undertaking significant organisational change to prepare us for the future. We are now working hard to realise the benefits these changes should bring through improved efficiency, and at the same time finding new ways to work more smartly to provide the best service possible for the lowest cost.

### LOOKING AHEAD

2014-15 was characterised by a series of important, future-focussed changes. 2015-16 is providing the opportunity to embed these changes and realise the benefits they can bring.

We are revising our key performance indicators to reflect our new business priorities, including by introducing a new quality framework incorporating enhanced feedback mechanisms for all our customers. We will also continue to drive innovation, in particular through the new technology we now have available to us.

Our scheme is proud to provide a safety net for citizens and to promote independence, strength, diversity and effectiveness in the sectors in which we work. The changes we have made, and continue to make, equip us well to meet and exceed the statutory objectives, the objectives we have set ourselves, and the expectations of all those who use our service, as we move into maturity as a scheme.

**Kathryn King,**  
Interim Chief Ombudsman

# Annual review

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## 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 15.8 (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 having taken into account MPM requirements and Civil Service Pay guidance. 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 a Chief Executive Officer. 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 2014-15 was to continue to deliver improvement in the efficiency with which we deliver our service, while maintaining the quality of our work.

We received 59,000 contacts (calls, letters and e-mails) (2013-14: 69,500). The number of complaints that were within our jurisdiction continued to reduce from just under 19,500 to just over 18,000. We accepted 7,635 complaints for investigation (2013-14: 8,323) and resolved 7,440 cases (2013-14: 8,055 cases).

During December 2014 we implemented a new case management system which will enable us to make our service more digitally accessible and which will also provide improved control and agility with regards to how we manage casework and capture information about our cases more effectively. The period from December 2014 to March 2015 has been one where we have been bedding in this new system and we expect this period of bedding in to continue into 2015-16.

In early January 2015 we moved offices to smaller and more cost effective premises. At the end of January 2015 we also started taking complaints about regulated claims management companies.

The cost of establishing and operating this new claims management activity is funded separately from our current legal services complaint handling activities. The implementation and operating budget was agreed with the Ministry of Justice (MoJ) in July 2014 and authority to proceed with the implementation was provided by the MoJ in November 2014. This provides consumers of these services with an opportunity for redress and will encourage the sector to improve its complaint handling processes.

We have benefitted from and continued the work started in 2013-14 to reduce our cost base. As a result of these changes, and despite falling activity volumes within our current legal services complaint handling activities, we have reduced our cost per case KPI (unit cost) from £1,950 per case to £1,716 per case.

### FUTURE DEVELOPMENT, RISKS AND UNCERTAINTIES

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

Actual expenditure of the Ombudsman's legal jurisdiction was £12.8m in 2014-15 (2013-14: £15.7m). This reflects our continued focus on improving the financial efficiency of the organisation, increasing casework productivity, and a reduction in activity volumes during 2014-15 within our core legal activities.

Expenditure to establish and operate the new business unit to resolve complaints about Claims Management Companies was £0.85m in 2014-15.

The expenditure in respect of the OLC's legal services activities 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 2015 the OLC received £11.7m in levy funding relating to the financial year 2014-15 (2013-14: £14.5m).

Grant in Aid was provided by the MoJ for the implementation of the CMC function and its subsequent operation from 28 January 2015 until the end of the financial year. £0.9m of Grant in Aid was received in 2014-15 (2013-14: NIL).

# Annual review

## OPERATIONAL PERFORMANCE AND ACTIVITY

	2011-12	2012-13	2013-14	2014-15
Contacts	75,420	71,195	69,500	59,000
Complaints	22,350	20,500	19,450	18,185
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)	(10,175)
Less complaints resolved without investigation	(231)	(503)	(586)	(375)
Complaints accepted for investigation	8,420	8,430	8,323	7,635
Less complaints accepted but subsequently closed as not within our jurisdiction.	(965)	(800)	(704)	(480)
Reduction in work in progress	-	-	436	285
Cases resolved (complaints falling within our jurisdiction) *	7,455	7,630	8,055	7,440
- Of which resolved by Ombudsman Decision	2,717	2,990	3,059	3,054
Cost of the Ombudsman scheme £,m*	17.002	16.542	15.709	12.770
Unit cost	£2,281	£2,168	£1,950	£1,716

**Note: \* Legal Jurisdiction. Used for calculating our unit cost KPI.**

We resolved 7,440 cases in 2014-15, down by just over 600 on the previous year. The underlying demand for full investigations reduced over the year with increases in complaints about residential conveyancing activity due to an improving housing market being more than offset by reductions in complaints about family law matters and, to a lesser extent, a reduction in complaints about wills and probate.

We do not include the 375 complaints that we are able to resolve without any need for an investigation (2013-14: 586 complaints), nor the 10,175 complaints where a complainant has not yet used the lawyer's complaint procedure or where the complaint is outside of our time limits (2013-14: 10,541 complaints) when calculating our unit cost measure.

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 480 complaints, which we started to investigate, were closed down for this reason during 2014-15 (2013-14: 704 complaints).

To calculate our unit cost measure we count only the 7,440 complaints that we have investigated and resolved which fall within our jurisdiction (2013-14: 8,055).

### KEY RELATIONSHIPS

The OLC is directly accountable to the MoJ for its financial management. Funding for the Legal Ombudsman's activities for the legal sector comes from a levy on the legal

profession set by the Legal Services Board, and which requires approval from the Secretary of State before it can be charged.

The OLC's activities for the Claims Management sector is funded by Grant in Aid from the MoJ. The MoJ separately charges a levy on the Claims Management sector to recover this expenditure.

All OLC expenditure is classified as public spending. In addition to the OLC's relationship with the MoJ, the OLC is accountable to the LSB for the performance of the Ombudsman Scheme. The LSB also approves our budget, may set performance targets, and is also responsible for appointing and removing the OLC Board members.

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 (KPIs)

Our 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.

# Annual review

## 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, and once we have confirmed that they have complained first to their service provider 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 (by brokering a solution that is acceptable to both parties), 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.

The OLC and management team set targets for 2014-15 and organisational efficiency of resolving on average:

- 40% of cases within 56 days (2013-14: no target set), and
- 70% of cases within three months (2013-14: 60%), and
- 95% of cases within six months (2013-14; 90%), and
- all our cases within a year (2013-14:100%).

KPI	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Resolve 40% of cases within 56 days	39%	31%	37%	40%	33%	32%	34%	36%	34%	26%	31%	33%
Resolve 70% of cases within 90 days	71%	70%	65%	73%	73%	63%	62%	66%	65%	59%	58%	60%
Resolve 95% of cases within 180 days	95%	95%	94%	95%	95%	92%	95%	94%	92%	92%	93%	92%
Resolve 100% of cases within 365 days	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

We continue to work toward achieving these more stretching targets, but did not succeed in 2014-15. The pace and degree of organisational change experienced during the second half of the financial year resulted in some disruption to day to day performance which is visible in the timeliness measures in December 2014 to March 2015. This has continued into 2015-16.

## 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 have 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.

In 2013-14 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 continue to develop our new approach, using a risk and thematic based framework to allow us deeper insight and a more responsive approach.

Our external quality measure is taken from our independent customer satisfaction survey. This survey provides 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. Like other ombudsman schemes we know that the outcome of a case will significantly influence how our customers rate satisfaction with our service. So where we do not uphold a complaint made to us, consumers are much more likely to report dissatisfaction with our service than where we decide to uphold a complaint made to us. For that reason we report satisfaction with our service separately according to whether respondents were or were not satisfied with the outcome of their case.

Customers who were satisfied with the outcome of a complaint to the Legal Ombudsman continue to report high levels of satisfaction with the service they receive from us. We are taking steps to identify the underlying reasons for the decrease in satisfaction levels for those dissatisfied with the outcome of a complaint, including commissioning a piece of qualitative research to develop a more detailed understanding of the needs and expectations of customers, and of the factors that determine satisfaction with our service. This will assist us in making evidence-based decisions as to how we can best work to continuously improve the service we offer.

	AVG 2012-13		AVG 2013-14		AVG 2014-15	
	COMPLAINANT	LAWYER	COMPLAINANT	LAWYER	COMPLAINANT	LAWYER
% of respondents satisfied with the outcome of their case who were satisfied with the Legal Ombudsman's service.	97%	95%	96%	97%	96%	93%
% of respondents dissatisfied with the outcome of their case who were satisfied with the Legal Ombudsman's service	43%	38%	33%	38%	23%	28%

## Annual review

### COST

We had two key targets for 2014-15; to remain within our budgeted expenditure and to achieve a unit cost of £1,750.

The total expenditure of the Ombudsman scheme's legal jurisdiction for 2014-15 was £12.8m (2013-14: £15.7m), against a budget expenditure of £13.9m (2013-14: £17.0m). We set our annual budget following public consultation and taking into account expected demand forecasts. Our unit cost for 2014-15 was £1,716 (2013-14: £1,950). 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.

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.

Legal Services Activities	2011-12	2012-13	2013-14	2014-15	Budget 2015-16
Budgeted expenditure of the scheme £'m	19.400	16.997	16.994	13.867	12.207
Actual expenditure £'m	17.304	16.657	15.831	12.764	-
Less non Ombudsman Scheme activity, taxation and interest received £'m	0.302	0.115	0.122	0.006	-
Total cost of the ombudsman scheme (A) £'m	17.002	16.542	15.709	12.770	-
Year on year cost reduction	-	2.7%	5.0%	18.7%	4.4%
Cases resolved during the year (B)	7,455	7,630	8,055	7,440	7,600
Unit cost (A divided by B)	£2,281	£2,168	£1,950	£1,716	£1,606
Year on year unit cost reduction	-	5.0%	10.1%	12.0%	6.4%

During 2014-15 we also established and commenced operation of a new jurisdiction to resolve complaints about Claims Management Companies. We started to take complaints about Claims Management Companies on 28 January 2015. Total expenditure of £0.85m was incurred during 2014-15 for the implementation and first two months of operation of this new activity (2013-14:£0.08m). Expenditure for each jurisdiction is set out in Note 2 of the accounts.

### 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. In 2014-15 85% of complainants and 53% of lawyers agreed.



The survey (conducted between September 2013 and October 2014) 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 each parties' 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	Satisfied with outcome	Dissatisfied with outcome
I would speak highly (4-5)	85%	7%
I would be neutral (3)	11%	15%
I would be critical (1-2)	4%	78%

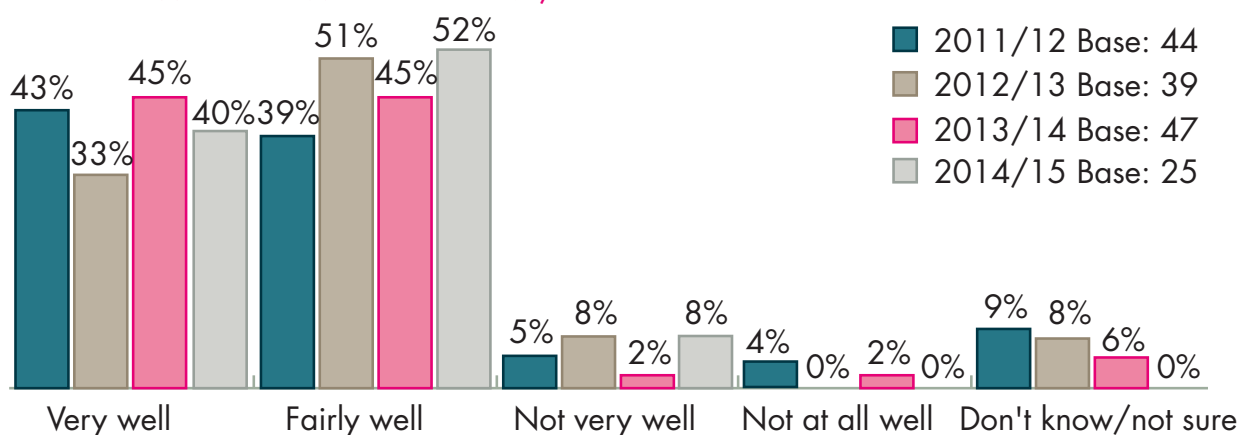
Lawyers	Satisfied with outcome	Dissatisfied with outcome
I would speak highly (4-5)	53%	3%
I would be neutral (3)	38%	22%
I would be critical (1-2)	9%	75%

- **Stakeholder satisfaction:** The percentage of stakeholders satisfied with overall level of engagement. 92% of stakeholders surveyed agreed.

Reputation Indicator	2011-12	2012-13	2013-14	2014-15
Percentage of stakeholders satisfied with overall level of engagement.	82%	85%	90%	92%

## Annual review

### OVERALL, HOW WELL HAS THE LEGAL OMBUDSMAN ENGAGED/WORKED WITH YOU AND/OR YOUR TEAM?



Stakeholders are very positive about our overall levels of engagement with them. 92% of respondents said that we had engaged well with them and their team in 2014-15, representing an increase of 2% on the previous year, and 10% from the first survey two years ago. This is the highest net agreement level since the survey began, with agreement noticeably higher among ombudsman and complaint handling bodies where 75% (3 out of 4) felt the Legal Ombudsman had engaged with them 'very well' and the remaining 25% said they had done so 'fairly well'.

While the percentage of stakeholders satisfied with overall level of engagement increased from 90% to 92%, we note that within this measure there has been a shift from those who said we did 'very well' from 45% in 2013-14 down to 40% in 2014-15, and a shift in those who said we did 'fairly well' from 45% in 2013-14 up to 52% in 2014-15.

### IMPACT

We gather information for this impact measure through an annual survey (the last one was distributed in January and February 2015) 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:** 65% 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."*

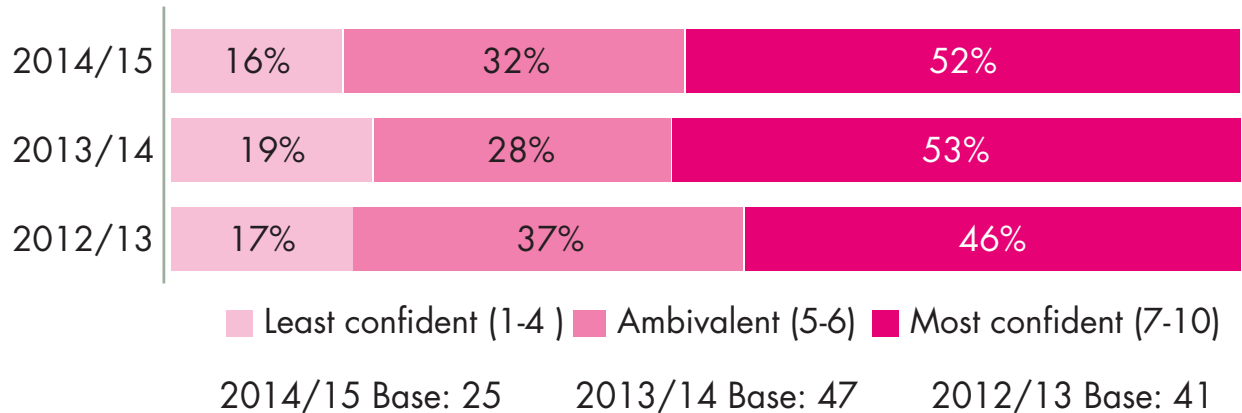
Impact Indicator	2011-12	2012-13	2013-14	2014-15
Percentage of stakeholders who have confidence in our delivery against our mission.	56%	56%	59%	65%

65% of our stakeholders are confident that we can deliver against our mission.

Year on year 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. They are also more positive about delivery against our vision.

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

*"Everyone can access legal services in which they can have confidence."*



**Awareness:** 77% 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?"*

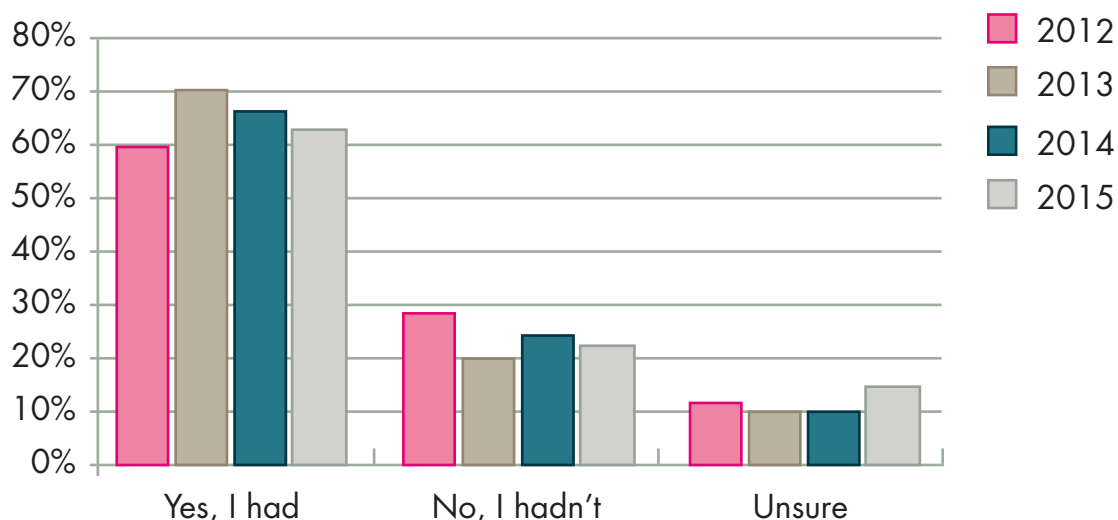
Impact Indicator	2012-13	2013-14	2014-15
Percentage of users of legal services in the last two years that have heard of the Legal Ombudsman	78%	78%	77%

Respondents that had personally used and/or paid for a legal service in the past two years has slightly decreased from the previous year's figure of 78% to 77%.

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.

## Annual review

### BEFORE TAKING THIS SURVEY, HAD YOU HEARD OF THE LEGAL OMBUDSMAN?



**Base: 2015 = 2186, 2014 = 1864, 2013 = 1839, 2012 = 1817 (All adults in England and Wales)**

63% of all respondents surveyed said that they had heard of the Legal Ombudsman. This represents a decrease of 3% from 2014 but higher than the starting point for measurement of 60%.

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](http://www.legalombudsman.org.uk).

### EMPLOYEES AND SOCIAL COMMUNITY ISSUES

As at 31 March 2015, the Legal Ombudsman had 218 full time employees (2013-14: 203) and 30 part time employees (2013-14: 18). 67% of the staff complement were women (2013-14: 65%). 2.9% of working days were lost to sickness including absence for planned operations (2013-14: 2.4%).

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 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 employees' 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 continues to equality assess all its work such as our move to new offices, new case management system, and claims management jurisdiction to ensure we improve customer access, experience and outcomes.

Our commitment is that customers are treated as individuals. We use insight about our customers to understand their individual needs, preferences and are committed to tailoring our services in response. Our customer equality data collection has revealed that people from a Black Asian Minority Ethnic background are consistently less satisfied with our service as they are with legal services more generally. Also, we have observed that more women than men are likely to agree a mutually acceptable solution to their complaint rather than the complaint needing to be resolved by an ombudsman's decision. We will build into our research plans for 2015-16, the need to better understand the reasons for these findings. In the coming year we will redesign our website and launch an online portal to make our services more accessible to customers.

We continue to support our staff by developing in-house resources which provide staff with a focal point and formalise our internal processes, such as the development of a 'challenging behaviour' online tool. We have supported and trained staff on a range of equality issues arising from day to day case management particularly on developing appropriate communication and implementing positive disability practice.

We have an elected Staff Council to support colleagues in communicating with and being consulted more effectively by the Legal Ombudsman on employment matters.

Our equality data collection work has allowed us to monitor uptake and satisfaction levels for staff across all equality categories and we act on any trends seen in the staff survey. We benchmark the diversity profile of our workforce against the economically active populations of the West Midlands from where we draw most of our staff. We did not meet the benchmarks in the categories of age and ethnicity and have identified positive action in this regard.

We are keen that we continue to build our relations with other ombudsman schemes.

# Annual review

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## 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 14 days.

## PENSIONS

The OLC has a defined contribution group personal pension scheme to which the OLC makes fixed contributions but has no other liabilities. The OLC allows 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 provided Internal Audit services to the OLC. During the year to 31 March 2015 KPMG has indicated that the cost of internal audit work performed amounts to £28,236 (2013-14: £54,488) 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 Schedule 15 Section 26(5). For the year to 31 March 2015 the C&AG has estimated that the cost of work performed will be £41,000, £10,000 of which relates to the 2013-14 Annual Report but is accounted for in this financial year (2013-14: £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.

**Catherine Lee**  
**Interim Accounting Officer**  
**25 January 2016**

## Remuneration report

The remuneration of the Chief Ombudsman and the Board members is shown in the tables below and has been subject to audit. Only Board Members are included in this report. They are the only ones who influence the decisions of the OLC as a whole rather than 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
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 Chair)	1 April 2014	31 Mar 2017
Stella Manzie (lay)	1 April 2014	11 Mar 2015
Philip Plowden	1 April 2014	31 Mar 2017

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

Board Remuneration (Audited)	Annual Rate £	Year to March 2015 £	Year to March 2014 £
Steve Green (Chair)	52,500	52,500	-
Rosemary Carter	10,000	10,000	10,000
Tony Foster	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
Stella Manzie	10,000	9,470	-
Philip Plowden	10,000	10,000	-

## Remuneration report

The Chair's remuneration reflects the 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 has been no compensation paid to Board members for loss of office.

The Chief Executive Officer & Chief Ombudsman (CE), Adam Sampson, was remunerated by the OLC as follows:

<b>(Audited)</b>	<b>Salary £</b>	<b>Pension £</b>	<b>Salary Sacrifice Pension Scheme £</b>	<b>Other Benefits £</b>	<b>Total £</b>
Year to 31 March 2015	132,560	15,389	6,933	12,299	167,181
Year to 31 March 2014	130,972	13,787	6,893	15,158	166,810

The Interim Chief Executive Officer, Ian Brack, took up his post on 8 December 2014. The Interim Chief Executive Officer was engaged through an interim recruitment agency. The OLC incurred the expenditure of £88,200 in respect of his services for the period from 8 December 2014 to 31 March 2015.

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 CE's contract provided for six months' notice on either side. On 17 November 2014 the CE tendered his resignation. The Board accepted his resignation but having already commenced a disciplinary investigation into the issues relating to expenditure he incurred, resolved to complete it. The conclusion of the disciplinary investigation was that the CE would be dismissed with notice. The CE remained employed but was suspended from duties on 18 November 2014. During the suspension period, he continued to be paid in accordance with the terms of his contract which ended on 17 May 2015.

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 2014-15 was £151,792 (2013-14: £153,023). This was 4.6 times (2013-14: 4.8) the median remuneration of the workforce in March 2015, which was £33,147 (2013-14: £31,623).

In 2014-15, no employees received remuneration in excess of the highest paid director (2013-14: none). Remuneration ranged from £12,724 to £151,792 (2013-14: £13,304 to £153,023).



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 (2013-14: £7,000), a Flexible Benefit allowance of £4,147 (2013-14: £4,136) and benefits in kind of £1,152 (2013-14: £4,022). Included within the CE's pay for 2014-15 was £250 in respect of a recognition payment. This payment was made to reflect the strong performance of the Ombudsman scheme in 2013-14, when the OLC met and exceeded all of its performance targets. All staff received this £250 recognition payment.

All employees are subject to the organisation's pay policy. Under this policy Chief Ombudsman and Chief Executive 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.

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 the 2013-14 Accounts the OLC identified some issues relating to expenditure incurred by the OLC's then CE and Accounting Officer, 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 **27 to 40**.

Several items of expenditure incurred by Mr Sampson that were 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 2014-15 financial years have been included in this Remuneration report.

During 2014-15 Mr Sampson incurred travel expenses which constitute a benefit in kind totalling £1,152. The taxation implications of the amounts provided to Mr Sampson over the last six 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, if applicable, 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. These totalled £3,232. Of these expenses £428 were in respect of 2014-15, £1,222 were in respect of 2013-14 and a further £1,583 were in respect of previous years. The OLC recovered this expenditure by deduction from Mr Sampson's final pay.

## Remuneration report

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These findings demonstrated that internal controls in respect of certain aspects of expenses and remuneration were not adequate, and as a result the OLC has undertaken a thorough review of remuneration paid to all senior staff to ensure that all amounts have been correctly identified, recorded, disclosed and authorised. No other issues were found as part of this review. The OLC has also reviewed its internal controls in respect of payments made to senior staff and also its governance in relation to these areas.

**Catherine Lee**  
**Interim Accounting Officer**  
**25 January 2016**

## OLC and Accounting Officer's responsibilities

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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.

In 2009 the PAO of the MoJ appointed Adam Sampson, then 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).

During the year, the CE's designation as Accounting Officer was withdrawn, and the Permanent Secretary of the MoJ (as PAO) assumed the responsibilities of the Accounting Officer for the OLC. In August 2015 the PAO of the MoJ retired. Prior to her departure, the PAO of the MoJ delegated Interim Accounting Officer responsibilities to the MoJ Director General of Justice and Courts Policy Group. See the Governance Statement for further details.

# Governance Statement

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## 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. The LSB must consent to these changes. Changes to the amount charged for a case fee also requires the consent of the Lord Chancellor. 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 consumer groups.

## Governance Statement

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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 interest.

As an independent organisation sponsored by the MoJ, the OLC also has responsibilities directly to that Department. The LSB and the OLC's Framework Documents outlines that the ongoing financial oversight of the OLC lies with the MoJ and the oversight of the OLC's performance lies with the LSB.

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 in accordance with financial transaction limits set by the MoJ, which incorporate the Cabinet Office and HM Treasury spending controls, 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 in the 2013-14 annual report, issues were identified during late 2014-15 with the way that the Flexible Benefit scheme and the Total Remuneration Supplement allowance scheme were conceived, designed, implemented and operated since 2010, without obtaining the MoJ's prior written approval. In January 2015 the then Interim Accounting Officer (Dame Ursula Brennan) determined these schemes to be novel and contentious and decided not to retrospectively approve the payments made under them. All amounts paid under these schemes are therefore considered irregular expenditure, meaning they are outside the ambit of expenditure approved by Parliament.

Despite the determination that the Flexible Benefits scheme is novel and contentious and the Accounting Officer's decision not to retrospectively approve the payments made under the scheme, independent legal advice confirmed that the OLC has contractual commitments to its employees which prevented the immediate suspension or withdrawal of these schemes. As a result of these contractual obligations these schemes were continued pending agreement with the MoJ and HM Treasury regarding how to regularise these schemes. Contracts for employees recruited after July 2015 do not include a Flexible Benefit allowance but these employees remain eligible to purchase scheme benefits by salary deduction.

The OLC has considered a number of options which balance its contractual commitments with the need to replace the existing scheme with one that the Accounting Officer and HM Treasury considered appropriate. In December 2015 the OLC submitted a proposal to the Interim Accounting Officer which it believes minimises the legal risks to the organisation while ensuring that no subsequent remuneration arrangements are considered to be novel or contentious and therefore irregular. This proposal is currently with HM Treasury for consideration. Until this proposal is approved and subsequently implemented the OLC continues to meet its existing contractual commitments.

### APPOINTMENT AND TERMINATION OF OLC MEMBERS

On 31 March 2015 four OLC members, Rosemary Carter, Tony Foster and David Thomas and Maureen Vevers completed their terms of office and stepped down from the OLC. Stella Manzie also stepped down from the OLC on 11 March 2015 following her appointment as a Commissioner to Rotherham Borough Council. During 2014-15 there were no other amendments to the OLC membership.

Five new OLC members were appointed with effect from 1 April 2015 for a three year term ending on 31 March 2018. These OLC members are Michael Kaltz (lay member), Tony King (lay member), Dr Bernard Herdan (lay member), Jane McCall (non-lay member), and Caroline Coates (non-lay member)

A table of OLC members for 2014-15 and new OLC members, together with the term of their appointment, is set out in the Remuneration report.

### BOARD PERFORMANCE AND CORPORATE GOVERNANCE

Schedule 15.1 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 15.4.

OLC meetings were fully compliant with the other requirements of its governance arrangements and rules of procedure. 10 OLC meetings took place during 2014-15 and the following table records the attendance of OLC members during this period.

# Governance Statement

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## MEMBERS' ATTENDANCE AT OLC MEETINGS 2014-15

Steve Green (Chair)	Attended 10 of 10
Rosemary Carter	Attended 8 of 10
Tony Foster	Attended 9 of 10
David Thomas	Attended 10 of 10
Karen Silcock	Attended 10 of 10
Maureen Vevers	Attended 9 of 10
Stella Manzie	Attended 9 of 10
Philip Plowden	Attended 9 of 10

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 2014 to March 2015 four Audit and Risk Committee meetings took place and the following table records the attendance of committee members during this period.

<b>Members</b>	<b>Meeting attendance 2014-15</b>
Karen Silcock (Chair)	Attended 4 of 4
Tony Foster	Attended 4 of 4
Philip Plowden	Attended 4 of 4

### AUDIT AND RISK COMMITTEE REPORT

During this financial year the committee agreed internal and external audit plans and received regular updates from both on the effectiveness of the organisation's internal control systems. Along with the OLC, we regularly reviewed the risk assurance framework and the process for identifying and

managing the principal risks associated with the operation of an arms' length body. 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.

Audit and Risk Committee members and attendees self-assessed its effectiveness based on the January 2012 National Audit Office publication "The Audit Committee Self-Assessment Checklist".

Feedback from this process has been passed to the new Chair of the Committee, Michael Kaltz, for his use in considering the further development of the Committee.

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 in what has been a challenging period for the OLC.

**Karen Silcock**  
**June 2015**

#### 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 2014 to March 2015 three Remuneration and Nomination Committee meetings took place and the following table records the attendance of committee members during this period.

<b>Members</b>	<b>Meeting attendance 2014-15</b>
Rosemary Carter (Chair)	Attended 3 of 3
Maureen Vevers	Attended 3 of 3
Stella Manzie	Attended 3 of 3

#### REMUNERATION AND NOMINATION COMMITTEE REPORT

I am pleased to present the sixth annual report of the OLC Remuneration and Nomination Committee. The committee was set up in May 2009 and is responsible for providing support on the implementation and review of the organisation's human resources and reward strategies. In April 2014, the committee membership changed to reflect new Board appointments with Stella Manzie joining the Remuneration and Nomination Committee as a lay member.

The work of the committee has continued throughout the year to review the range of HR policies. This review has been widened to incorporate an organisation-wide review of all policies and the committee has worked with the Audit and Risk Assurance Committee and the main OLC Board to provide oversight.

## Governance Statement

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The committee has worked with the management team to ensure staffing and training was in place for the successful implementation of the new CMC jurisdiction in January 2015.

The committee has focused on the staff survey and work on staff engagement supporting management to ensure survey results are responded to appropriately and staff morale monitored. This also fed into the work being done internally on the organisation's culture and values.

The committee worked with management on the positive action strategy which was implemented for recruitment campaigns at the end of 2014. Initial feedback and results were tracked to ensure its success.

Work also continued with the equalities and diversity manager to ensure momentum continued. The equality policy and strategy are scheduled for discussion at the main OLC board to highlight the work being done internally and externally to drive awareness.

The committee has completed a self-assessment review of its effectiveness. Feedback from this process will be taken forward by the new chair of the committee, Bernard Herdan.

As I write my final committee report, I would like to extend my personal thanks to Maureen Vevers and Stella Manzie, whose input has been invaluable. Finally the committee extends its grateful thanks to the staff of the Legal Ombudsman for their support of the work of the committee.

**Rosemary Carter**  
**July 2015**

### OLC OVERSIGHT OF THE LEGAL OMBUDSMAN

The OLC met together ten times during the year with the Chief Executive, Chief Ombudsman, Chief Operating Officer, Head of Policy & Communications and General Counsel in attendance. 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 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.



Any changes to organisational design are discussed with, and where appropriate, agreed by the OLC. In January 2015 the OLC reviewed its senior management structure and split the roles of Chief Executive and Chief Ombudsman. The OLC also anticipates that the Chief Executive Officer will review the senior management structure and expects to review and where appropriate approve further changes to existing senior management structures during 2015-16.

OLC members shadow key areas of the business and form links with relevant LSB members.

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 Chief Executive. Following the suspension of the previous Chief Executive, who also held the role of Chief Ombudsman, the roles of Chief Executive Officer and Chief Ombudsman were separated. As at 31 March 2015 both the posts of Chief Executive and Chief Ombudsman were occupied in an interim capacity.

The Chief Executive is supported by a Management Team which comprises the Chief Operating Officer and other senior managers 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 regularly updated intranet and the use of audio visual displays around the office.

### RISK MANAGEMENT AND KEY RISKS

The Corporate risk register identifies "Risk Assurance measures" which are used to highlight activities or occurrences which might indicate a heightened risk. Risk measures are reported using a Red, Amber, and 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.

## Governance Statement

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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 accountability for and visibility of risk and also provides an effective reporting of action plans in place to manage risks.

As at the end of the year the OLC had nine risk elements where significant action was required, four risk elements where material enhancement activity is required and thirteen risk elements where some enhancement activity is required. The nature of these risks are summarised below:

- Re-procurement of business critical services: The organisation is reliant on a number of key suppliers for the delivery of services. The contractual arrangements for a number of business critical services expire during early 2015-16. Significant activity was required to re-procure these services during the first half of 2015-16.
- Regulation and governance: The PAO's determination in January 2015 that payments under the flexible benefits and total remuneration supplement schemes are irregular means that significant action is required to regularise these arrangements.
- Regulation and governance: Significant action is required to work more closely with the MoJ to ensure that relevant officials are appropriately engaged, advise, and provide appropriate support and approvals, in line with financial delegations.
- People: Changes in senior management and continuing uncertainty regarding changes required to remuneration for all staff as a result of the existing Flexible Benefit scheme being considered irregular has increased the risk of loss of continuity and knowledge from the organisation, both within the senior management team and across the organisation.
- Changes to our existing jurisdiction: We need to ensure that recent changes to our existing jurisdiction do not undermine our ability to continue to deliver a high quality complaint handling service for our legal services stakeholders. We also need to ensure that the Ombudsman scheme responds in an appropriate manner to the European ADR Directive.

- Key projects do not deliver to time or budget: There are three significant projects which will run into 2015-16.
  - We will continue to embed the new case management IT system and as part of this implementation to review and improve our business process in order to deliver the efficiencies potentially available from this new technology.
  - We will re-procure, and update our IT infrastructure. This provides an opportunity for significant enhancements in cost and functionality, but will also require careful management in order to avoid business disruption.

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 2014-15 there were 14 incidents during the year all of which were duly reported to the Audit and Risk Committee. 5 of these incidents related to incorrectly addressed correspondence and 9 were near misses.

## 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.

In addition, in the light of matters brought to the attention of the Audit Committee Chair, Internal Audit was asked to undertake a separate review of adherence to certain aspects of the policies covering procurement, staff expenses and recruitment.

KPMG has delivered five audits in total for 2014-15; three of these were undertaken during the year and two were completed after the year end. The Audit Committee initially agreed to an input of 49 days. In total 37 days have been delivered during 2014-15.

## Governance Statement

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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 2014-15 to the OLC:

“We have reviewed the Office for Legal Complaints systems in accordance with the 2014-15 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 Programme Compliance, Financial Systems, Complaints Handling, Corporate Governance and Business Continuity and Disaster Recovery.

In giving this opinion, it should be noted that assurance can never be absolute and can only address those risks related to which Internal Audit work has been performed during 2014-15.

Notwithstanding our overall opinion, our work identified a number of opportunities for improving controls and procedures which management has responded to positively. In particular we note there are a number of areas which require addressing in relation to Business Continuity and Disaster Recovery. We are satisfied that management is monitoring and tracking these areas.”

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

As reported in the 2013-14 accounts, the Principal Accounting Officer (PAO) of the MoJ, the sponsoring Department of the OLC, was alerted by the Chair of the OLC to potential issues with expense claims and credit card expenditure incurred by the OLC’s Chief Executive and Accounting Officer, Mr Adam Sampson. These potential issues came to light as a result of whistleblowing letters that were 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 2015. The OLC subsequently also undertook a further detailed review of all CE expense claims and credit card expenditure incurred during 2014-15.

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 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 PAO of the OLC's Sponsor Department, is responsible for delegating Accounting Officer responsibilities to relevant Chief Executives of Agencies and Arm's 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 the PAO 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, the PAO of the MoJ took the decision on 13 November 2014 to suspend Mr Sampson's Accounting Officer delegation. The PAO was subsequently appointed as Accounting Officer for the OLC on 14 November 2014 by HM Treasury on an interim basis in the intervening period. Following the 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 Chief Executive and Chief Ombudsman 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, the PAO took the decision to formally remove Mr Sampson's delegation as Accounting Officer of the OLC on 8 January 2015 on the basis that she did not consider he was a fit and proper person to retain this responsibility.

In August 2015 the PAO of the MoJ retired. Prior to her departure, the PAO of the MoJ delegated Interim Accounting Officer responsibilities to me. For this reason, I am signing the 2014-15 Annual Report and Accounts in my capacity as Interim Accounting Officer of the OLC.

## ISSUES IDENTIFIED IN CHIEF EXECUTIVE EXPENSES

### **Travel expenses between London and Birmingham**

As reported in the 2013-14 annual report, 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 his 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.

## Governance Statement

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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 April 2014 and November 2014, when concerns regarding this arrangement were identified, a total of £1,152 was claimed by Mr Sampson under this arrangement.

The design of this arrangement, its implementation, operation and the amount of £1,152 claimed under it during 2014-15, 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 and;
- 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;
- Payments were made to Mr Sampson without his 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. The PAO of the MoJ, the OLC's sponsoring Department, decided in January 2015 not to retrospectively approve the amounts claimed under the arrangement. As such, the £1,152 claimed by Mr Sampson under this arrangement is considered to be irregular expenditure, meaning it is outside the ambit of expenditure approved by Parliament.

### Taxation implications

The £1,152 claimed in total by Mr Sampson under the travel expenses arrangement during 2014-15 is deemed to be a taxable allowance. These amounts have benefit in kind tax implications. These have been presented as such in the Remuneration report contained on pages **23 to 26**.

The expense amounts incurred between 2009 and 2015 were not subject to the correct tax treatment at the time they were claimed or incurred and it is possible that 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. During 2014-15 a total of £33,236 has been paid by the OLC under the scheme. 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 reported in the 2013-14 annual report and accounts the PAO considered the manner in which the TRS scheme was conceived, designed, implemented and operated. She concluded that the scheme itself and all amounts that have been paid under it are of a novel and contentious nature. In January 2015 she decided not to retrospectively approve the total payments made under the scheme. As such, the total amount paid under the scheme during the financial year 2014-2015 of £33,236 is considered to be irregular expenditure.

### **Taxation implications**

All TRS payments have had the appropriate tax treatment applied; as such there is no tax liability.

## ISSUES IDENTIFIED WITH THE FLEXIBLE BENEFITS SCHEME

As reported in the 2013-14 annual report and accounts, 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.

## Governance Statement

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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.

In January 2015 the PAO determined that the FBS was 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. The PAO decided not to retrospectively approve the total payments made under the scheme. As such, the amount paid under the scheme during the financial year 2014-15 of £210,444 is considered to be irregular expenditure.

### **Taxation implications**

All FBS payments have had the appropriate tax treatment applied; as such there is no tax liability.

### **Improvement activities**

Subsequent to the year end the OLC and MoJ jointly commissioned an independent review of governance and financial controls which was completed in December 2015.

The review found that the OLC had put in place a number of good building blocks for governance and management control and noted that there had been improvement at the OLC following the recent changes in senior management and at the Board level. However, the review also highlighted several areas where improvement in the governance and control at OLC could be made.

The OLC have prepared an action plan to address the recommendations of the review. Alongside this, the OLC, MoJ and LSB will be taking forward steps to implement the wider recommendations. At the time of this report, joint work between the OLC, MoJ and LSB is already underway.

**Catherine Lee**  
**Interim Accounting Officer**  
**Director General, Justice and Courts Policy Group, Ministry of Justice**  
**25 January 2016**



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

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I certify that I have audited the financial statements of the Office for Legal Complaints for the year ended 31 March 2015 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.

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

## **BASIS FOR QUALIFIED OPINION ON REGULARITY**

In 2014-15 the Office for Legal Complaints made payments in respect of a remuneration scheme for senior staff and flexible benefit scheme for the employees, which I consider to be novel and contentious. The nature of these payments came to light during the course of my audit of the 2013-14 accounts and the payments have continued this year. In accordance with Managing Public Money, novel and contentious payments must be approved by HM Treasury or, in this case under delegation, by the Ministry of Justice. 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 **43**.

## **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 2015 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 there under.

## **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**  
**27 January 2016**

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

## **Report of the Comptroller and Auditor General on the 2014-15 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 2014-15 financial statements.

### **QUALIFICATION OF MY REGULARITY OPINION**

3. As I have reported previously, during the course of my audit of the OLC's 2013-14 accounts, concerns were raised 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. Two of these payments, which are summarised below, have continued during 2014-15:

- The payment of an extra-contractual 'Total Remuneration Supplement' to the previous Accounting Officer and other senior members of staff (£33,236); and
- Payments made under a Flexible Benefits Scheme to the previous Accounting Officer and to all members of staff (£210,444 in total).

5. The Accounting Officer of OLC is obliged to adhere to the requirements of Managing Public Money. This sets out the responsibilities for an Accounting Officer in managing public funds and safeguarding assets. Managing Public Money requires that 'novel and contentious' payments must be authorised by HM Treasury or, under delegation, by the Ministry of Justice as sponsor department of OLC.

# Report of the Comptroller and Auditor

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## General on the 2014-15 Accounts of the

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### Office for Legal Complaints

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6. These payments were not authorised by the Ministry at the time they were made and nor have they been retrospectively authorised. Therefore they do not conform with the authorities which govern them. I have therefore qualified my opinion on regularity.

7. 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

8. Following identification of these issues, the OLC sought legal advice which confirmed that it has contractual commitments to its employees which prevented the immediate suspension or withdrawal of either of these schemes. As a result of these contractual obligations, payments under the schemes continued pending agreement with the Ministry of Justice and HM Treasury regarding how to regularise these schemes.

9. The OLC has considered a number of options which balance its contractual commitments to staff with the need to replace the existing scheme with one that the Accounting Officer and HM Treasury considered appropriate. In December 2015 the OLC submitted a proposal to the Accounting Officer which it believes minimises the legal risks to the organisation while ensuring that no subsequent remuneration arrangements are considered to be novel or contentious and therefore irregular. This proposal is currently with HM Treasury for consideration. Until this proposal is approved and subsequently implemented, the OLC continues to meet its existing contractual commitments.

10. The OLC undertook a review of governance and financial controls which was completed in December 2015. The review found that the OLC had put in place a number of sound building blocks for governance and management control and noted that there had been improvements following recent changes in senior management and at Board level. However, the review also highlighted several areas where further improvements in governance and control at OLC could be made. Details of these can be found in the Governance Statement. The OLC are planning to address these recommendations in the coming year.

11. I will review the implementation of the recommendations from the governance review as part of my audit of the OLC's 2015-16 financial statements.

**Sir Amyas C E Morse**  
**Comptroller and Auditor General**  
**27 January 2016**

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 2015

<b>Expenditure</b>	<b>Note</b>	<b>2014-15 £'000</b>	<b>2013-14 £'000</b>
Staff costs	3	9,467	10,513
Depreciation, amortisation and impairment	4	442	998
Other expenditures	4	3,727	4,341
<b>Total</b>		<b>13,636</b>	<b>15,852</b>
<b>Income</b>			
Income from operating activities	5	12,765	15,709
Other income	5	6	122
<b>Total</b>		<b>12,771</b>	<b>15,831</b>
<b>Net expenditure</b>		<b>(865)</b>	<b>(21)</b>
Interest receivable		32	26
Taxation		(8)	(5)
<b>Net expenditure after interest and taxation</b>		<b>(841)</b>	<b>-</b>

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

The notes on pages **49 to 62** are part of these financial statements.

# Financial statements

## STATEMENT OF FINANCIAL POSITION

As at 31 March 2015

<b>Non-current assets:</b>	<b>Note</b>	<b>2015 £'000</b>	<b>2015 £'000</b>	<b>2014 £'000</b>	<b>2014 £'000</b>
Property, plant and equipment	6	1,133		597	
Intangible assets	7	535		61	
<b>Total non-current assets</b>			<b>1,668</b>		<b>658</b>

<b>Current assets:</b>					
Trade and other receivables	9	603		515	
Cash and cash equivalents	10	17,756		18,858	
<b>Total current assets</b>			<b>18,359</b>		<b>19,373</b>
<b>Total assets</b>			<b>20,027</b>		<b>20,031</b>

<b>Current liabilities</b>					
Trade and other payables	11	650		303	
Other liabilities	11	1,206		1,394	
<b>Total current liabilities</b>			<b>1,856</b>		<b>1,697</b>
<b>Non-current assets plus net current assets</b>			<b>18,171</b>		<b>18,334</b>

<b>Non-current liabilities</b>					
Provisions	12	346		583	
Financial liabilities	11	-		-	
<b>Total non-current liabilities</b>			<b>346</b>		<b>583</b>
<b>Assets less liabilities</b>			<b>17,825</b>		<b>17,751</b>

<b>Reserves</b>					
General reserve		17,825		17,751	
<b>Total</b>			<b>17,825</b>		<b>17,751</b>

**Catherine Lee**  
**Interim Accounting Officer**  
**25 January 2016**

The notes on pages **49 to 62** are part of these financial statements.

## STATEMENT OF CASH FLOWS

**For the year ending 31 March 2015**

<b>Cash flows from operating activities</b>	<b>Note</b>	<b>2014-15 £'000</b>	<b>2013-14 £'000</b>
Net expenditure after interest		(841)	-
(Increase)/decrease in trade and other receivables	9	(88)	(82)
Increase/(decrease) in payables	11	159	(269)
Change in provisions	12	(237)	389
Add back depreciation charge, impairment & loss on disposal	4	321	557
Add back amortisation charge	4	121	441
<b>Net cash outflow from operating activities</b>		<b>(565)</b>	<b>1,036</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	6	(864)	(239)
Purchase of intangible assets	7	(595)	(21)
Proceeds from Disposal		7	2
<b>Net cash outflow from investing activities</b>		<b>(1,452)</b>	<b>(258)</b>
<b>Cash flows from financing activities</b>			
Grants from sponsoring department		915	-
<b>Net financing</b>		<b>915</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents in the year</b>		<b>(1,102)</b>	<b>778</b>
<b>Cash and cash equivalents at the beginning of the year</b>	10	<b>18,858</b>	<b>18,080</b>
<b>Cash and cash equivalents at the end of the year</b>	10	<b>17,756</b>	<b>18,858</b>

The notes on pages **49 to 62** are part of these financial statements.

# Financial statements

## STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

For the year ending 31 March 2015

	Note	General reserve £'000	Total reserves £'000
<b>Balance at 31 March 2013</b>		<b>17,751</b>	<b>17,751</b>
<b>Changes in taxpayers' equity for 2013-14</b>		-	-
Retained surplus/deficit		-	-
Net Expenditure for the year		-	-
Grant from Ministry of Justice		-	-
Notional transfer to Consolidated Funds		(15,421)	(15,421)
Notional receipts from Sponsor		15,421	15,421
<b>Balance at 31 March 2014</b>		<b>17,751</b>	<b>17,751</b>
<b>Changes in taxpayers' equity for 2014-15</b>			
Retained surplus/deficit		-	-
Net Expenditure for the year		(841)	(841)
Grant from Ministry of Justice		915	915
Notional Transfer to Consolidated Funds	1.3	(12,477)	(12,477)
Notional Receipts from Sponsor	1.3	12,477	12,477
<b>Balance at 31 March 2015</b>		<b>17,825</b>	<b>17,825</b>

The notes on pages **49 to 62** 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 2014-15 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 2015, the OLC has sufficient cash resources to meet anticipated expenditure for financial year ending 31 March 2016. The MoJ also provides Grant in Aid where required to meet the net cash needs of the OLC. The MOJ provides Grant in Aid to fund the OLC's Claims Management Companies complaint related activities. 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 other 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.

## Notes to the Office for Legal Complaints accounts

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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 2015 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.

### **1.4 CMC income and expenditure**

During the year the OLC extended its jurisdiction to include CMC complaints. Set up costs incurred by OLC that are in direct relation to this project are recovered from MoJ. All amounts due from operating activities are funded by Grant in Aid.

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

- Leasehold improvements: over the residual life of lease, now 10 years.
- 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 in financial year 2013-14, several assets were not impaired at the time and have been impaired in this financial 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. 7.1.8. 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.

## Notes to the Office for

### Legal Complaints accounts

#### 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 2015.

	Legal Jurisdiction £'000	Claims Management Jurisdiction £'000	Total £'000
Gross expenditure	12,764	848	13,612
Income	12,764	7	12,771
<b>Net expenditure</b>	<b>-</b>	<b>841</b>	<b>841</b>
<b>Total assets</b>	<b>20,026</b>	<b>-</b>	<b>20,026</b>

All OLC assets have been allocated to the provision of the operation of the Legal Ombudsman scheme. Depreciation costs together with other central overheads are included within a recharge of shared overheads to claims management complaint handling activities.

### 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.

	<b>Total 2014-15 £'000</b>	<b>Permanent staff 2014-15 £'000</b>	<b>Other staff 2014-15 £'000</b>	<b>Total 2013-14 £'000</b>	<b>Permanent staff 2013-14 £'000</b>	<b>Other staff 2013-14 £'000</b>
Wages and salaries	8,112	7,499	613	8,435	8,154	281
Social security costs	745	745	-	864	858	6
Other pension costs	587	587	-	654	654	-
Exit packages	23	23	-	560	560	-
<b>Sub total</b>	<b>9,467</b>	<b>8,854</b>	<b>613</b>	<b>10,513</b>	<b>10,226</b>	<b>287</b>
Less recoveries in respect of outward secondments	-	-	-	(121)	(121)	-
<b>Total net costs</b>	<b>9,467</b>	<b>8,854</b>	<b>613</b>	<b>10,392</b>	<b>10,105</b>	<b>287</b>

#### Staff costs comprise:

#### Average number of persons employed

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

	<b>Total 2014-15 No.</b>	<b>Permanent staff 2014-15 No.</b>	<b>Other staff 2014-15 No.</b>	<b>Total 2013-14 No.</b>	<b>Permanent staff 2013-14 No.</b>	<b>Other staff 2013-14 No.</b>
Directly employed	225	215	10	239	237	2
Not directly employed	3	-	3	2	-	2
<b>Total</b>	<b>228</b>	<b>215</b>	<b>13</b>	<b>241</b>	<b>237</b>	<b>4</b>

## Notes to the Office for

### Legal Complaints accounts

#### 3.1 Reporting of Civil Service and other compensation - exit packages

2014-15 Exit Package Cost Band	Number of Compulsory Redundancies	Number of Other Departures Agreed	Total Number of Exit Packages by Costs Band
£10,000 - £25,000	-	1	1
<b>Total Number of Exit Packages</b>	-	<b>1</b>	<b>1</b>
<b>Total Cost / £</b>	-	<b>22,560</b>	<b>22,560</b>

In 2013-14 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.

2013-14 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
<b>Total Number of Exit Packages</b>	<b>7</b>	<b>34</b>	<b>41</b>
<b>Total Cost / £</b>	<b>95,768</b>	<b>464,095</b>	<b>559,863</b>

#### 4 OTHER EXPENDITURE

	Note	2014-15 £'000	2013-14 £'000
IT and telecoms		1,006	1,071
Premises costs		769	564
Rentals under operating leases		412	763
Facilities services		357	391
Legal and professional fees		349	184
External communications		168	231
Recruitment costs		138	48
Uncollectible debts		121	288
Training		114	82
Consultancy		81	33
Travel and subsistence		37	37
Other running costs		82	68
Audit fees		41	31
Internal audit fees		52	55
<b>Total cash items</b>		<b>3,727</b>	<b>3,846</b>
Provision for onerous lease in the year		-	285
Increase in dilapidations provision		-	210
Loss on Disposal of Assets		47	-
Impairment of assets		26	150
Depreciation	6	248	407
Amortisation	7	121	441
<b>Total non cash items</b>		<b>442</b>	<b>1,493</b>
<b>Total</b>		<b>4,169</b>	<b>5,339</b>

**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.**

## Notes to the Office for Legal Complaints accounts

### 5 INCOME

	2014-15 £'000	2013-14 £'000
Levy income from the Legal Ombudsman Scheme	11,691	14,513
Case fee income	1,074	1,196
<b>Sub total</b>	<b>12,765</b>	<b>15,709</b>
Income from Support Services, Secondments & Sundry	6	46
Claims Management jurisdiction on behalf of the Ministry of Justice.	-	76
<b>Total</b>	<b>12,771</b>	<b>15,831</b>

**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 2014-15 (see note 1.3).**

### 6. PROPERTY, PLANT AND EQUIPMENT

2014-15	Information technology £'000	Leasehold improvements £'000	Furniture and fittings £'000	Payments on account and assets under construction £'000	Total £'000
<b>Cost or valuation</b>					
At 1 April 2014	912	799	892	-	2,603
Additions	37	641	166	20	864
Disposals	(152)	(799)	(458)	-	(1,409)
Transfers	-	-	-	-	-
<b>At 31 March 2015</b>	<b>797</b>	<b>641</b>	<b>600</b>	<b>20</b>	<b>2,058</b>
<b>Depreciation</b>					
At 1 April 2014	692	699	615	-	2,006
Charged in year	73	112	63	-	248
Impairment charge	-	-	26	-	26
Disposals	(152)	(799)	(404)	-	(1,355)
<b>At 31 March 2015</b>	<b>613</b>	<b>12</b>	<b>300</b>	<b>-</b>	<b>925</b>
<b>Net book value at 31 March 2015</b>	<b>184</b>	<b>629</b>	<b>300</b>	<b>20</b>	<b>1,133</b>
<b>Net book value at 31 March 2014</b>	<b>220</b>	<b>100</b>	<b>277</b>	<b>-</b>	<b>597</b>



<b>2013-14</b>	<b>Information technology £'000</b>	<b>Leasehold improvements £'000</b>	<b>Furniture and fittings £'000</b>	<b>Payments on account and assets under construction £'000</b>	<b>Total £'000</b>
<b>Cost or valuation</b>					
At 1 April 2013	723	770	877	-	2,370
Additions	195	29	15	-	239
Disposals	(6)	-	-	-	(6)
Transfers	-	-	-	-	-
<b>At 31 March 2014</b>	<b>912</b>	<b>799</b>	<b>892</b>	<b>-</b>	<b>2,603</b>
<b>Depreciation</b>					
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)
<b>At 31 March 2014</b>	<b>692</b>	<b>699</b>	<b>615</b>	<b>-</b>	<b>2,006</b>
<b>Net book value at 31 March 2014</b>	<b>220</b>	<b>100</b>	<b>277</b>	<b>-</b>	<b>597</b>
<b>Net book value at 31 March 2013</b>	<b>171</b>	<b>332</b>	<b>415</b>	<b>-</b>	<b>918</b>

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

## 7 INTANGIBLE ASSETS

<b>2014-15</b>	<b>Information technology £'000</b>	<b>Software licenses £'000</b>	<b>Payments on account and assets under construction £'000</b>	<b>Total £'000</b>
<b>Cost or valuation</b>				
At 1 April 2014	2,565	1,162	-	3,727
Additions	440	143	12	595
Disposals	-	(11)	-	(11)
Transfers	-	-	-	-
<b>At 31 March 2015</b>	<b>3,005</b>	<b>1,294</b>	<b>12</b>	<b>4,311</b>
<b>Amortisation</b>				
At 1 April 2014	2,509	1,157	-	3,666
Charged in year	59	62	-	121
Disposals	-	(11)	-	(11)
<b>At 31 March 2015</b>	<b>2,568</b>	<b>1,208</b>	<b>-</b>	<b>3,776</b>
<b>Net book value at 31 March 2015</b>	<b>437</b>	<b>86</b>	<b>12</b>	<b>535</b>
<b>Net book value at 31 March 2014</b>	<b>56</b>	<b>5</b>	<b>-</b>	<b>61</b>

## Notes to the Office for

### Legal Complaints accounts

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

#### 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 £25,770. (2013-14: £150,000).

#### 9 TRADE RECEIVABLES AND OTHER CURRENT ASSETS

Amounts falling due within one year:	As at 31 March 2015 £'000	As at 31 March 2014 £'000
Case fee receivables	155	175
Deposits and advances	16	19
Intra-government balances – Ministry of Justice	-	42
Prepayments and accrued Income	432	279
<b>Total</b>	<b>603</b>	<b>515</b>

**Accrued income of £24,400 relating to unbilled case fees is included in prepayments and accrued income (2013-14: Nil).**

## 10 CASH AND CASH EQUIVALENTS

	<b>As at 31 March 2015 £'000</b>	<b>As at 31 March 2014 £'000</b>
Opening balance	18,858	18,080
Net change in cash and cash equivalent balances	(1,102)	778
<b>Closing balance</b>	<b>17,756</b>	<b>18,858</b>
<b>The following balances at 31 March were held at:</b>		
Government Banking Services	17,756	18,858
Short term investments	-	-
<b>Balance at 31 March</b>	<b>17,756</b>	<b>18,858</b>

## 11 TRADE PAYABLES AND OTHER LIABILITIES

<b>Amounts falling due within one year</b>	<b>Note</b>	<b>As at 31 March 2015 £'000</b>	<b>As at 31 March 2014 £'000</b>
Trade payables		515	227
Other payables		135	76
<b>Trade and other payables</b>		<b>650</b>	<b>303</b>
Intra-government balances – other taxation and social security		195	196
Intra-government balances – Ministry of Justice		-	-
Current part of finance lease	14.2	-	75
Accruals and deferred Income		1,011	1,123
<b>Other liabilities</b>		<b>1,206</b>	<b>1,394</b>
<b>Total</b>		<b>1,856</b>	<b>1,697</b>
<b>Amounts falling due after more than one year</b>			
Finance leases	14.2	-	-
<b>Total</b>		<b>-</b>	<b>-</b>

**Accruals and deferred income includes £179,714 in respect of capital additions (2013-14: £17,000).**

# Notes to the Office for Legal Complaints accounts

## 12 PROVISIONS FOR LIABILITIES AND CHARGES

	Other £'000	Leasehold dilapidation & onerous lease £'000	Total Provisions £'000
Balance as at 1 April 2014	8	575	583
Provided in the year	59	208	267
Provisions not required written back	-	(69)	(69)
Provisions utilised in the year	(52)	(383)	(435)
<b>Balance as at 31 March 2015</b>	<b>15</b>	<b>331</b>	<b>346</b>
Expected timing of cash flows			
Not later than one year	(15)	(124)	(139)
Later than one year and not later than five years	-	-	-
Later than five years	-	(207)	(207)
<b>Balance as at 31 March 2015</b>	<b>(15)</b>	<b>(331)</b>	<b>(346)</b>

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 less amounts incurred on dilapidations work during the year. During 2013-14 the space requirements of the organisation were reviewed and office space no longer occupied was identified. A provision was made to reflect the cost of this surplus space over the remaining period of the lease. This was released throughout 2014-15. Other provisions relate to amounts provided in respect of legal challenges.

## 13 CAPITAL COMMITMENTS

Contracted capital commitments at 31 March 2015 not otherwise included in these financial statements amounted to Nil (2013-14: 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	2014-15 £'000	2013-14 £'000
Buildings		
Not later than one year	-	964
Later than one year and not later than five years	704	-
<b>Balance at 31 March</b>	<b>704</b>	<b>964</b>

## 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:

<b>Obligations under finance leases for the following periods comprise</b>	<b>2014-15 £'000</b>	<b>2013-14 £'000</b>
Not Later than one year	-	75
Later than one year and not later than five years	-	-
<b>Balance at 31 March</b>	<b>0</b>	<b>75</b>

<b>The present value of obligations under finance leases for the following periods comprise</b>	<b>2014-15 £'000</b>	<b>2013-14 £'000</b>
Not later than one year	-	75
Later than one year and not later than five years	-	-
<b>Balance at 31 March</b>	<b>0</b>	<b>75</b>

## 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.

The OLC identified an issue relating to the remuneration of the Chief Ombudsman during 2014, 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 six years. These payments constitute taxable income for the Chief Ombudsman and give rise to a tax liability for the OLC. The final taxation implications of the benefit in kind and additional allowances provided to the Chief Ombudsman over the last six years remain under review and the final amount of the tax liability and, if applicable, 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.

# Notes to the Office for

## Legal Complaints accounts

### 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 £137k (2013-14: £163k). The payment for salaries of the OLC board members for 2014-15 was £122k (2013-14: £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 2015 £915k Grant in Aid was provided by MoJ (2013-14: Nil).

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, is 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	2014-15	2013-14
Extra-contractual payments	33,236	63,301
<b>Total</b>	<b>33,236</b>	<b>63,301</b>

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.

### 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.

There are no events after the reporting period to report.

## Service complaint

### adjudicator's report

Over the last 12 month period 17 cases were passed to the Service Complaint Adjudicator. Of these, 13 were complaints from members of the public and four were from lawyers. Six complaints were upheld and compensation payments totalling £1400 were recommended.

Time period	No. of cases	Complaint upheld	Complaint not upheld
1/4/14 – 31/10/14	14	5	9
1/11/14 – 31/3/15	3	1	2
<b>Totals</b>	<b>17</b>	<b>6</b>	<b>11</b>

#### RESOURCING:

The Service Complaint Adjudicator has recommended that the compliance team is well resourced in order to cope with the volume of work it deals with, and has encouraged the board to seek assurance on this from time to time.

The Service Complaint Adjudicator has also recommended that the compliance team remains alert to issues and problems arising in regard to customer service following the installation of the new case management system.

## 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.

