

Law Society of Ireland Compensation Fund

Financial Statements
for the year ended
31 December 2009

LAW SOCIETY OF IRELAND COMPENSATION FUND

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

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LAW SOCIETY OF IRELAND COMPENSATION FUND

RESPONSIBILITIES OF THE REGULATION OF PRACTICE COMMITTEE

The Regulation of Practice Committee is responsible for ensuring that financial statements are prepared each year which give a true and fair view of the state of affairs of the Law Society of Ireland Compensation Fund and of its surplus for that period. In preparing those financial statements the Regulation of Practice Committee:-

- selects suitable accounting policies and then applies them consistently;
- makes judgements and estimates that are reasonable and prudent; and
- prepares the financial statements on the going concern basis.

The Regulation of Practice Committee is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Compensation Fund. The Regulation of Practice Committee is also responsible for safeguarding the assets of the Compensation Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LAW SOCIETY OF IRELAND COMPENSATION FUND

We have audited the financial statements of the Law Society of Ireland Compensation Fund for the year ended 31 December 2009 which comprise the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, the Statement of Accounting Policies and the related notes 1 to 18. These financial statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the society's members, as a body. Our audit work has been undertaken so that we might state to the society's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the society and the society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Regulation of Practice Committee and auditors

As set out in the Statement of Responsibilities, the Regulation of Practice Committee is responsible for the preparation of financial statements that give a true and fair view of the results and state of affairs of the Compensation Fund. Our responsibility, as independent auditor is to audit the financial statements in accordance with International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view of the state of affairs of the Compensation Fund as at 31 December 2009 and of its surplus for the year then ended.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Regulation of Practice Committee in the preparation of the financial statements and of whether the accounting policies are appropriate to the Compensation Fund's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Compensation Fund as at 31 December 2009 and of its surplus for the year then ended.

Deloitte & Touche
Chartered Accountants and Registered Auditors
Dublin

20 May 2010

LAW SOCIETY OF IRELAND COMPENSATION FUND

STATEMENT OF ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements have been prepared in accordance with the accounting policies set out below.

ACCOUNTING CONVENTION

The financial statements have been prepared under the historical cost convention as modified by the revaluation of investments.

REVENUE RECOGNITION

Recoveries from defaulting solicitors, disciplinary fines and levies imposed on solicitors, are recognised when received. Contribution income and all miscellaneous income is recognised on a receivable basis.

Recoveries from stop loss insurance policies are recognised when received.

INVESTMENTS

Investments are shown at market value. The difference between cost and market value is taken to a revaluation reserve and to the income and expenditure account to the extent that market value is below cost.

CLAIMS

Provisions are made in respect of notified claims and related expenses, where the Regulation of Practice Committee consider it likely that the Compensation Fund is liable for such claims and expenses.

TAXATION

Taxation is provided on taxable profits at current rates.

Deferred tax is accounted for, on a full provision basis, on all timing differences that have originated but have not reversed by the balance sheet date. Deferred tax assets are recognised to the extent that they are regarded as more likely than not to be recoverable.

Deferred tax is recognised on timing differences arising on revaluation of investments to the extent that the Compensation Fund has, at the balance sheet date, entered into a binding agreement to sell the revalued investments.

PENSION COSTS

Contributions to a multi employer defined benefit pension scheme are charged in the income and expenditure account.

LAW SOCIETY OF IRELAND COMPENSATION FUND

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2009

	<i>Notes</i>	2009 €	2008 €
INCOME			
Contributions receivable		5,278,034	3,207,436
Income and returns on investments	2	522,210	777,334
Recoveries from defaulting solicitors	3	2,135,975	4,408,975
Disciplinary fines and investigation levies		380,950	293,155
Litigation Settlement	4	150,000	325,000
Insurance Recovery	3	1,489,029	-
		9,956,198	9,011,900
EXPENDITURE			
Provision for claims	3	3,551,703	14,047,163
Insurance		995,406	290,232
Costs allocated from the Law Society of Ireland		1,422,123	809,137
Investigation and support staff salaries and expenses		2,096,846	2,072,127
Practice closure expenses		494,935	608,514
Legal and professional fees		582,654	1,225,512
Miscellaneous expenses		46,966	53,442
(Reversal of)/ impairment of investments	7	(547,163)	547,163
		8,643,470	19,653,290
SURPLUS/(DEFICIT) BEFORE TAXATION	5	1,312,728	(10,641,390)
Taxation	6	(157,004)	(21,814)
SURPLUS/(DEFICIT) AFTER TAXATION	11	1,155,724	(10,663,204)

The financial statements were approved by the Regulation of Practice Committee on 20 May 2010 and signed on its behalf by:

Michael Quinlan
Chairman of the
Regulation of Practice Committee

Gerard Doherty
President of the
Law Society of Ireland

LAW SOCIETY OF IRELAND COMPENSATION FUND

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2009**

	<i>Note</i>	2009 €	2008 €
Retained surplus/(deficit) for the financial year		1,155,724	(10,663,204)
Movement in unrealised surplus/(deficit) arising on revaluation of investments	<i>12</i>	1,461,926	(5,113,348)
Total recognised gains/(losses) for the year		2,617,650	(15,776,552)

All recognised gains and losses arose from continuing activities.

LAW SOCIETY OF IRELAND COMPENSATION FUND**BALANCE SHEET AS AT 31 DECEMBER 2009**

	<i>Notes</i>	2009 €	2008 €
FIXED ASSETS			
Financial assets	7	20,282,999	18,190,216
CURRENT ASSETS			
Debtors	8	28,245	50,197
Cash at bank and in hand		1,302,761	1,367,025
		1,331,006	1,417,222
CREDITORS: (Amounts falling due within one year)	9	(1,502,187)	(983,599)
NET CURRENT (LIABILITIES)/ASSETS		(171,181)	433,623
TOTAL ASSETS LESS CURRENT LIABILITIES		20,111,818	18,623,839
PROVISIONS FOR LIABILITIES AND CHARGES	10	(5,682,691)	(6,812,362)
NET ASSETS		14,429,127	11,811,477
REVENUE RESERVES	11	12,967,201	11,811,477
REVALUATION RESERVE	12	1,461,926	-
		14,429,127	11,811,477

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LAW SOCIETY OF IRELAND COMPENSATION FUND

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009

	<i>Notes</i>	2009 €	2008 €
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	<i>13</i>	(361,891)	(6,376,741)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends and interest received		185,793	268,341
TAXATION			
Taxation paid		(140,889)	(52,732)
MANAGEMENT OF LIQUID RESOURCES			
Purchase of investments		(11,032,922)	(7,016,344)
Disposal of investments		11,285,645	14,061,827
		252,723	7,045,483
(DECREASE)/INCREASE IN CASH	<i>14</i>	(64,264)	884,351

LAW SOCIETY OF IRELAND COMPENSATION FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

1. PRESENTATION OF FINANCIAL STATEMENTS

The financial statements cover the activities of the Law Society of Ireland Compensation Fund. Separate financial statements are prepared in respect of other activities of The Law Society of Ireland.

2. INCOME AND RETURNS ON INVESTMENTS	2009 €	2008 €
Surplus on sale of investments	336,417	508,993
Dividends and interest receivable	185,793	268,341
	<u>522,210</u>	<u>777,334</u>

3. NET COST OF CLAIMS AFTER RECOVERIES	2009 €	2008 €
Provision for claims (Note 10)	3,551,703	14,047,163
Recoveries from defaulting solicitors	(2,135,975)	(4,408,975)
Net cost of claims	<u>1,415,728</u>	<u>9,638,188</u>

The Compensation Fund has stop loss insurance policies in place which are subject to an excess of €5,000,000, in any year. No insurance recoveries apply in 2009.

In 2008 the net cost of claims (as above) exceeded the excess of €5,000,000 and are therefore claimable under the stop loss policies. Claims have been made in accordance with the policies and in 2009 €1,489,029 was recovered. The Regulation of Practice Committee has quantified the maximum recoveries remaining as €3,211,000, however, the precise amount and timing of such recoveries are uncertain. Therefore, no receivables have been recognised in the financial statements in this regard.

4. LITIGATION SETTLEMENT

During the course of 2009 the Compensation Fund settled a litigation claim for €150,000 (2008: €325,000).

5. SURPLUS/(DEFICIT) BEFORE TAXATION	2009 €	2008 €
The surplus/(deficit) before taxation is stated after charging:		
Auditor's remuneration	4,600	6,500
	<u>4,600</u>	<u>6,500</u>

LAW SOCIETY OF IRELAND COMPENSATION FUND

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

6. TAXATION

The Compensation Fund is liable to income tax on investment income and gains.

	2009 €	2008 €
Capital Gains Tax	85,835	-
Income tax	61,596	52,732
Adjustment in respect of prior years	7,052	(13,594)
	<u>154,483</u>	<u>39,138</u>
Deferred tax charge/(credit)	2,521	(17,324)
	<u>157,004</u>	<u>21,814</u>

The effective tax rate for the year is different to the standard rate of income tax, which is 20%. The differences are explained as follows:

	2009 €	2008 €
Surplus/(deficit) before taxation	1,312,728	(10,641,390)
Surplus/(deficit) multiplied by standard rate of income tax of 20%	262,546	(2,128,278)

Effects of:

Income not subject to taxation	(1,934,608)	(1,700,581)
Expenses not deductible for tax purposes	1,819,493	3,881,591
Adjustment in respect of prior years	7,052	(13,594)
	<u>154,483</u>	<u>39,138</u>

7. FINANCIAL ASSETS

Listed investments – at market value

	2009 €	2008 €
Market value at end of year	20,282,999	18,190,216

The market value of listed investments at 31 December 2008 was €547,163 below their cost and this amount was recognised in the income and expenditure account. At 31 December 2009, the market value of investments exceeded cost by €1,461,926 and the sum written off as an impairment in 2008 has been recognised as recovered in 2009 in the income and expenditure account.

8. DEBTORS: (Amounts falling due within one year)

	2009 €	2008 €
Other debtors	28,245	36,603
Taxation recoverable	-	13,594
	<u>28,245</u>	<u>50,197</u>

LAW SOCIETY OF IRELAND COMPENSATION FUND

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

9. CREDITORS: (Amounts falling due within one year)	2009	2008
	€	€
Accruals	634,102	800,624
Amounts due to the Law Society of Ireland	868,085	182,975
	<u>1,502,187</u>	<u>983,599</u>
	<u><u>1,502,187</u></u>	<u><u>983,599</u></u>
10. PROVISIONS FOR LIABILITIES AND CHARGES	2009	2008
	€	€
Provision for claims:		
At beginning of year	6,792,325	2,386,763
Provision made	3,551,703	14,047,163
Claims paid	(4,683,895)	(9,641,601)
At end of year	<u>5,660,133</u>	<u>6,792,325</u>
	<u><u>5,660,133</u></u>	<u><u>6,792,325</u></u>
Deferred tax:		
At beginning of year	20,037	37,361
Charge/(credit) for the year	2,521	(17,324)
At end of year	<u>22,558</u>	<u>20,037</u>
At end of year	<u><u>5,682,691</u></u>	<u><u>6,812,362</u></u>
	<u><u>5,682,691</u></u>	<u><u>6,812,362</u></u>
The entire deferred tax provision at 31 December 2009 and 2008 related to investment income, which is not taxed until received.		
11. RECONCILIATION OF REVENUE RESERVES	2009	2008
	€	€
Accumulated surplus at beginning of year	11,811,477	22,474,681
Surplus/(deficit) for year	1,155,724	(10,663,204)
Accumulated surplus at end of year	<u>12,967,201</u>	<u>11,811,477</u>
	<u><u>12,967,201</u></u>	<u><u>11,811,477</u></u>
12. REVALUATION RESERVE	2009	2008
	€	€
Unrealised surplus on investments:		
At beginning of year	-	5,113,348
Movement during year (Note 7)	1,461,926	(5,113,348)
At end of year	<u>1,461,926</u>	<u>-</u>
	<u><u>1,461,926</u></u>	<u><u>-</u></u>

LAW SOCIETY OF IRELAND COMPENSATION FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009 (CONTINUED)

13. RECONCILIATION OF SURPLUS/(DEFICIT) BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES	2009	2008
	€	€
Surplus/(deficit) before taxation	1,312,728	(10,641,390)
Dividends/interest received	(185,793)	(268,341)
Profit on disposal of investments	(336,417)	(508,993)
Decrease/(increase) in debtors	8,358	(1,274)
(Decrease)/increase in creditors	(613,604)	4,496,094
(Reversal of)/impairment of investments	(547,163)	547,163
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(361,891)	(6,376,741)

14. (a) ANALYSIS OF CHANGES IN NET FUNDS	2009	2008
	€	€
(Decrease)/increase in cash during the year	(64,264)	884,351
Net funds at 1 January	1,367,025	482,674
Net funds at 31 December	1,302,761	1,367,025

(b) ANALYSIS OF NET FUNDS	At	Cashflow	At
	1/1/2009		31/12/2009
	€	€	€
Cash and bank balances	1,367,025	(64,264)	1,302,761

15. RELATED PARTY TRANSACTIONS

During the year the expenditure of the Compensation Fund included expenses and payroll costs totalling €4,084,451 which were recharged to it by the Law Society of Ireland. The amount due to the Law Society of Ireland at the year end is shown at Note 9.

16. CONTINGENT ASSET

A contingent asset exists in relation to claims under an insurance policy purchased in 2007. Full details are set out at Note 3.

17. PENSIONS

The Law Society of Ireland and the Law Society of Ireland Compensation Fund are the participants in a multi-employer defined benefit pension scheme, operated by the Society. It is not practicable to separate the assets and liabilities of the scheme, and accordingly, the Law Society of Ireland Compensation Fund has availed of an exemption under Financial Reporting Standard 17 from making the disclosures required under the standard.

The scheme provides benefits based on final pensionable pay. Contributions to the scheme are charged to the income and expenditure account so as to spread the cost of pensions over employees' working lives. The contributions are determined by a qualified actuary on the basis of valuations every three years, using the prospective benefits method. The most recent valuation was completed as at 1 January 2007. The assumptions which have the most significant effect on the results of the valuation are those relating to the discount rate, the rates of increase in salaries and the rate of increase in pensions in payment. In preparing that valuation, it was assumed that the discount rate would be 6% per annum pre retirement and 5% per annum post retirement, that future salary increases would average 4.5% per annum, and that pensions in payment will increase at 2.5% per annum on average. In effect, this means that the investment return pre retirement would be 1.5% higher per annum than future salary increases and the investment return post retirement would be 2.5% higher per annum than pension increases.

The Trustees obtained the consent of the Law Society of Ireland Compensation Fund to, on a discretionary basis, index pensions in payment on an annual basis. Increases are the lesser of the CPI increase or 3%. Members of the scheme who wish to be considered for this indexation pay a higher contribution rate of 8% of pensionable salary.

The last actuarial valuation was at 1 January 2007 and it indicated that the market value of the assets of the scheme was €10,590,000 and that the assets were sufficient to cover 89% of the benefits, that had accrued to members, after allowing for expected future increases in pensionable salaries and increases to pensions in payment which are discretionary.

It was recommended that the society's annual contribution continue at 18% of pensionable salaries. The actuary carries out an annual update on the minimum funding standard position of the Scheme. At 31 December 2008, the Scheme failed to meet the Minimum Funding Standard and the Law Society of Ireland made special contributions of €400,000 in 2008 and €300,000 in 2009 to eliminate the deficit. The Scheme met the Minimum Funding Standard at 31 December 2009.

The next formal review of the financing of the Scheme will take place at 31 December 2009 (the date of the next actuarial valuation) and this is in progress.

The pension charge for the year was €174,570 (2008: €126,032).

18. COMPARATIVE FIGURES

Comparative figures are reclassified where necessary on a basis consistent with current year presentation.