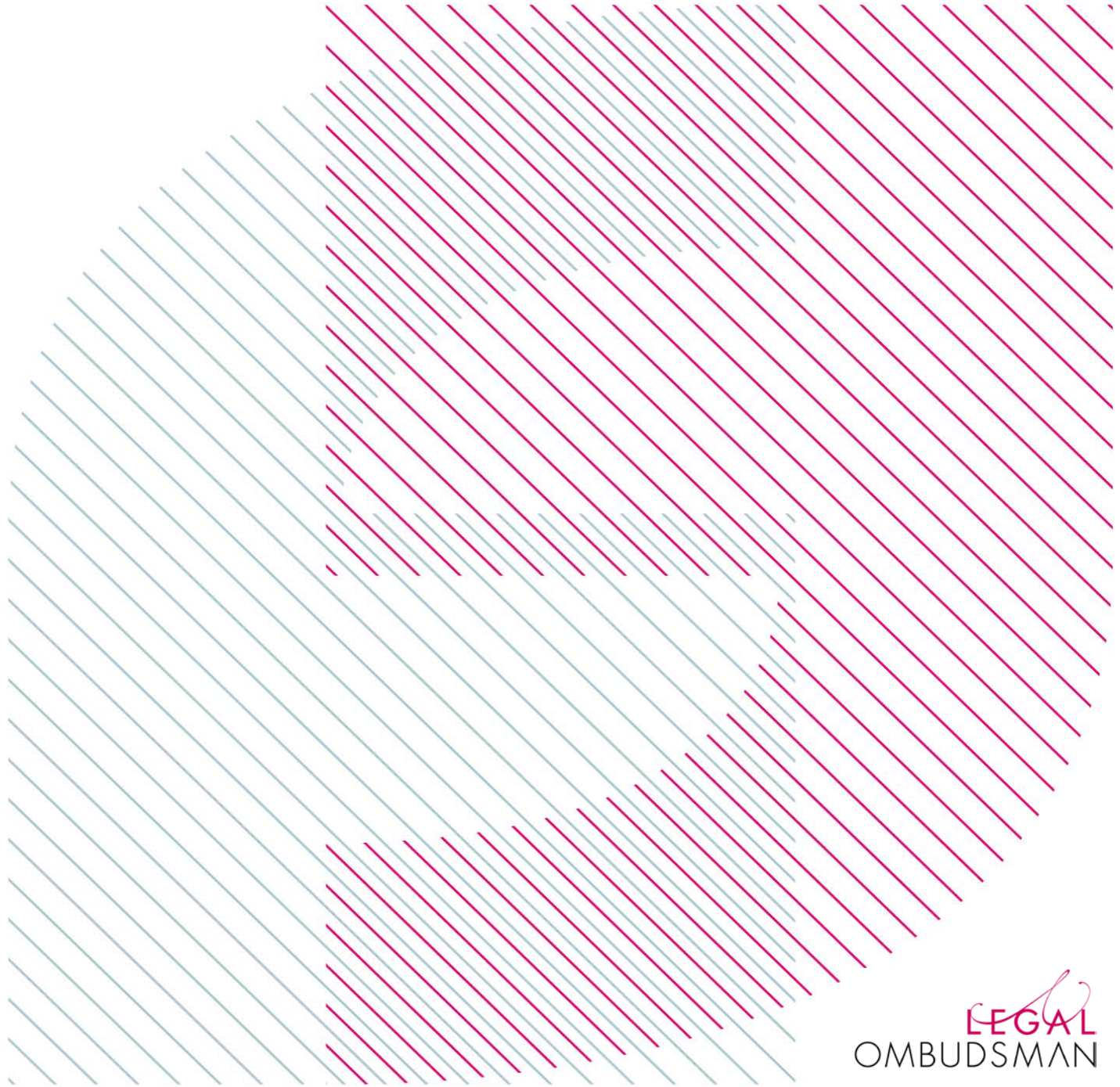


Office for Legal Complaints

Budget 2017-18 – supplementary note



LEGAL
OMBUDSMAN

Supplementary note on change in accounting treatment for case fee income and bad debt

1. The OLC budget paper presented to the LSB highlights that the increase in the budget is largely driven by a significant increase in CMC bad debt relating to large CMC multiples, which we are forecasting as £1m in 2017-18.
2. MoJ formally approved the OLC's CMC bad debt budget for 2017-18 based on accounting treatment reflecting the current scheme rules and previous NAO advice that invoices should be raised for all appropriate cases with corresponding bad debts written off even if there was little or no prospect of recovery, for example if the firm had gone into liquidation.
3. LeO has remained concerned that the accounting treatment of income was inconsistent with the relevant accounting standard on income recognition (IAS18). Fundamentally, we were concerned that it is incorrect to invoice entities no longer in existence as it was not probable that the income would be received. We sought further advice from the NAO's technical team.
4. This has led to a change in the NAO's position which was communicated to LeO on 15 March, after the budget was submitted to the LSB. The NAO advised that they agreed that any charges made to respondents who are no longer in existence should not be recognised as income in OLC's accounts under IAS 18, unless recovery is possible from a successor business to the respondent (as set out in section 132, 2 of our scheme rules). This means that we should no longer recognise income where recovery is not probable. We need to seek the approval of our Audit and Risk Assurance Committee for this change in accounting treatment at its 11 April meeting.
5. If the change in accounting treatment is agreed, this may significantly reduce case fee income recognised in our CMC jurisdiction, and similarly reduce associated bad debt expenses. The net impact would be neutral. The treatment of case fee invoices for respondents no longer in existence is complex and the accounting treatment will depend on the circumstances of each individual case at the time a case fee invoice should be raised under our scheme rules. There will be circumstances where it remains appropriate to raise invoices, for example for cases where LeO has a reasonable expectation that it is probable we will recover the fee.
6. The CMC element of the OLC budget already has MoJ approval. It is difficult to estimate reliably the impact of this change in accounting treatment because it must be assessed on a case-by-case basis; depending on each multiple case we may still need to recognise significant case fee income that we subsequently have to write off.

7. The impact on our budget is neutral – any reduction in bad debt expense will be offset by a corresponding reduction in case fee income. The level of Grant-In-Aid required will remain the same and we cannot divert resources from bad debt expenses to support other work in the CMC jurisdiction.
8. On this basis, it remains appropriate to ask LSB to approve the ‘worst case’ CMC bad debt budget as set out in the paper but to highlight the potential change in forecast case fee income and bad debt expenses. During 2017-18 LeO will manage this through reforecasts submitted to the MoJ, who we are keeping informed.
9. The scheme rules are not as clear as they might be on the issue of waiving case fees, a point we intend to clarify when we consult on, and potentially seek consent for, changes to the scheme rules during 2017-18.

ENDS

