

UK law firms face accounting problems as a result of The Legal Services Commission's (LSC) changes to financial reporting for Police Station Attendance

The Legal Services Commission (LSC), the body that runs the legal aid scheme in England and Wales, currently provides information, advice and legal representation to more than two million people each year. In some of these cases, when an arrested individual requires legal aid, a solicitor is often sent to the police station to assist him/her, and in turn bills the LSC for this service.

Prior to July 2008, fixed fees for this police station visitation scheme were published as gross figures, with most law firms calculating the net cost and VAT elements, as follows:

Gross (fixed fee):	GBP 230.00
NET:	GBP 230.00 / 1.175 = GBP 195.74
VAT:	GBP 230 - 195.74 = GBP 34.26

As you can see, the VAT figure was produced by taking the difference between the gross and net figures.

From July 2008, however, following an overhaul to its web site, the LSC began to publish fixed fees for Police Station Attendance as net figures, and began to calculate VAT on these net figures, instead.

Unfortunately, this change in reporting has caused serious problems for members of the Legal Software Suppliers Association (LSSA), whose customers participate in this Police Station Attendance scheme, as the LSSA is called upon to write the computer systems to support these companies and to help them to record and report the work that they do.

The Legal Software Suppliers Association (LSSA) is the UK industry body for legal systems developers and vendors. Representing most of the leading UK suppliers, the LSSA sets and maintains professional standards within the legal software industry, and also manages areas of mutual interest between lawyers and software providers.

The LSSA also has numerous links with legislative bodies - such as the Land Registry, LSC, and the Law Society - and is committed to developing clear channels of communication so that law firms can gain the maximum benefit from their selected software solutions.

According to members of the LSSA, the problem lies in the fact that the GBP 230 fixed rate for Police Station Attendance simply does not 'work' as a gross figure any longer; instead, the closest that firms can get to this figure is to use a fixed fee of GBP 195.74. Multiplying this by 0.175 equates to a VAT figure of GBP 34.25, but GBP 195.74 + GBP 34.25 gives a total of GBP 229.99. According to LSSA member Tim Smith, the problem only became acute since the new LSC online service was re-launched.

"We have always believed that the LSC actually pays the standard fee as a gross amount even though it does not add up properly," he says.

"What has recently become apparent, however, is that when police station cases are reported on the new LSC-online system, the LSC's system reports that it is paying GBP 229.99 for cases with a standard fee of £230. This is the biggest part of the problem. This means that the amount that firms are claiming will not tally with what the LSC are paying, and that the VAT the firm is reporting will be different to that which the LSC believes has been paid."

Smith also added that there are 36 standard fees that do not 'work', and that the GBP 230 Police Station Attendance Fee is just one example.

Other members of LSSA are quick to voice their concerns in this area, as well.

"Our frustration lies in the fact that we highlighted the likelihood of such problems to the LSC at least 18 months ago, and asked them at that time to adopt a uniform policy of quoting net fees," says LSSA member Glyn Morris. "Yet despite our efforts, we can't help but feel that we are being fobbed off completely, and that the LSC simply does not care about the problems it causes us, Legal Aid practitioners, or indeed about compliance with HMRC regulations."

Worse still, this latest change is only the tip of the iceberg, according to several LSSA members, as questions have now been raised over the LSC's rounding practices generally.

For example, a fixed fee of GBP 159, multiplied by 0.175, equates to GBP 27.825. Although many firms use the "round-half-even" method (also known as "bankers rounding") to arrive at GBP 27.82, the LSC appears to use the common method (also known as "round-half-up"), which delivers a final figure of GBP 27.83.

Likewise, VAT on multiple elements is creating further confusion, as most UK firms round each individual item separately, and then add the entries to arrive at a total. The LSC, however, despite displaying each element as rounded, adds up the 'unrounded' individual entries before rounding the total - which means that the individual entries and totals do not add up.

"As any bookkeeper will tell you, every penny matters when it comes to balancing the accounts," says Hilary Fisher, another LSSA member.

"Every time we submit a claim to the LSC, we are actually submitting a bill, and so our accounts ledger and VAT returns are updated accordingly. For that reason, everything needs to tally up perfectly for the books to balance, and the LSC has made this impossible by issuing figures that simply don't add up correctly."

As such, many firms are now calling for a standard that can be applied across the board, so that all LSSA members are using the same approach to rounding - as well as net v. gross figures for Police Station Attendance - as the methods being used by the LSC.

"The question on everyone's minds now is: where do we go from here?"

Tim Smith adds. "But there is no easy answer, as another change to the LSC's standard fees will not only mean seeking re-approval from The Law Society, but will also mean that that LSSA members will once again need to update all of our clients' systems, and updating the systems of the best part of 1,000 firms is not a trivial process for us to

undertake.

As a result, frustration levels are running high, as all of these problems have been caused by the LSC's willingness to give us net and gross figures that simply don't tally, which of course makes no sense to anyone at all - apart from the LSC, perhaps!"

Dominic Cullis, Chairman of the LSSA added: "We'd like to urge all Government bodies and regulatory authorities to engage with the LSSA and to work with our member firms who together provide over 70% of the software solutions to law firms in England and Wales. The LSSA has working parties specifically targeting individual areas of practice, and can therefore provide expert knowledge in their respective fields. As such, these working parties make an excellent conduit not only for implementing regulations via software, but also as a way of providing feedback from thousands of law firms on real issues."