



SOLICITORS REGULATION AUTHORITY ACCOUNTS RULES: ACCOUNTANT'S REPORTS FOR FULL REPORTING PERIODS AFTER 25 NOVEMBER 2019

TECHNICAL RELEASE 01/21 AAF

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Key points

This technical release has been prepared for ICAEW members involved in the preparation of an Accountant's Report in respect of the Solicitors Regulation Authority Accounts Rules effective from 25 November 2019.

This technical release replaces the following previous technical releases:

- Technical Release 03/20 AAF *Solicitors Regulation Authority (SRA) Accounts Rules: guidance for reporting accountants following the 2019 changes* ([TECH 03/20 AAF](#)); and
- Technical Release 16/15 AAF *Solicitors Regulation Authority (SRA) Accounts Rules: interim guidance for reporting accountants following changes to the Accountant's Report requirements* ([TECH 16/15 AAF](#)).

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INTRODUCTION

1. This technical release has been prepared for ICAEW members involved in the preparation of an Accountant's Report in respect of the Solicitors Regulation Authority (SRA) Accounts Rules requirements.
2. It covers the SRA Accounts Rules effective from 25 November 2019 (for the avoidance of doubt, these rules are referred to in this technical release as 'the Accounts Rules').
3. The Accounts Rules affect Accountant's Reports being prepared for law firms for a period that falls either in part or in full after 25 November 2019.
4. For Accountant's Reports covering periods in part or in full before 25 November 2019, reporting accountants should refer to previous technical releases: Technical Release 03/20 AAF *Solicitors Regulation Authority (SRA) Accounts Rules: guidance for reporting accountants following the 2019 changes* (TECH 03/20 AAF) and Technical Release 16/15 AAF *Solicitors Regulation Authority (SRA) Accounts Rules: interim guidance for reporting accountants following changes to the Accountant's Report requirements* (TECH 16/15 AAF) which cover the previous SRA Accounts Rules.
5. The technical release explains the background to the changes in the Accountant's Report, considers the SRA objectives for the changes, and provides additional guidance to members on how the changes are likely to impact their day-to-day work in this area.
6. In developing the guidance in this technical release ICAEW has worked with, and taken account of comments from, the SRA. The SRA is supportive of the guidance contained in this ICAEW Technical Release.

Background

7. Prior to October 2014, reporting accountants were required to undertake detailed, prescriptive tests when reporting on compliance with the SRA's Accounts Rules. Most reports were qualified, and all were required to be submitted to the SRA.
8. The SRA made significant changes to the Accounts Rules 2011 in October 2014 and November 2015 in relation to the role of reporting accountants. The three key changes (covered by TECH 16/15 AAF) were:
 - the introduction of a requirement for law firms to submit only qualified Accountant's Reports;
 - the introduction of a requirement to submit unqualified 'cease to hold reports' (now removed in the latest rules); and
 - the removal of the prescriptive Rule 39 procedures and replacement with Rule 43A, which required reporting accountants to use professional judgement to determine the work required.
9. These changes were instigated largely to deal with two important aspects of the reporting regime of the time:
 - a. to ensure reporting accountants were reporting only on serious issues; and
 - b. to allow the SRA to better focus their own reviews and resources.For more information on the previous changes, please refer to TECH 16/15 AAF.
10. The SRA report¹ that these changes have led to a significant reduction in the volume of Accountant's Reports it receives. The SRA's own reviews show that those that are received are more useful, allow them to better focus their own work and that there is no evidence to suggest that there has been any dilution in the SRA's ability to recognise situations where client money is at risk.

¹ <https://www.sra.org.uk/sra/how-we-work/reports/evaluating-reforms-accountants-reports/>

THE ACCOUNTS RULES

The Rules and the Accountant's Report form

11. The Accounts Rules are much shorter than previous versions and, like the previous changes to the role of reporting accountants, have moved away from a highly prescriptive approach to a more principles-based approach for solicitors.
12. **The requirements fall outside the scope of this technical release.** Some key changes that reporting accountants should be aware of include but are not limited to:
 - the Accounts Rules have been shortened significantly, from 52 rules to 13. All rules have been shortened and the guidance notes for solicitors removed;
 - the SRA aims for the rules to be less prescriptive and more focused on outcomes;
 - references to timescales (14 days, 2 days, etc.) have been removed. Instead, the rules make reference to activities occurring 'promptly' which will require law firms to interpret what this means for their firm and clients. Reporting accountants will need to consider the law firm's interpretation of 'promptly' in the context of the principles underpinning the Accounts Rules;
 - firms are now allowed to hold money received in advance for fees and disbursements in their office account in cases where these are the only client monies they hold and provided they inform clients in advance (Rule 2.2);
 - Legal Aid Agency payments are exempt from being held in client accounts (Rule 2.3);
 - firms must now give a bill of costs or other notification of costs incurred to the client or paying party before they can transfer funds, including for disbursements, from client accounts (Rule 4.3(a)); and
 - firms now can use third party managed accounts for receiving payments from or on behalf of, or making payments to or on behalf of, the client in respect of regulated services (Rule 11.1).
13. **The above list is not a complete list of changes or summary of the Accounts Rules. Reporting accountants should review the Accounts Rules in detail and ensure that their knowledge and understanding are up to date for their work.**
14. **As the nature of the Accounts Rules is less prescriptive and more principles based, it is important that reporting accountants understand the key principles and how they apply in the broader regulation of their law firm clients. Reporting accountants therefore need to have reasonable knowledge of what is included in the SRA Standards and Regulations² under the Code of Conduct for Solicitors, Registered European Lawyers and Registered Foreign Lawyers³ and the Code of Conduct for firms⁴.**
15. The Accounts Rules are available at: [sra.org.uk/solicitors/standards-regulations/accounts-rules/](https://www.sra.org.uk/solicitors/standards-regulations/accounts-rules/) and associated guidance can be found at: [sra.org.uk/solicitors/guidance/topic/accounts-and-finance/](https://www.sra.org.uk/solicitors/guidance/topic/accounts-and-finance/)
16. Rule 12.2 sets out when an Accountant's Report is required, as well as when a firm is exempt. The details of this rule are not covered in this technical release.
17. The SRA provide a template form for reporting, the Accountant's Report form (AR1). The AR1 can be located at [sra.org.uk/solicitors/firm-based-authorisation/accountants-reports/](https://www.sra.org.uk/solicitors/firm-based-authorisation/accountants-reports/). We recommend you use this form for reporting.

Application guidance

18. The SRA provide guidance for planning and completing the Accountant's Report. It is available at [sra.org.uk/solicitors/guidance/ethics-guidance/planning-for-and-completing-an-accountant-s-report/](https://www.sra.org.uk/solicitors/guidance/ethics-guidance/planning-for-and-completing-an-accountant-s-report/)

² <https://www.sra.org.uk/solicitors/standards-regulations/>

³ <https://www.sra.org.uk/solicitors/standards-regulations/code-conduct-solicitors/>

⁴ <https://www.sra.org.uk/solicitors/standards-regulations/code-conduct-firms/>

19. We understand that the SRA envisages that its guidance to reporting accountants and the circumstances in which the SRA might expect the Accountant's Report to be qualified will evolve over time. We recommend that you review the latest guidance when starting any new engagement.
20. This evolution is particularly important to reporting accountants given the absence of any specific framework for this work, which is in stark contrast to the statutory audit requirement governed by company law.
21. ICAEW members should consider closely both the contents of the AR1 form and the SRA's guidance and examples of what are considered likely to be qualifications prior to completing Accounts Rules engagements. The SRA has emphasised that the examples in the guidance are intended to be helpful but are not definitive or prescriptive, and reporting accountants are expected to exercise professional judgement in completing the AR1, whether qualified or not.

THE ROLE OF REPORTING ACCOUNTANTS

What is the role of reporting accountants?

22. This technical release only considers the role of reporting accountants in preparing an Accountant's Report in accordance with the SRA's regulatory requirements.
23. However, some law firms may also engage reporting accountants to carry out an independent review of compliance generally, to help the law firm improve standards within its own legal practice(s). This will impact on the work reporting accountants undertake and they will need to be clear about their responsibilities here. The requirements may not be the same for each law firm reporting accountants are engaged with and will depend on the requirements of the individual practice and the Compliance Officer for Finance and Administration (COFA).

Fulfilling the role in accordance with the SRA requirements

24. The work is carried out under section 34 of the Solicitors Act 1974. Section 34(2) allows the SRA⁵ 'to specify requirements to be met by, or in relation to, an accountant's report'. While the previous changes in 2015 set out an expectation of reporting accountants' approaches in rule 43A.1, the 2019 changes to the Accounts Rules removed any detail on the requirements or approach to be taken by reporting accountants. This is now set out in SRA guidance.
25. Section 1 of the September 2020 SRA guidance details the areas reporting accountants are expected to cover in their work:
 - client accounts and their uses;
 - withdrawals from a client account;
 - duty to correct breaches upon discovery;
 - client accounting systems and controls;
 - operation of joint accounts;
 - operation of a client's own account; and
 - storage and retention of accounting records.
26. Section 2 of the September 2020 SRA guidance on planning and completing the Accountant's Report sets out the approach the SRA is expecting from reporting accountants in order to fulfil the requirements as follows:

'We do not consider it appropriate to strictly define when a report must be qualified. We will rely on the accountant's professional judgement to assess the firm's compliance with the Accounts Rules and whether money belonging to clients or third parties, is, has been or may be placed at risk. We would expect an assessment to be based on an understanding of the seriousness of all the risks posed in the context of the firm's size and complexity, areas of

⁵ Previously the Law Society would have specified the requirements.

work, systems and controls, compliance history and the likely impact on the firm and its clients if money were to be misused or not accounted for.'

As the SRA has indicated that its guidance may evolve over time, reporting accountants should ensure their terms of engagement are updated in their Letter of Engagement to reflect the latest SRA guidance.

27. Fundamentally, if reporting accountants have been carrying out the SRA review work under the 2015 changes to the previous Accounts Rules (Rule 43A.1) diligently and professionally, when they carry out the work in future, similar issues are likely to arise to those previously found.
28. Under the Accounts Rules, the requirements of the role of reporting accountants have a number of associated risk factors. These include the risk that a reporting accountant:
 - lacks knowledge of the Accounts Rules themselves and an understanding of the key principles of those rules;
 - does not understand or identify where the underlying risks lie in respect of the handling and holding of client money both generally, and more specifically with regard to the particular law firm the reporting accountant is reviewing;
 - does not gain a sufficient understanding of the law firm's systems of controls to perform enough work/testing or enough of the 'right' work, for example, coverage of the higher risk areas, or work on areas of regular or common breaches;
 - does not identify those breaches arising in the sample that has been tested and come to a reasoned judgement as to the severity of the breaches, and whether the breaches result in any requirement to report these to the SRA on the AR1 or simply to the COFA/Compliance Officer for Legal Practice (COLP); and
 - fails to report to the SRA in circumstances where the breaches or weaknesses are 'significant', and directly affect the SRA's role in regulating the protection of client money.
29. The questions for reporting accountants continue to be:
 - How do I assess the risks within each individual reporting engagement – what are the key factors, such as system procedures and controls, supervision, sign off authorities, management approach to compliance, types of work undertaken including value and frequency of transactions, day to day protection of client money, reporting history of the law firm, its financial stability, etc?
 - How do I carry out the work to address those risks, as well as testing the law firm's compliance with the relevant parts of the Accounts Rules?
 - If I find non-compliance with the Accounts Rules, including weaknesses in the firm's systems, how much (if any) additional work should I do to ascertain how significant the issue is and risk (or potential risk) to client money?
 - What would constitute 'significant breaches of the Accounts Rules, and/or significant weaknesses in the firm's systems and controls which put client money at risk' for compliance?
 - What are the implications for me/the law firm if I don't report serious issues because I judged these to not put client money at risk, and hence to be not reportable, but which the SRA later consider to have been reportable as significant?
30. If reporting accountants find significant breaches or significant weaknesses in firm systems and controls which put client money at risk, the Accountant's Report should be qualified and further details provided on the issue in the respective AR1 field. The AR1 asks for the sums involved, dates and subsequent corrective action where relevant. If including information on corrective actions, reporting accountants need to either have tested whether the action has been taken or if not, ensure the report is clear that while the law firm has informed them of its actions, this has not been verified. It is not the role or responsibility of reporting accountants to act as an advocate for the law firm on the AR1.
31. A fundamental challenge for reporting accountants is that on, the face of it, their perceived risk and exposure to the SRA will be deemed to be reduced if they qualify the Accountant's Report under the Accounts Rules. On the other hand, reporting accountants may also come

under pressure from law firms not to qualify the Accountant's Report and may not come to the same conclusion as the law firm about whether a breach/weakness is considered significant or not.

32. ICAEW understands that the SRA considers carefully the information received in the AR1 and that this forms an important element of their wider intelligence gathering processes.
33. The SRA considers that the role of reporting accountants undertakes provides an important incentive to law firms to have appropriate systems and procedures in place to safeguard client funds. While it is beyond the scope of work to assess whether the Rules themselves provide adequate safeguards to client money, there may be circumstances where the work of a reporting accountant does not identify any significant breaches of the Accounts Rules but nevertheless identifies that there are weaknesses in the systems and controls that could put client money at risk, and therefore should be reported. Lack of appropriate oversight and inadequate segregation of duties are two such examples, but not the only ones reporting accountants may come across. This may result in challenging conversations with law firm clients. Reporting accountants should exercise their professional judgement when completing and reporting on their work.
34. The SRA acknowledges the challenges and risks for reporting accountants under the reporting regime and that it is not possible to replicate an equivalent framework for reporting under the Accounts Rules to that which surrounds the statutory audit under the Companies Act 2006. Nevertheless, the SRA wants reporting accountants to exercise professional judgement in the work they do and the qualifications reported in the AR1, consistent with the principles in the SRA Standards and Regulations, which is based on a more outcome focused approach rather than being prescriptive.
35. The SRA has re-iterated that it is not seeking any change in the responsibility or risk to reporting accountants in performing their work under the Accounts Rules. The SRA has previously pointed to the historical evidence which shows that it is rare for the SRA to take action against reporting accountants unless there have been blatant or deliberate deficiencies in their work or they have been complicit in fraud.
36. The SRA has explained that typically on average less than ten events a year arise where the SRA would contact a reporting accountant and question the quality and nature of the work they have undertaken. The outcome of these discussions in the most extreme cases might lead to the SRA approaching the reporting accountant's professional body to prevent the reporting accountant completing future Accountant's Reports.
37. These instances focus on when reporting accountants have not properly undertaken the work they were expected to complete, as opposed to questioning a judgement decision.
38. We believe that the SRA would give strong consideration to the factors listed below in the event that there was an adverse client funds issue with a law firm where no qualification had been issued in the Accountant's Report by the reporting accountant.
39. Reporting accountants should be able to demonstrate:
 - **the breadth of experience of the team undertaking the work** – eg, degree of experience in undertaking Accounts Rules engagements and general statutory audit experience in the team as a measure of ability to form professional judgements of this nature;
 - **the strength of the planning process** – evidence that the work undertaken had been planned and was relevant to the law firm and type of work undertaken. Evidence that the work was proportionate and that considerations were appropriately documented during the risk assessment of the law firm prior to work commencing;
 - **training** – the extent to which key engagement team members are receiving training in the Accounts Rules, Accountant's Report requirements and with assurance techniques more generally;
 - **work programme** – the existence of a formal programme of work which is both relevant in nature to the law firm concerned and appropriately tailored;
 - **review process** – the existence of a robust internal review process with an appropriate level of senior resource in the engagement team and a methodology which includes review by more experienced team members and an assessment of conclusions; and

- **the quality of conclusions** – that the evidence available and provided to them results in a logical and supported conclusion being reached on all matters of concern. This is set in the context of reporting accountants completing a commercially reasonable level of investigation and without relying on specialist legal knowledge. The whole process should involve a level of professional scepticism when making judgements.
40. The above list is not exhaustive; the broad direction of these comments and discussion with the SRA in this area has been to reach a position where if reporting accountants can demonstrate:
- a reasonable understanding of the procedures, transactions and systems and controls that the law firm has in place and were operative in the relevant period;
 - that they have planned and undertaken an appropriate level of work in completing the Accountant's Report; and
 - that they have formed reasonable and well supported conclusions based on the information received and matters of concern identified.

The SRA would not take the view that the work the reporting accountant has performed or the conclusions reached were inadequate in the event that the law firm or the SRA subsequently identifies a risk to or actual loss of client funds in the law firm concerned.

PRACTICAL IMPLICATIONS FOR REPORTING ACCOUNTANTS AND LAW FIRMS

Developing risk assessment procedures

41. It is assumed that reporting accountants providing Accountant's Reports at present will already have formal systems in place to support the work they undertake e.g. system and controls testing and sample sizes. Reporting accountants will need to continue to be more focused on this area and in documenting their methodology to support both the volume and type of work they are undertaking in the context of the risk profile of the client.
42. Example risk factors might include:
- history of significant breaches (and areas in which the breaches arose);
 - history of client money frauds or Solicitors Disciplinary Tribunal (SDT) findings against fee earners / partners;
 - the nature and volume of current year breaches on the law firm's own register of breaches (maintained by the COFA);
 - types of fee earning work the law firm undertakes, for example, probate, personal injury and residential conveyancing are likely to be high risk;
 - the nature and volume of complaints and professional indemnity insurance (PII) claims against the law firm;
 - the existence and effectiveness of systems and controls over client money in the law firm;
 - the law firm's attitude to compliance and ethical standards;
 - the volume and complexity of the financial transactions undertaken by the law firm's clients;
 - experience and qualifications of the law firm's accounts team;
 - training provided for the law firm's accounts team and fee earners;
 - financial performance of the law firm; and
 - any known financial or personal circumstances of the law firm's fee earners or partners.

Changes to the programme of work

43. The most notable challenge for reporting accountants is that as the Accounts Rules are not written on a 'one size fits all' basis, there is more scope for firms to develop their own procedures and systems and to implement different time frames and still meet the requirements. This means that reporting accountants will need to assess for each law firm whether:

- a. the policies and procedures adopted by the firm comply both with any detailed rules as well as the principles of the rules;
 - b. there have been any breaches/non-compliance with the rules, principles or the firm's own policies; and if so
 - c. the reporting accountant judges them to be significant breaches or indicative of significant weaknesses that should be reported to the SRA.
44. While in the short term it is expected that the vast majority of firms will retain their policies and procedures under the previous Accounts Rules (as far as possible), there will be some areas of difference, especially as the Accounts Rules are now more principles-based. Some firms will need to make significant changes to their procedures on adoption of the Accounts Rules, but many may well develop these further to reflect this change over the coming years.
45. Although it has been necessary to be able to tailor and adapt internal work programmes to the different assignments since the 2015 changes, the principles-based approach in the Accounts Rules now adds another layer of consideration for reporting accountants.
46. More time is likely to be required at the planning stage to tailor the work programmes to the identified risks of the specific law firm involved. This will be important to ensure that the work of reporting accountants is directed at the most appropriate areas for the law firm concerned and its specific risk profile. It will also be important for reporting accountants if required to discuss the sufficiency of the work undertaken with the SRA.
47. Planning processes, including planning memorandums and planning meetings with both the engagement team and client, will continue to be an important feature for such engagements.
48. The evaluation of systems and controls, which is considered below, will also be an important feature for reporting accountants' work.
49. The level of work undertaken for a particular law firm may vary over time as the reporting accountant's assessment of the risk profile of the law firm changes from year to year.
50. There will be some client management issues for reporting accountants as well; most law firms are used to reporting accountants undertaking the same type of work and asking for the same types of information each year. The changes may result in reporting accountants updating their work programmes, both in terms of the nature and volume of such work between successive years.

Systems and controls for client money

51. Since the 2015 changes there has been a specific requirement to consider the systems and controls that a law firm has in place. This involves some consideration and work being directed to:
- documenting the systems and controls (both IT and non-IT controls);
 - evaluating their effectiveness for protecting client money; and
 - testing the application of the systems and controls.
52. The wording of the AR1 demonstrates that this is still a key requirement.
53. These areas should already be well documented, but there will be a need to revisit this area each year and consider changes that have taken place (and whether appropriate changes have been made in response to weaknesses identified in the prior year), as well as testing areas for continued effectiveness in accordance with the risk assessments undertaken at the planning stage.
54. The SRA has confirmed that there is no intention within their guidance to drive the work of reporting accountants towards an entirely controls-based approach. The SRA expects reporting accountants to undertake a risk-based approach towards planning the work and expects detailed testing of transactions to form a significant element of reporting accountants' work in most cases. The SRA has also confirmed that there is not an expectation that the work of reporting accountants will be increased overall as a result of the need to consider the systems and controls that exist within a law firm.

55. The practical implications for reporting accountants include the evolution of work programme systems, sufficiently trained and experienced staff to undertake the work, time scheduled within the overall work programme, and law firm engagement in the process, which for some will present a different approach that will need to be explained to the law firm.

Areas of work

56. It may be constructive for reporting accountants to undertake their work in the following order, allowing their work to evolve during the course of the engagement:
- a) document and test the systems and controls for client money;
 - b) detailed tests on the client account reconciliations:
 - properly reconciled, reviewed and signed off client account reconciliations help provide evidence of the completeness and accuracy of the system;
 - reconciliations with unresolved, unexplained or uncorrected errors, numerous reconciling items and many going back several months, unsigned (or signed where differences are not corrected or explained) will point reporting accountants to the areas where they are likely to need to focus their efforts;
 - testing other higher risk areas, for example, but not limited to, residual balances, client to client transfers and business account to client account transfers; and
 - c) Detailed client file review work:
 - the results of this work will help inform suitable sample sizes for the work on transactions and whether efficiencies can be considered by combining testing areas.
57. Section 3 of the SRA guidance sets out a number of examples of the sorts of areas of work that might be considered by reporting accountants in developing their work programme. This is not a prescriptive or mandatory list of areas to test and although reporting accountants may wish to include some of the tests in their work, it should not be seen as a detailed work programme. The SRA regularly reviews and updates guidance on the Accounts Rules on its website. When planning work programmes, reporting accountants should ensure they have considered this guidance and the impact of any changes.
58. This technical release should not be seen as prescriptive, as it is the responsibility of reporting accountants to assess the nature and amount of work they should perform given the risk profile of their law firm client. However, in broad terms, it seems likely that areas of work where historically few breaches have arisen would be considered low risk and therefore not reviewed in as much detail or depth as a high-risk area. This may allow reporting accountants to reduce the work done in certain areas.

Reduced areas of work

59. In order to be efficient and effective, the work that is carried out by reporting accountants should be tailored for each engagement. Reporting accountants will need to tailor any standardised work programmes that they are using. This may mean carrying out some additional work in some areas and allow for reductions in others, depending on both the overall risk assessment performed by the reporting accountant and the risk areas identified within that particular law firm.
60. Some possible areas where less work may be performed by reporting accountants and some suggestions of areas where more focus might be needed are detailed at paragraphs 61 and 65 respectively.
61. Examples ICAEW believes may fall into this risk-based category, and where less work might be undertaken by reporting accountants in some cases might include:
- testing transactions from the bank statements to transaction records or nominal ledger;
 - detailed testing of bills of costs to transaction records;
 - paid cheque testing;
 - detailed transactional testing work at reconciliation dates; and

- reliance on bank audit letters.
62. In some cases reporting accountants may have a core work programme tailored to the law firm and then sporadically undertake other tests e.g. in the absence of any breaches being identified and strong systems and controls in place a paid cheque audit every three years might be seen as appropriate.
63. The SRA has confirmed that receipts from the Legal Aid Agency for law firms' costs that are paid into the business account in accordance with Rule 2.3 are not subject to reporting accountant requirements. Reporting accountants may select these receipts as part of the office/business account receipts testing; this would be tested for banking like any other receipt into the account. Other reimbursement of costs or payments, in relation to legal aid cases that are paid into the client account are subject to testing by reporting accountants, like any other transaction, but there are no additional special requirements.

Other areas of work

64. This is subjective and reporting accountants must consider this in conjunction with the risk profile and planning elements mentioned elsewhere in this guidance.
65. Outside the area of internal controls; example areas that ICAEW considers may involve additional work under the Accounts Rules include:
- reviewing monthly client account reconciliations across the year;
 - greater focus on the business account and business account reconciliations as a source of breaches;
 - reviewing client funds reconciliation to look for shortfalls / differences compared to the bank balances and how these are managed and dealt with;
 - reviewing instances of suspense accounts being used; and
 - testing treatment of old residual balances – specifically for sweeping up, acting as banker and charging of inappropriate expenses.

Significant breaches and significant weaknesses

66. The SRA guidance gives examples in this area and we anticipate the extent and nature of this guidance will continue to evolve. This guidance requires reporting accountants to exercise their professional judgement over the inclusion of qualifications when completing the Accountant's Report.
67. The guidance can be found in section 2 of sra.org.uk/solicitors/guidance/ethics-guidance/planning-for-and-completing-an-accountant-s-report/. It sets out when the SRA would be likely to expect a qualification and situations when the SRA might (rather than would) expect a qualification in the Accountant's Report. It will be important for reporting accountants to clearly document and be able to support their conclusion on whether or not an identified breach or control weakness (or combination of breaches and weaknesses) should result in a qualified opinion. Reporting accountants should ensure that they are using the latest version of the SRA guidance when planning and completing their work.
68. Further guidance is published for law firms which impacts the work of reporting accountants. It is important to note that the SRA's guidance is neither prescriptive nor exhaustive and the SRA do and will continue to issue guidance on the rules for law firms. This will inevitably impact the work of reporting accountants, and their judgements concerning the seriousness of any non-compliance with the rules or guidance, for example guidance issued in November 2019⁶ setting out the minimum expectations on law firms which are **unable to meet the requirement** for reconciliations of clients' own accounts.
69. ICAEW has prepared a list of practical examples that reporting accountants may also find themselves facing. The examples are included in the Appendix of this guidance. These examples give a base scenario and then provide further information that may change the view of reporting accountants as to whether they represent a qualification.

⁶ sra.org.uk/solicitors/guidance/clients-own-account/

70. Examples of this nature cannot be exhaustive or definitive and are to a degree an oversimplification of what may be seen in real situations. The examples in the Appendix represent the collective input of ICAEW volunteers and committees and have been reviewed by the SRA. The examples are intended to provide support to members on the approach they may adopt to reaching conclusions in practice.

Whistleblowing

71. Reporting accountants are required by law to make an immediate report to the SRA in appropriate circumstances, such as where there is evidence of fraud or theft, and if they have concerns about whether a solicitor or firm is fit and proper to hold money for clients or third parties or operate any such accounts. The SRA guidance also notes that it expects reporting accountants to report to it where commercial pressure is exerted by the law firm surrounding the potential qualification of the Accountant's Report resulting in the appointment of an alternative reporting accountant or where there is evidence a previously qualified Accountant's Report has not been submitted to the SRA. The SRA has also confirmed that there have been no changes under the rights and obligations of reporting accountants in this area.
72. Reporting accountants also need to consider their own professional integrity and position in such circumstances. If there is undue commercial pressure surrounding the completion of the Accountant's Report, should the reporting accountant continue with the appointment? This is a matter on which reporting accountants will need to make a professional judgement.
73. Reporting accountants must report on the AR1 according to the findings from the work undertaken and on the basis of their professional view as to whether a qualification in their Accountant's Report is appropriate or not. It is important to note here that Accountant's Reports are prepared by reporting accountants and not by law firms.
74. There is also a continuing education process here for COFAs and law firms; primarily that an Accountant's Report with no qualification does not necessarily mean the reporting accountant has not been in contact with the SRA surrounding the report.
75. The SRA has re-iterated that safeguards are in place to ensure the confidential disclosure of information received from reporting accountants under the whistleblowing procedures.
76. Overall, both the SRA and reporting accountants have an important role to play in the whistleblowing framework by continuing to exercise their respective rights and obligations.

Terms of engagement

77. The SRA does not contract with individual reporting accountants and, therefore, is not party to the terms of engagement. The Accountant's Report is, however, addressed to the SRA and the SRA expects that it will be owed a duty of care in respect of the Accountant's Report.
78. Terms of engagement will need to be agreed with the law firm to include:
- the scope of services to be provided by the reporting accountant;
 - the identity of the law firm for whose benefit the services are to be provided;
 - the fees to be paid by the law firm for the services;
 - the purpose for which the reporting accountant is to provide the services;
 - any responsibilities of the law firm in relation to the services;
 - the rights and obligations on reporting accountants to report directly to the Solicitors Regulation Authority;
 - following any direct report made to the Solicitors Regulation Authority under the above, to provide to the Solicitors Regulation Authority on request any further relevant information in the reporting accountant's possession or in the possession of the law firm; and
 - any limitations on the reporting accountant's liability to the law firm.

Refer to ICAEW [Technical Release 09/15 BL](#) *Managing the professional liability of accountants* for further details.

79. Reporting accountants will need to review and update any existing engagement terms for any work which includes periods after 25 November 2019 to ensure that references are made to the relevant regulations and SRA guidance, in terms agreed with the law firm. Where work spans different versions of the Accounts Rules, the engagement letter should refer to all relevant references in TECH 03/20 AAF, as well as those in TECH 16/15 AAF.
80. Engagement letters that take their references purely from the SRA Accounts Rules 2011 rule 35 will need to ensure that these are updated. The work is carried out in accordance with section 34 of the Solicitors Act 1974. The direct reporting duties and requirements (already included in current terms) should now refer to Section 34 of the Solicitors Act 1974, Section 5, schedule 2 Administration of Justice Act 1985 in respect of evidence of theft or fraud relating to client money and fit and proper concerns and the SRA guidance in respect of termination of appointment and a firm's failure to submit qualified report.
81. As the Accounts Rules no longer include the equivalent of paragraph 43A (the requirement to exercise professional judgement in determining the work required of the firm), reporting accountants should ensure their engagement letters include explicit reference to the use of professional judgement in determining the work required.
82. For example, reporting accountants may consider including a variation of the following text:
'We are required to complete our work in compliance with the Solicitors Act 1974, section 34 and Part 4 of the Solicitors Regulation Authority (the SRA) Accounts Rules effective 25 November 2019. Our report will be given in the prescribed form (AR1) as required by Rule 12.9.
We will exercise professional judgement in determining the work required to report. While our work will be informed by the SRA's guidance 'Planning for and completing an accountant's report' ([Dated Month Year]), we will undertake the work we judge to be appropriate for the reporting requirements. Factors considered in deciding on the work required may include, but not be limited to, the size and complexity of the firm, the nature of the work undertaken, the number of transactions and the value of client funds held.
We will qualify our report, where in our professional judgement, there is a significant breach and/or significant weaknesses in the firm's systems and controls which put client money at risk. We will provide details of the significant breach and/or significant weaknesses in the firm's systems and controls which put client money at risk to the SRA in their prescribed form. This will include sufficient detail to allow the SRA to understand our judgement. We do not undertake specific work to discover limitations in your systems or any irregularities on the part of your employees, beyond the work required to give the confirmations mandated on the AR1. However, we [will/may] advise you of limitations which we may discover during the course of our work.'
83. Reporting accountants may consider adding in an indication of the planned scope of work or activities they will undertake in their letter of engagement. Indicative examples of activities might include, for example, conducting interviews with management, or evaluating and testing systems and processes in place during the reporting period. Reporting accountants should make sure the engagement letter is clear these examples are indicative only, so that their use of professional judgement and any attempt to increase their scope of work is not challenged or limited. Reporting accountants should develop their work plans to appropriately complete their work taking into account their assessment of client risk.

Reporting to law firms

84. While the SRA prescribes the format of the AR1 form for reports to them, reporting accountants should also consider how they report to law firm. Reporting accountants may wish to provide law firms a full list of all breaches and weaknesses identified, regardless of whether judged significant or not. This would allow the law firm to consider how to address and resolve the points identified. In reporting to the law firm, the reporting accountant should make it clear that this list only represents the breaches and weaknesses found during the work, and should not be viewed as a complete list of all breaches and weaknesses.

85. Reporting accountants may consider how law firms respond to identified beaches and weaknesses in the future. It may be that reporting accountants deem a failure to address a persistent weakness as a cause for future qualification.

Reporting to the SRA

86. It is the responsibility of law firms to submit qualified Accountant's Reports to the SRA, not that of reporting accountants. Instructions for submission can be found on the SRA's website. At the date of this technical release, qualified Accountant's Reports should be submitted via mySRA.
87. Historically, reporting accountants have typically submitted qualified reports to the SRA. Under the new mySRA submission system, this is still permitted. However, reporting accountants should be aware that mySRA does not provide confirmation to reporting accountants when Accountant's Reports have been submitted. The system will only provide confirmation to the law firm – therefore, we recommend where reporting accountants submit an Accountant's Report, that they ask the law firm to inform them when the SRA confirms receipt.

APPENDIX: EXAMPLES OF POTENTIAL CONCLUSIONS ON THE QUALIFICATION OF AN ACCOUNTANT'S REPORT

	Relevant Accounts Rule(s)	What is the risk to client money and what considerations are required by the reporting accountant to assess whether the breaches/weaknesses in systems and controls are significant?	Is it likely the reporting accountant would qualify on this information alone?	Is it likely that the additional information would point the reporting accountant towards a potential qualification?
EXAMPLE 1 – OVERDRAWN CLIENT LEDGER BALANCES				
A number of overdrawn client ledger balances have been identified during the engagement.	Rule 5.1, 5.2, 5.3	The risk that there are insufficient controls in place to ensure that one client's money cannot be used for another client's matter or be inappropriately withdrawn from the client account. Do the breaches noted indicate to the reporting accountant an ongoing or potential risk to client money or weaknesses in the firm's systems? What are the explanations for the overdrawn ledgers? What are the amounts involved? How prevalent is the issue?	No	

	Relevant Accounts Rule(s)	What is the risk to client money and what considerations are required by the reporting accountant to assess whether the breaches/weaknesses in systems and controls are significant?	Is it likely the reporting accountant would qualify on this information alone?	Is it likely that the additional information would point the reporting accountant towards a potential qualification?
<p>EXAMPLE ADDITIONAL INFORMATION (viewing each in isolation)</p>				
<p>Further testing identified more client ledgers that had been overdrawn at some point during the period or were overdrawn at the period end.</p>		<p>The risk that there is a systematic weakness in the system, or a breakdown in or deliberate override of the controls. The risk that one client's money is being used for the benefit of another client or that client money is being used other than for the purpose it is held.</p> <p>The risk that withdrawals from a client account are not appropriately authorised and supervised.</p> <p>How many overdrawn balances were identified? What explanations were obtained for the overdrawn balances? What were the amounts involved?</p>		<p>Yes</p>
<p>The overdrawn ledger balances were not identified and rectified promptly.</p>		<p>The risk that there is a systematic weakness in the system, or a breakdown in or deliberate override of the controls. The risk that one client's money is being used for the benefit of another client or that client money is being used other than for the purpose it is held. The risk that withdrawals from a client account are not appropriately authorised and supervised. The risk that the systems are not sufficient to prevent or detect breaches and rectify promptly.</p> <p>How many overdrawn balances were identified? What explanations were obtained for the overdrawn balances? What were the amounts involved?</p>		<p>Yes</p>

	Relevant Accounts Rule(s)	What is the risk to client money and what considerations are required by the reporting accountant to assess whether the breaches/weaknesses in systems and controls are significant?	Is it likely the reporting accountant would qualify on this information alone?	Is it likely that the additional information would point the reporting accountant towards a potential qualification?
The breaches were spread across a wide range of fee earners in the law firm.		The risk that the systems are not sufficient to prevent overdrawn ledger balances. The risk that one client's money is being used for another client or client money is being used other than for the purpose for which it is held. The risk that withdrawals from a client account are not appropriately authorised and supervised. The risk that the systems are not sufficient to prevent or detect breaches and rectify promptly. Is there a systemic weakness?		Yes
The breaches involved only a small number of fee earners, who were not following the law firm's procedures correctly, and had been corrected as soon as they were identified.		The risk that there is a systematic weakness in the system, or a breakdown in or deliberate override of the controls. The risk that the systems are not sufficient to prevent overdrawn ledger balances. The risk that one client's money is being used for another client. The risk that withdrawals from a client account are not appropriately authorised and supervised. Has the firm taken steps to identify the reasons for the non-compliance and to prevent re-occurrence? Were the sums involved likely to be significant to individual clients? Has any further training been given to those individuals to prevent re-occurrence?		No

	Relevant Accounts Rule(s)	What is the risk to client money and what considerations are required by the reporting accountant to assess whether the breaches/weaknesses in systems and controls are significant?	Is it likely the reporting accountant would qualify on this information alone?	Is it likely that the additional information would point the reporting accountant towards a potential qualification?
The vast majority of the breaches were of a small nature (less than £100) and were identified by the law firm's weekly control procedures and corrected promptly.		The risk that there is a systematic weakness in the system, or a breakdown in the controls. The risk that the systems are not sufficient to prevent overdrawn ledger balances. The risk that one client's money is being used for another client or client money is being used other than for the purpose for which it is held. The risk that withdrawals from a client account are not appropriately authorised and supervised. Do amounts involved in the breaches, the detective controls, and correction procedures mitigate any weakness in preventative controls or risk to client money?		No
EXAMPLE 2 – TRANSFER OF COSTS				
A number of instances were identified where client funds available for the settlement of incurred costs notified to clients were not transferred from the client to the business account on a timely basis.	Rule 4.1 Rule 4.3	The risk that client monies that are not properly transferred in respect of work done on one matter could either deliberately or inadvertently be covering up shortfalls elsewhere. The risk of teeming and lading. The risk client money is not kept separate from money belonging to the firm. What are the firm's procedures for transfer of costs once a bill is raised? How long is it typically between raising a bill and transferring money to the business account? Were the amounts involved significant? Is there a systemic weakness in the systems for the transfer of costs?	No	

	Relevant Accounts Rule(s)	What is the risk to client money and what considerations are required by the reporting accountant to assess whether the breaches/weaknesses in systems and controls are significant?	Is it likely the reporting accountant would qualify on this information alone?	Is it likely that the additional information would point the reporting accountant towards a potential qualification?
EXAMPLE ADDITIONAL INFORMATION (viewing each in isolation)				
The delays arose when the cashier was on holiday. It was identified that at other times costs were transferred to the business account within 24 hours of the billing being sent to the client.		The risk that client monies that are not properly transferred in respect of work done on one matter could either deliberately or inadvertently be covering up shortfalls elsewhere. The risk of teeming and lading. The risk client money is not kept separate from money belonging to the firm. Were the amounts involved significant? What steps has the firm taken to prevent reoccurrence?		No
The time between raising the bill and transferring the money was typically between two weeks and several months. These were primarily identified by the reporting accountant and had not been corrected by the law firm.		The risk that client monies that are not properly transferred in respect of work done on one matter could either deliberately or inadvertently be covering up shortfalls elsewhere. The risk of teeming and lading. The risk client money is not kept separate from money belonging to the firm. What are the firm's procedures for transfer of costs once a bill is raised? Were the amounts involved significant? Is there a systemic weakness in the systems for the transfer of costs?		Yes

	Relevant Accounts Rule(s)	What is the risk to client money and what considerations are required by the reporting accountant to assess whether the breaches/weaknesses in systems and controls are significant?	Is it likely the reporting accountant would qualify on this information alone?	Is it likely that the additional information would point the reporting accountant towards a potential qualification?
The delays were focused on a small number of fee earners who were not following the law firm's procedures correctly, but the firm is now taking actions to ensure the procedures are followed by all fee earners going forward.		<p>The risk that client monies that are not properly transferred in respect of work done on one matter could either deliberately or inadvertently be covering up shortfalls elsewhere. The risk of teeming and lading. The risk client money is not kept separate from money belonging to the firm.</p> <p>What are the firm's procedures for transfer of costs once a bill is raised? Were the amounts involved significant? What steps had the firm taken to prevent reoccurrence? Is there a systemic weakness in the systems for the transfer of costs? Is there a lack of oversight over the systems in relation to billing and transfer of costs?</p>		No
Example 3 – BILLS OF COSTS				
A number of instances of anomalies between the bills of costs and the details recorded on the client ledger and in the client cash book for amounts transferred to the business account were identified.	Rule 4.1, 4.3	<p>The risk client money is transferred, other than for costs that have been incurred, or is not transferred for the correct amount. What are the firm's procedures for raising bills and transfer of costs once a bill is raised? Were the amounts involved significant? Is there a systemic weakness in the systems for the transfer of costs?</p>	No	

	Relevant Accounts Rule(s)	What is the risk to client money and what considerations are required by the reporting accountant to assess whether the breaches/weaknesses in systems and controls are significant?	Is it likely the reporting accountant would qualify on this information alone?	Is it likely that the additional information would point the reporting accountant towards a potential qualification?
EXAMPLE ADDITIONAL INFORMATION (viewing each in isolation)				
In a number of instances the date of transfer to the business account was before the date on the bill.		The risk client money is transferred, other than for costs that have been incurred, or is not transferred for the correct amount. What are the firm's procedures for raising bills and transfer of costs once a bill is raised? Were the amounts involved significant? How frequently did this happen? Had the related work been done? What steps had the firm taken to rectify this? Is there a systemic weakness in the systems for the transfer of costs? Is there a lack of oversight over the systems in relation to billing and transfer of costs?		No
In a number of instances the date of transfer to the business account was before the date on the bill. Further work indicated that a number of bills had to be credited and re-issued due to an error in the amounts included for photo copying charges. The law firm had identified the problem after the transfers to the business account had been made and had checked all bills issued in the same month and reissued those with the error.		The risk client money is transferred, other than for costs that have been incurred, or is not transferred for the correct amount. What are the firm's procedures for raising bills and transfer of costs once a bill is raised? Were the amounts involved significant? How frequently did this happen? Had the related work been done? What steps had the firm taken to rectify this? Is there a systemic weakness in the systems for the transfer of costs? Is there a lack of oversight over the systems in relation to billing and transfer of costs?		No

	Relevant Accounts Rule(s)	What is the risk to client money and what considerations are required by the reporting accountant to assess whether the breaches/weaknesses in systems and controls are significant?	Is it likely the reporting accountant would qualify on this information alone?	Is it likely that the additional information would point the reporting accountant towards a potential qualification?
<p>In a number of instances the date of transfer to the business account was before the date on the bill. Further work indicated that transfers to the business account were sometimes made in the week in which the firm's VAT payment was due, for amounts that were due to be billed but when the bill run had not yet been processed.</p>		<p>The risk client money is being used to finance business expenditure or otherwise for purposes other than that for which it was held.</p> <p>Consider whether this is a direct reporting matter as well as reporting on the AR1.</p>		Yes
<p>Further work identified two instances where the amount transferred was not the amount on the bill. This arose because there were insufficient funds held in the client account to settle the full amounts of these bills, so the firm had transferred the available funds and subsequently received the balances from the clients.</p>		<p>The risk client money is transferred, other than for costs that have been incurred, or is not transferred for the correct amount. Was client money being used for purposes other than those for which it was intended? What are the firm's procedures for raising bills and transfer of costs once a bill is raised? Were the amounts involved significant? How frequently did this happen? Had the related work been done? What steps had the firm taken to rectify this? Is there a systemic weakness in the systems for the transfer of costs? Is there a lack of oversight over the systems in relation to billing and transfer of costs?</p>		No

	Relevant Accounts Rule(s)	What is the risk to client money and what considerations are required by the reporting accountant to assess whether the breaches/weaknesses in systems and controls are significant?	Is it likely the reporting accountant would qualify on this information alone?	Is it likely that the additional information would point the reporting accountant towards a potential qualification?
Further work identified several instances where the amount transferred was not the amount on the bill. This arose because there were insufficient funds held in the client account to settle the full amounts of these bills, so the firm had transferred the available funds and subsequently received the balances from the clients.		The risk client money is transferred, other than for costs that have been incurred, or is not transferred for the correct amount. Was client money being used for purposes other than those for which it was intended? What are the firm's procedures for raising bills and transfer of costs once a bill is raised? Were the amounts involved significant? How frequently did this happen? Had the related work been done? What steps had the firm taken to rectify this? Is there a systemic weakness in the systems for the transfer of costs? Is there a lack of oversight over the systems in relation to billing and transfer of costs?		Yes
EXAMPLE 4 – DEFICIENCY IN 3 WAY RECONCILIATION PROCEDURES				
The law firm prepares 3 way client money reconciliations but reporting accountant work identified deficiencies in the preparation or review of 2 out of 12 monthly reconciliations.	Rule 8.3	The risk that a key control over client monies is not properly undertaken and/or appropriate oversight is not exercised and, as a result, surpluses, deficits, overdrawn balances or failures in record keeping may not be identified and rectified.	No	

	Relevant Accounts Rule(s)	What is the risk to client money and what considerations are required by the reporting accountant to assess whether the breaches/weaknesses in systems and controls are significant?	Is it likely the reporting accountant would qualify on this information alone?	Is it likely that the additional information would point the reporting accountant towards a potential qualification?
EXAMPLE ADDITIONAL INFORMATION (viewing each in isolation)				
The two reconciliations included differences in client funds of £50,000 and £4.12 on total client balances of £3,400,000 and £3,900,000 respectively. The differences had been explained and rectified on a timely basis but the preparer and reviewer had not documented the investigation and resolution.		The risk that a key control over client monies is not properly undertaken and/or appropriate oversight is not exercised. Were the differences fully explained, promptly corrected and an isolated issue? Were the differences the result of significant breaches or failures of systems and controls or otherwise, indications of ongoing risk to client money?		No
The two reconciliations included differences in client funds of £50,000 and £4.12 on total client balances of £3,400,000 and £3,900,000 respectively. These differences were explained and rectified promptly when the reporting accountant drew them to the law firm's attention.		The risk that a key control over client monies is not properly undertaken and/or appropriate oversight is not exercised. The risk that the systems are not sufficient to prevent or detect breaches and rectify promptly. Were the differences fully explained and an isolated issue? Were the differences the result of significant breaches or failures of systems and controls or otherwise indications of ongoing risk to client money?		Yes
The differences arose from cut off issues - receipts posted late to the ledger system. These issues were resolved within 2 working days of the month end.		The risk that a key control over client monies is not properly undertaken and/or appropriate oversight is not exercised. Were the differences fully explained and a one-off issue? Were the differences the result of significant breaches or failures of systems and controls or otherwise indications of ongoing risk to client money?		No

SOLICITORS REGULATION AUTHORITY ACCOUNTS RULES: ACCOUNTANT'S REPORTS FOR FULL REPORTING PERIODS AFTER 25 NOVEMBER 2019

	Relevant Accounts Rule(s)	What is the risk to client money and what considerations are required by the reporting accountant to assess whether the breaches/weaknesses in systems and controls are significant?	Is it likely the reporting accountant would qualify on this information alone?	Is it likely that the additional information would point the reporting accountant towards a potential qualification?
There was evidence that the individual reviewing the reconciliation did not fully understand the process or what to consider on their review.		The risk that a key control over client monies is not properly undertaken and/or appropriate oversight is not exercised and, as a result, surpluses, deficits, overdrawn balances or failures in record keeping may not be identified and rectified.		Yes
Two further reconciliations showed no evidence of review by the COFA or a partner.		The risk that a key control over client monies is not properly undertaken and/or appropriate oversight is not exercised and, as a result, surpluses, deficits, overdrawn balances or failures in record keeping may not be identified and rectified.		Yes
The differences are significant and remain unexplained and unresolved.		There is evidence of a significant breach and a significant weakness in the systems and controls.	Yes	
The differences resulted from a shortfall of client monies as a result of misappropriation of funds which had been identified and replenished by the law firm.		Replenishment does not mitigate the original breach. Was there fraud originating from inside the firm (in which case it is a serious factor) or outside the firm (in which case it is a moderate factor)?	Yes	
The differences identified a shortfall of client monies as a result of misappropriation of funds which had not been identified or replenished by the law firm.		This would also be a direct reporting matter in addition to reporting on the AR1.	Yes	

	Relevant Accounts Rule(s)	What is the risk to client money and what considerations are required by the reporting accountant to assess whether the breaches/weaknesses in systems and controls are significant?	Is it likely the reporting accountant would qualify on this information alone?	Is it likely that the additional information would point the reporting accountant towards a potential qualification?
EXAMPLE 5 – INSTANCES OF PARTNERS' MONEY BEING INCORRECTLY TREATED AS BUSINESS MONEY				
<p>During the engagement for a law firm (an LLP), 3 instances were identified where residential conveyance transactions were completed on behalf of members of the LLP. All the transactions were completed on the business ledger only.</p> <p>EXAMPLE ADDITIONAL INFORMATION (viewing each in isolation)</p> <p>The matters all involved the receipt of money from third party lenders.</p> <p>The law firm did not have a system for appropriately engaging with members of the law firm, as clients of the law firm.</p>	Rule 2.1	<p>The risk that all client money is not properly identified and held correctly, and therefore protected, in a client bank account. The risk that client money would be used for purposes other than that for which it was held.</p> <p>Significant sums of client money are being held outside the client account in breach of the rules.</p> <p>The risk that all client money is not properly identified and held correctly, and therefore protected, in a client bank account. The risk that client money would be used for purposes other than that for which it was held. The risk that the systems are not sufficient to prevent or detect breaches and rectify them promptly.</p>	<p>No</p> <p>Yes</p>	<p></p> <p>Yes</p>
The 3 instances were matters for the same member and related to receipts from that member. The law firm has 75 members and any matters relating to any other member were found to have been dealt with through the client ledger.		The risk that all client money is not properly identified and held correctly, and therefore protected, in a client bank account. The risk that client money would be used for purposes other than that for which it was held.		No

SOLICITORS REGULATION AUTHORITY ACCOUNTS RULES: ACCOUNTANT'S REPORTS FOR FULL REPORTING PERIODS AFTER 25 NOVEMBER 2019

	Relevant Accounts Rule(s)	What is the risk to client money and what considerations are required by the reporting accountant to assess whether the breaches/weaknesses in systems and controls are significant?	Is it likely the reporting accountant would qualify on this information alone?	Is it likely that the additional information would point the reporting accountant towards a potential qualification?
The 3 instances were matters for different members. The law firm has 5 members and the instances identified were all the instances of the firm acting for its members that had occurred in the period.		The risk that all client money is not properly identified and held correctly, and therefore protected, in a client bank account. The risk that client money would be used for purposes other than that for which it was held. The risk that the systems are not sufficient to prevent or detect breaches and rectify promptly. Were the sums involved significant or did they relate to payments made by third parties?		Yes
EXAMPLE 6 – CLIENT MONEY NOT HELD ON INSTANT ACCESS Engagement work identifies client money held in a client account which is a term deposit account, indicating it is not a breakable deposit.	Rule 2.4	The risk that client money is not properly protected under the Rules and the Solicitors Act 1974 by being held in an account that is not a proper client account.	Yes	
EXAMPLE ADDITIONAL INFORMATION (viewing each in isolation)				
Further evidence of the account type rules suggests that the underlying bank account is not breakable on demand but the law firm has a formal bank letter stating it is breakable.		Risk that the account actually turns out to not be breakable, despite separate assurances?		No

	Relevant Accounts Rule(s)	What is the risk to client money and what considerations are required by the reporting accountant to assess whether the breaches/weaknesses in systems and controls are significant?	Is it likely the reporting accountant would qualify on this information alone?	Is it likely that the additional information would point the reporting accountant towards a potential qualification?
EXAMPLE 7 – CLIENT MONEY HELD ON THE BUSINESS ACCOUNT – BANK ERROR				
Engagement work identifies a bank error where client money has been paid into the business account.	Rule 2.3	The risk that client money is not afforded the protection of the Rules or the 1974 Solicitors Act by being held in a non-client account. The risk that client money will be used inappropriately as it is not separated from business monies.	No	
EXAMPLE ADDITIONAL INFORMATION (viewing each in isolation)				
The amount involved is £150,000 and relates to completion monies on a mortgage transaction; information provided to the bank from the firm was correct and the error was made by the bank. It was rectified 1 working day later.		The risk that client money is not afforded the protection of the Rules or the 1974 Solicitors Act by being held in a non-client account. The risk that client money will be used inappropriately as it is not separated from business monies. Had the law firm's own systems and controls detected the error?		No
The amount involved is £150,000 and relates to closure of a client designated deposit account. The error was not corrected until identified by the reporting accountant.		The fact that the error had not been identified is a significant breach and a significant weakness in the firm's systems and controls. This would be a direct reporting matter as well as reporting on the AR1.	Yes	

	Relevant Accounts Rule(s)	What is the risk to client money and what considerations are required by the reporting accountant to assess whether the breaches/weaknesses in systems and controls are significant?	Is it likely the reporting accountant would qualify on this information alone?	Is it likely that the additional information would point the reporting accountant towards a potential qualification?
The £150,000 had been held in the business account for over 3 weeks when the reporting accountant identified it. At this time, the practice was trading near to its overdraft limit and was short of funds to pay its creditors as they fell due.		<p>A significant breach and possibly the deliberate use of client funds, for purposes other than those for which they were intended.</p> <p>This would be a direct reporting matter, as well as a qualification on the AR1.</p> <p>The reporting accountant might consider reporting to the SRA even if this only occurred for a few days, rather than weeks.</p>	Yes	
<p>EXAMPLE 8 – NARRATIVE ON CLIENT LEDGERS IS INCORRECT</p> <p>Engagement work identifies a number of apparent administrative errors on client ledgers.</p>	Rule 8.1		No	
<p>EXAMPLE ADDITIONAL INFORMATION (viewing each in isolation)</p> <p>In a number of the ledgers viewed during the reporting accountant's work instances were noted where the law firm acted for a third-party lender in a conveyancing transaction which did not clearly identify on the ledger that the monies were mortgage advances.</p>		<p>The risk that client money is not appropriately identified and therefore may be used for matters other than the purposes for which it was received or held. The risk that the systems are not sufficient to prevent or detect breaches and rectify them promptly.</p> <p>Were these isolated instances? Was this indicative of a weakness in the systems and controls over identification of client money? What were the sums involved?</p>		Yes

	Relevant Accounts Rule(s)	What is the risk to client money and what considerations are required by the reporting accountant to assess whether the breaches/weaknesses in systems and controls are significant?	Is it likely the reporting accountant would qualify on this information alone?	Is it likely that the additional information would point the reporting accountant towards a potential qualification?
A business to client transfer to remedy overdrawn client ledgers was backdated to the date the ledgers became overdrawn, even though the transfer was at a later date. The amount of the transfer involved was £348.		The risk that one client's money is used for another client or for purposes other than for which it is held. Is there a weakness in the systems that does not prevent the client ledgers becoming overdrawn or that allows back dating of transactions? Was this an isolated instance?		No
Several instances were identified of business to client transfers to remedy overdrawn client ledgers. These were backdated to the date the ledgers became overdrawn, even though the corrective transfer actually occurred at a later date.		The risk that one client's money is used for another client or purposes other than that for which it is held. Were the sums significant? Is there a significant weakness that the systems and controls do not prevent client ledgers becoming overdrawn? Is there a systemic problem with incorrect recording misrepresenting the financial transactions and "covering up" of breaches?		Yes
The chronological order of transactions on the client ledgers and business ledgers in a number of matters were not correct.		The risk that breaches are arising but that transactions are deliberately dated so as to 'cover up' the breach. The risk that the running totals of balances on the client ledger and client cashbook are not accurate and therefore the risk client ledger balances could become overdrawn and one client's money used for the benefit of another client. The risk of shortfalls on client accounts not being corrected. The risk that the law firm/COFA is unaware of the level of breaches and therefore weaknesses in controls. What explanations were given? Is it indicative of a systemic weakness or deliberate attempts to manipulate the records?		Yes

SOLICITORS REGULATION AUTHORITY ACCOUNTS RULES: ACCOUNTANT'S REPORTS FOR FULL REPORTING PERIODS AFTER 25 NOVEMBER 2019

	Relevant Accounts Rule(s)	What is the risk to client money and what considerations are required by the reporting accountant to assess whether the breaches/weaknesses in systems and controls are significant?	Is it likely the reporting accountant would qualify on this information alone?	Is it likely that the additional information would point the reporting accountant towards a potential qualification?
EXAMPLE 9 – BUSINESS PAYMENTS MADE FROM A CLIENT ACCOUNT BY MISTAKE				
Engagement work identifies a payment from the client account which is settlement of a liability of the law firm.	Rule 5.1	The risk that client money is either by accident or design being used to fund the payments of the business. The risk that the systems are not sufficient to prevent or detect breaches and rectify them promptly.	No	
EXAMPLE ADDITIONAL INFORMATION (viewing each in isolation)				
The payment represents the quarterly VAT payment. The law firm is running an overdraft on the business account and close to its limit. There is no evidence of a bank error involved. The payment from the client account was corrected 4 working days later.		This is likely to be significant and is use of client money to fund business liabilities.	Yes	
The payment represents quarterly bank charges from the newly appointed bankers to the law firm. The amount is £2,500 and is corrected 3 working days after discovery by the law firm.		The risk that client money is, either by accident or design, being used to fund the payments of the business. Has the firm issued further instructions to the bank to prevent recurrence?		No
The amount represents the quarterly VAT payment. The law firm is running an overdraft on the business account and is near to its limit. There is no evidence of a bank error involved. It is not corrected after many months and is identified by the reporting accountant.		This is likely to be a significant amount and is deliberate use of client money to fund business liabilities. Consider whether this is a direct reporting matter, as well as reporting on the AR1.	Yes	

	Relevant Accounts Rule(s)	What is the risk to client money and what considerations are required by the reporting accountant to assess whether the breaches/weaknesses in systems and controls are significant?	Is it likely the reporting accountant would qualify on this information alone?	Is it likely that the additional information would point the reporting accountant towards a potential qualification?
<p>EXAMPLE 10 – SWEEPING UP</p> <p>Engagement work identifies a write off on a small balance of client funds on a client matter.</p> <p>EXAMPLE ADDITIONAL INFORMATION (viewing each in isolation)</p> <p>1 instance was identified where a fee earner wrote off a residual balance of £1.35 by raising a "photocopying disbursement" to clear the balance without notifying the client. It was identified and rectified on notification by the reporting accountant. This breach arose in a few other ledgers viewed by the reporting accountant during their work.</p>	<p>Rule 5.1</p>	<p>The risk that the law firm does not comply with its obligations to return money due back to clients at the end of matters and, instead, takes the money to the benefit of the business account.</p> <p>There is currently a lack of information to form a view at this point. The reporting accountant should consider what additional information is available on the matter to draw a conclusion.</p>	<p>No</p>	
		<p>The risk that withdrawals from a client account are not appropriately supervised and authorised. The risk client money is being used for purposes other than those for which it is received and held. The risk the firm's systems do not detect breaches and that money withdrawn from a client account improperly is not immediately replaced. Are the amounts significant? Is there significant weakness in the system/law firm allowing the "taking" of client money, however small?</p>		<p>Yes</p>

	Relevant Accounts Rule(s)	What is the risk to client money and what considerations are required by the reporting accountant to assess whether the breaches/weaknesses in systems and controls are significant?	Is it likely the reporting accountant would qualify on this information alone?	Is it likely that the additional information would point the reporting accountant towards a potential qualification?
1 instance was identified where a fee earner wrote off a residual balance of £1.35. Contact details were available for the client but the amount was donated to charity. This breach arose in a few other ledgers viewed by the reporting accountant during their work. Further enquiries revealed that this is not the firm's standard process.		The risk that withdrawals from a client account are not appropriately supervised and authorised. The risk client money is being used for purposes other than those for which it is received and held. The risk the firm's systems do not detect breaches and that money withdrawn from a client account improperly is not immediately replaced. Were the amounts significant? How many incidents had occurred? How long had the amounts been on the client account with no activity on the matter?		No
A few instances were identified where various fee earners wrote off a residual balance ranging from £1.35 to £18.50 by donating the balances to charity. Contact details for the clients were available. It was the firm's policy to donate small amounts to charity after a certain period of time.		The risk that withdrawals from a client account are not appropriately supervised and authorised. The risk client money is being used for purposes other than those for which it is received and held. The risk the firm's systems do not detect breaches and that money withdrawn from a client account improperly is not immediately replaced. Were the amounts significant? How many incidents had occurred? How long had the amounts been on the client account with no activity on the matter?		Yes
A few instances were identified where various fee earners wrote off a residual balance ranging from £1.35 to £18.50 by donating the balances to charity. Contact details for the clients were not available and costs to trace would be excessive. It was the firm's policy to donate small amounts to charity after a certain period of time, if the client could not be traced.		The risk that withdrawals from a client account are not appropriately supervised and authorised. The risk client money is being used for purposes other than those for which it is received and held. The risk the firm's systems do not detect breaches and that money withdrawn from a client account improperly is not immediately replaced. Were the amounts significant? How many incidents had occurred? How long had the amounts been on the client account with no activity on the matter?		No

	Relevant Accounts Rule(s)	What is the risk to client money and what considerations are required by the reporting accountant to assess whether the breaches/weaknesses in systems and controls are significant?	Is it likely the reporting accountant would qualify on this information alone?	Is it likely that the additional information would point the reporting accountant towards a potential qualification?
A few client instances were identified where various fee earners wrote off a residual balance ranging from £1.35 to £18.50 by raising a "photocopying disbursement" to clear the balance without notifying the client.		<p>The risk that withdrawals from a client account are not appropriately supervised and authorised. The risk client money is being used for purposes other than those for which it is received and held. The risk the firm's systems do not detect breaches and that money withdrawn from a client account improperly is not immediately replaced. How many incidents had occurred? Is there significant weakness in the system/law firm allowing the "taking" of client money, however small?</p> <p>Consider whether this would be a direct reporting matter, as well as reporting on the AR1.</p>		Yes
Several instances were identified where various fee earners wrote off a residual balance, that was generally £250 each, by raising a "travelling disbursement" to clear the balance without notifying the client.		<p>Client money is inappropriately withdrawn from a client account. There is a significant weakness in the systems for appropriate authorisation and supervision of withdrawals from client.</p> <p>This would be a direct reporting matter, as well as an item to report on the AR1.</p>	Yes	
EXAMPLE 11 – SUSPENSE ACCOUNTS				
Engagement work identifies the use of a suspense account.	Rule 8.1	The risk that client money will be held or used inappropriately, as it is not properly identified and/or separated in the accounting system from other clients' money. The risk that the law firm will not be able to identify the money held for every individual client.	No	

	Relevant Accounts Rule(s)	What is the risk to client money and what considerations are required by the reporting accountant to assess whether the breaches/weaknesses in systems and controls are significant?	Is it likely the reporting accountant would qualify on this information alone?	Is it likely that the additional information would point the reporting accountant towards a potential qualification?
EXAMPLE ADDITIONAL INFORMATION (viewing each in isolation)				
1 suspense ledger was identified that had been used for billing Will preparation fees of £100 plus VAT per Will. There were 5 such transactions on the suspense ledger.		The risk that client money will be held or used inappropriately as it is not properly identified and/or separated in the accounting system from other clients' money. The risk that the law firm will not be able to identify the money held for every individual client. Were the amounts involved significant? Were the clients clearly identified? How many instances of breaches of this nature occurred? Is there a systemic weakness in the system for identifying and recording client money? Can the firm demonstrate client money is kept safe at all times?		No
3 suspense ledgers were identified and in each case they had been used for billing Will preparation fees of £200 plus VAT per Will. There were 5 such transactions on each suspense ledger.		The risk that client money will be held or used inappropriately as it is not properly identified and/or separated in the accounting system from other clients' money. The risk that the law firm will not be able to identify the money held for every individual client. Were the amounts involved significant? Were the clients clearly identified? Does the number of breaches indicate a lack of appropriate separation of clients' money and/or lack of clear understanding of reason for the Rule? Is there a systemic weakness in the system for identifying and recording client money? Can the firm demonstrate client money is kept safe at all times?		No

	Relevant Accounts Rule(s)	What is the risk to client money and what considerations are required by the reporting accountant to assess whether the breaches/weaknesses in systems and controls are significant?	Is it likely the reporting accountant would qualify on this information alone?	Is it likely that the additional information would point the reporting accountant towards a potential qualification?
<p>The law firm uses a suspense account to hold unidentified client bank receipts. The balance held on the ledger was £1,467 and was in relation to a single bank receipt which is 14 months old. Efforts are still being made with the bankers to identify the source of the receipt.</p>		<p>The risk that client money will be held or used inappropriately as it is not properly identified and/or separated in the accounting system from other client's money. The risk that the law firm will not be able to identify the money held for every individual client. Is the amount significant? Do the client take on procedures prevent client money being received prior to completion of client due diligence procedures? How many instances of breaches of this nature occurred in the period?</p>		<p>No</p>
<p>The law firm uses a suspense account to hold unidentified client bank receipts. The balance held on the ledger was £7,435 and was in relation to multiple receipts, some of which are more than 6 months old.</p>		<p>The risk that client money will be held or used inappropriately as it is not properly identified and/or separated in the accounting system from other clients' money. The risk that the law firm will not be able to identify the money held for every individual client. Are the amounts significant? Do the client take on procedures prevent client money being received prior to completion of client due diligence procedures? How many instances of breaches of this nature occurred in the period? Is there a systemic weakness in the system for identifying client money and recording it on the appropriate client ledger?</p>		<p>Yes</p>

	Relevant Accounts Rule(s)	What is the risk to client money and what considerations are required by the reporting accountant to assess whether the breaches/weaknesses in systems and controls are significant?	Is it likely the reporting accountant would qualify on this information alone?	Is it likely that the additional information would point the reporting accountant towards a potential qualification?
EXAMPLE 12 MONEY RETAINED AT THE END OF A MATTER				
Engagement work has identified numerous client balances on which there has been no movement in the period being reported on.	Rule 2.5 Rule 3.3 Rule 4.1	The risk that client money is not returned once there is no proper reason to retain it. The risk that money other than client money is held in a client account. The risk of providing banking facilities through a client account. What is the total of the balances held on which there is no movement? What are the reasons for retaining these amounts? What steps have been taken to locate the owners and return the money? What are the firm's procedures for returning client money once a matter is completed?		No
The balances relate to old client balances inherited when the firm took over another firm several years ago. The firm is attempting to locate the clients and return the money. During the period, the number of balances has been reduced and no new balances on closed matters have been retained.		The risk that client money is not returned once there is no proper reason to retain it. The risk that money other than client money is held in a client account. The risk of providing banking facilities through a client account. What is the total of the balances held on which there is no movement? What are the firm's procedures for returning client money once a matter is completed? Have the balances that have been cleared been returned to clients? What steps is the firm taking to locate the remaining clients and return the money?		No

	Relevant Accounts Rule(s)	What is the risk to client money and what considerations are required by the reporting accountant to assess whether the breaches/weaknesses in systems and controls are significant?	Is it likely the reporting accountant would qualify on this information alone?	Is it likely that the additional information would point the reporting accountant towards a potential qualification?
There are some balances ranging from £1.45 to £35 that are several years old where the firm has not been able to trace the client. The remaining balances ranging from £45 to £123 relate to matters completed in the last 2 years, with most of those arising in the current year. Currently there are no ongoing attempts to locate the clients and return the money.		The risk that client money is not returned once there is no proper reason to retain it. The risk that money other than client money is held in a client account. The risk of providing banking facilities through a client account. What is the total of the balances held on which there is no movement? Is there a systemic failure of the systems for returning money when the matter is resolved?		Yes
There are some balances ranging from £1.45 to £35 that are several years old where the firm has not been able to trace the client. The remaining balances ranging from £45 to £123 relate to matters completed in the last 2 years, with most of those arising in the year being reported on. The majority of the balances arising in the previous 2 years were returned to clients in the three months after the period end, following a review of the firm's procedures.		The risk that client money is not returned once there is no proper reason to retain it. The risk that money other than client money is held in a client account. The risk of providing banking facilities through a client account. What steps is the firm taking to locate the remaining clients and return the money? Since the end of the period, have the firm's procedures for returning money at the end of a matter operated effectively or are more balances being retained?		No
The majority of balances are for amounts ranging from £2.17 to £142, some dating back several years. When the finance team have time, attempts are made to locate the clients and return the money. There are a few balances of between £1,200 and £5,200, relating to corporate clients, where the clients have asked the firm to retain the balances, as they expect to undertake new transactions or require the firm's services in the future. One of these is more than 2 years old and some others arose in the previous reporting period.		Holding client money without a proper reason for doing so or an underlying legal transaction or service is the provision of banking facilities even if this is at the request of the client. A retainer in expectation of providing future services is not sufficient justification.	Yes	

	Relevant Accounts Rule(s)	What is the risk to client money and what considerations are required by the reporting accountant to assess whether the breaches/weaknesses in systems and controls are significant?	Is it likely the reporting accountant would qualify on this information alone?	Is it likely that the additional information would point the reporting accountant towards a potential qualification?
<p>EXAMPLE 13 – PROVIDING BANKING FACILITIES</p> <p>At the completion of a conveyancing matter, the law firm used the proceeds, under instruction from the client, to pay out various sums on different dates.</p>	<p>Rule 3.3 Rule 5.1</p>	<p>The risk of providing banking facilities through a client account. The risk that client money is used for purposes other than that for which it is held. The risk of facilitating money laundering.</p> <p>What were the payments and to whom? What were the circumstances of the payments?</p>		<p>No</p>
<p>EXAMPLE ADDITIONAL INFORMATION (viewing each in isolation)</p>				
<p>This was an isolated incidence on a residential conveyancing matter. The money was used to pay school fees and settle a long outstanding credit card debt with the balance paid to the client.</p>		<p>The payment of school fees and settlement of the credit card debt are unrelated to the conveyancing transaction.</p>	<p>Yes</p>	
<p>The transaction was the disposal of a residential property owned by a trust of which a partner in the firm was acting as trustee. The payments were for payment of school fees of a beneficiary of the trust and repairs to another property owned by the trust.</p>		<p>The risk of providing banking facilities through a client account. The risk that client money is used for purposes other than that for which it is held. The risk of facilitating money laundering.</p> <p>What were the amounts? Did the payments relate to a matter that required a lawyer or to services being provided by the firm? Were the payments all in connection with the matter on which the firm was acting?</p>		<p>No</p>

	Relevant Accounts Rule(s)	What is the risk to client money and what considerations are required by the reporting accountant to assess whether the breaches/weaknesses in systems and controls are significant?	Is it likely the reporting accountant would qualify on this information alone?	Is it likely that the additional information would point the reporting accountant towards a potential qualification?
The transaction was the disposal of a residential property owned by a trust. As well as the conveyancing, the firm was engaged to provide trust administration services such as completion and submission of tax returns. No fee earner in the firm was a trustee.		The risk of providing banking facilities through a client account. The risk that client money is used for purposes other than that for which it is held. The risk of facilitating money laundering. What were the amounts? Did the payments relate to a matter that required a lawyer or to services being provided by the firm? Were the payments all in connection with the matter on which the firm was acting?		Yes
Additional ledgers were identified where the fee earner had also banked cheques on behalf of a client in the law firm's client account because the client did not have a bank account of their own.	Rule 4.3 Rule 5.1	Even if this was done on client instructions, and for the client's convenience, this is the provision of banking facilities.	Yes	
EXAMPLE 14 – UNDISCLOSED PROFITS An instance is identified where the telegraphic transfer (TT) fee is shown as a disbursement on the fee to the client at £25 plus VAT. In this case, the cost to the law firm from the bank for the TT was £5.		The risk of payment for which costs have not been incurred being transferred from a client account. The risk of client money being treated as business money and transferred from a client account inappropriately. Were sums involved significant? How many instances of this had occurred? Was it indicative of a weakness in the systems for identifying costs and raising bills? Was it indicative of a weakness in the firm's oversight and governance procedures? Was it indicative of a firm culture that was not consistent with the Principles in the SRA Code of Conduct?	No	

	Relevant Accounts Rule(s)	What is the risk to client money and what considerations are required by the reporting accountant to assess whether the breaches/weaknesses in systems and controls are significant?	Is it likely the reporting accountant would qualify on this information alone?	Is it likely that the additional information would point the reporting accountant towards a potential qualification?
EXAMPLE ADDITIONAL INFORMATION (viewing each in isolation)				
The breach arose on several of the ledgers viewed by the reporting accountant during their work.		The risk of payment for which costs have not been incurred being transferred from a client account. The risk of client money being treated as business money and transferred from a client account inappropriately. Were sums involved significant? How many instances of this had occurred? Was it indicative of a weakness in the systems for identifying costs and raising bills? Was it indicative of a weakness in the firm's oversight and governance procedures? Was it indicative of a firm culture that was not consistent with the Principles in the SRA Code of Conduct?		Yes
The breach arose in several of the ledgers viewed by the reporting accountant during their work. The law firm had identified the issue, investigated how many clients were affected and had returned £20 plus VAT to each of the ledgers identified.		The risk of payment for which costs have not been incurred being transferred from a client account. The risk of client money being treated as business money and transferred from a client account inappropriately. Were sums involved significant? How many instances of this had occurred? Had the firm taken steps to prevent similar issues arising in the future? Has the firm reported the matter to the SRA?		No

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