



# **SRA Accounts Rules – Updated Guidance for Reporting Accountants**

*26 February 2020*

**PRESENTED BY**

**JANET TAYLOR, PKF FRANCIS CLARK**

*The webinar will commence shortly*

# *Today's presenter*

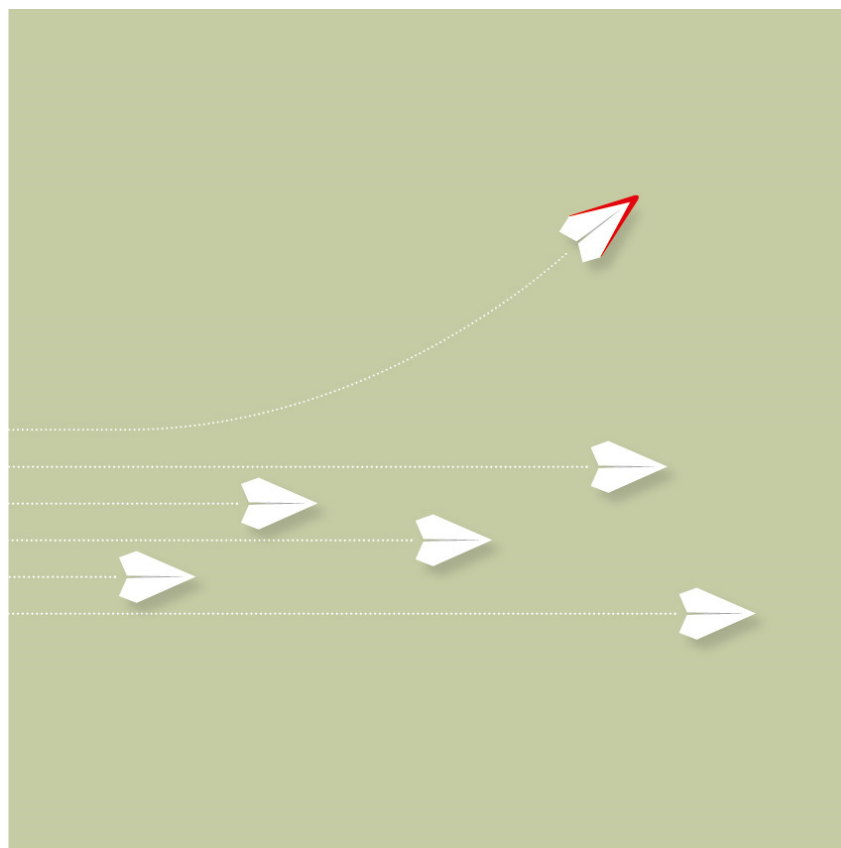


Janet Taylor  
Director  
PKF Francis Clark

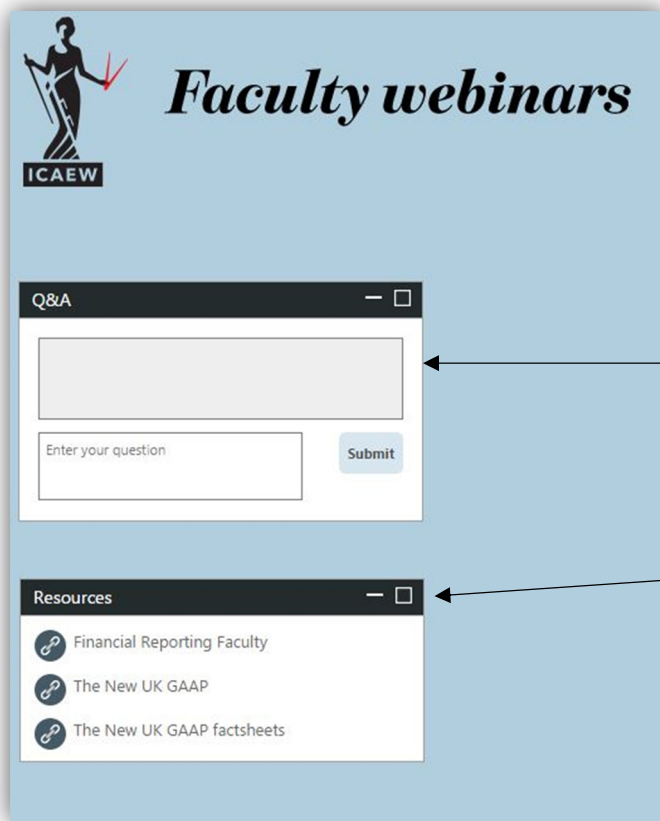
# *Join the Audit and Assurance Faculty*

- Monthly newsletter and publications
- Webinars and events
- Influence – have your say
- Thought Leadership
- Career Development

[icaew.com/aaf](https://icaew.com/aaf)



# Ask a question



## Audio problems?

- Ensure your volume is turned on
- If you experience poor sound quality try refreshing your page.

## Ask a question

Type your question into the question box then click submit.

Download resources here

# *Contents*

Brief review of key Accounts Rules issues

ICAEW updated Technical Release

Impact on reporting accountants?

Questions

# *Key Accounts Rules issues*

- Not a 'one size fits all' set of rules
- Some detailed rules but largely based on principles
- Scope for differences between law firms
  - In interpretation and therefore policies and procedures
  - In the holding of money
- Certain required changes
- Very few 'opted for' changes seen so far
- Gradual evolution?

# *Key Accounts Rules issues*

- Key principles
  - Client money to be paid promptly into and held in a client account  
(Non-client money to be paid into business account)
  - Client money only to be used for that client and its intended purpose
  - Money to be repaid as soon as there is no longer any proper reason to hold it

# *Key Accounts Rules issues*

## Definitions and treatment of disbursements

- Rule 2.1(d) “Client money” is money held or received:
  - In respect of your fees and unpaid disbursements if held or received prior to delivery of a bill for the same
- Rule 4.3 where holding client money and some or all will be used for your costs
  - a) Must give a bill of costs (or written notification of the costs incurred) to client or paying party;
  - b) BEFORE any transfer from client account



# *Key Accounts Rules issues*

Operating a client's own account

- Rule 10.1: Part 2 of these rules does not apply save for:
  - a) Rule 8.2 – statements
  - b) Rule 8.3 – reconciliations
  - c) Rule 8.4 – bills and notifications of costs

# *Operating a client's own account*

- Solicitors Disciplinary Tribunal
  - George James Stanley Lonsdale (admitted 1990)
  - Employee
  - Withdrew over £6,000 (£1,500 and £4,500) from vulnerable 85 year old client for own personal use between February 2015 and June 2016
  - Acting under sole POA
  - Also kept 4 rings entrusted by the client in his own safe
  - Resigned and repaid the money
  - Struck off and £3,193 costs

# *Operating a client's own account*

- SRA are considering this further
- Issued 'Statement of our position regarding firms operating a client's own account' on 30 September 2019
- What to do to ensure not viewed as in breach until further guidance?
  - Take reasonable steps to record – and satisfy yourself – that the client's money is not at risk and record that position
  - Expect firms to keep a
    - Central register
    - Separate record of transactions carried out by you or on your behalf
    - Record of bills

# *Key Accounts Rules issues*

Repaying balances promptly and dealing with residual balances

- Rule 2.5 Ensure money repaid to client or third party as soon as there is no longer a proper reason to hold those funds
- No specific ongoing notification rule
- No specifics in the rules for dealing with balances that cannot be repaid

# *Residual balances*

- SRA Statement ‘The prescribed circumstances in which you can withdraw client money from client account to pay to a charity of your choice’
  - Mandatory
  - Firms must not deduct out of pocket expenses incurred while trying to trace the owner of the funds
  - No specific requirement to choose a charity that indemnifies firm (note the firm remains liable should the client reappear)
  - Reporting Accountants are likely to need to review the records detailing any payments to charity as part of their work
  - £500 limit for self certification retained

# *Ongoing notification*

- Previously rule 14.4 required at least every 12 months after initial notification
- SRA Ethics Guidance ‘Helping you keep accurate client accounting records’ issued 4 July 2019 refers to ‘Good compliance can be achieved by making sure you have....

*‘systems which make sure clients ... are kept regularly informed when funds are retained for a specified purpose (which should be in respect of the delivery by you of regulated services) at the end of a matter or substantial conclusion of a matter.’*

- Link to rule 3.3 - must have proper reason!

# *Key Accounts Rules issues*

## Banking facilities

- Rule 3.3 You must not use a client account to provide banking facilities to clients or third parties. Payments into, and transfers or withdrawals from a client account must be respect of delivery by you of regulated services.
- Warning Notice from August 2018 revised 25 November 2019
- PLEASE (RE)READ IT

# *Banking facilities*

Not lawyers but you need to:

- Be able to spot the main warning signs!
- Make sure you ask questions (of the right people!) and obtain the relevant information and explanations
- Consider whether this appears to be reasonable
- Make a considered judgement on whether, if there is a breach, it is reportable to the SRA
- Consider whether you advise the firm to self-report
- Clearly and fully document your decisions



# ***Technical Release TECH 03/20 AAF***

- Issued 31 January
- Updated version of TECH 16/15 AAF
- Most of previous guidance still applicable
- SRA supports the guidance
- Areas covered
  - The role of the reporting accountant
  - Practical implications for reporting accountants and law firms
  - Examples of breaches ‘to qualify or not to qualify’

# *Role of the Reporting Accountant*

- Work done under terms of Section 34 of the Solicitors Act 1974
  - Section 34(2) allows the SRA 'to specify requirements to be met by, or in relation to, an accountant's report'
  - Nothing is now specified in rules themselves
  - Contained in the SRA Guidance 'Planning for and completing an accountant's report' updated June 2019

# *Role of the Reporting Accountant*

- Fulfilling the terms of your obligations
  - Section 34 of the Solicitors Act 1974 and Section 5, schedule 2 Administration of Justice Act 1985
    - Theft or fraud
    - Fit and proper concerns
  - SRA Guidance
    - Termination of appointment
    - Failure to submit a qualified report

# *AR1 extract*

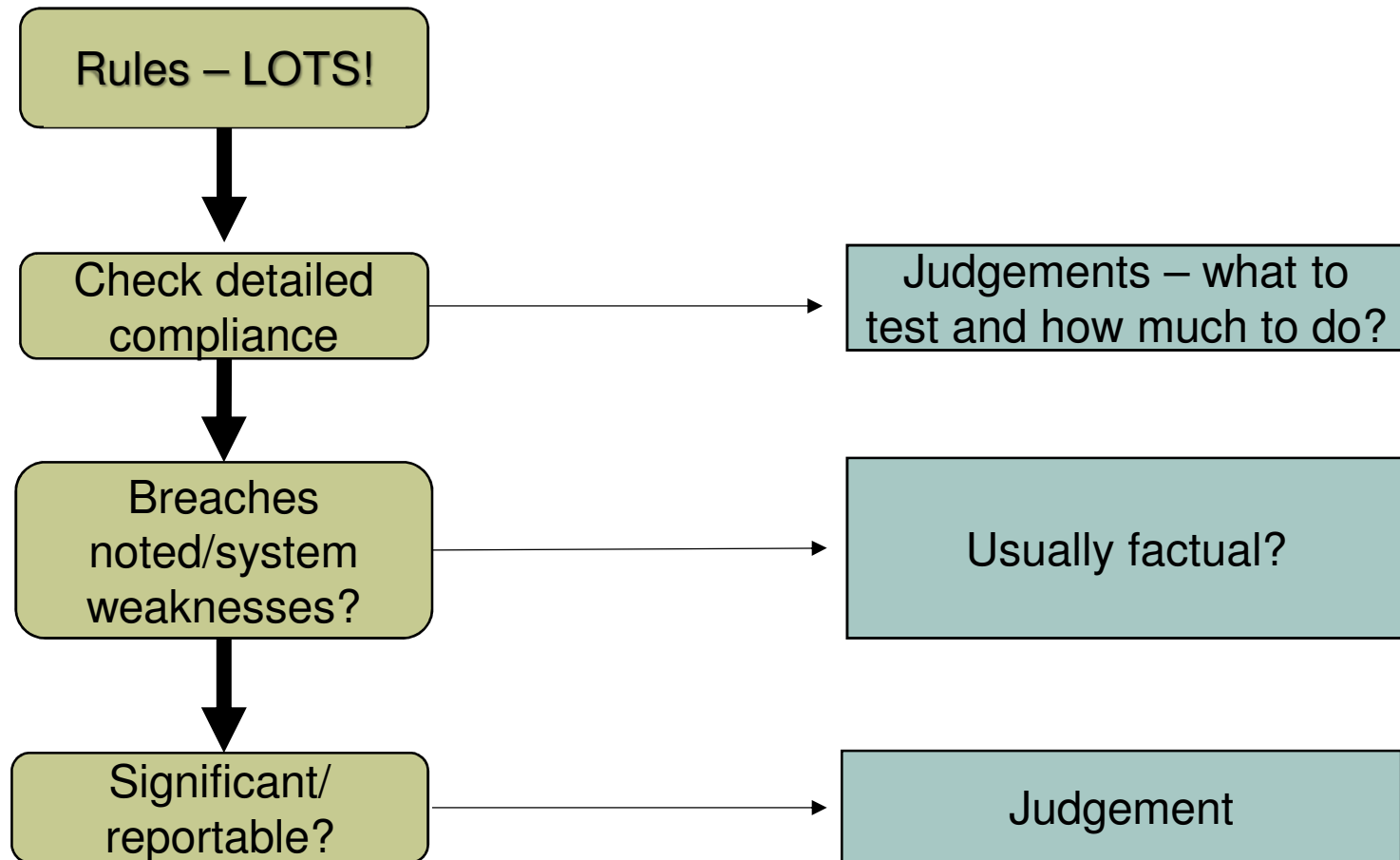
- 3.1 We are qualified to prepare this report in accordance with rule 12.5 of the Accounts Rules or rule 34 of the SRA Accounts Rules 2011.
- 3.2 We confirm that a copy of this report has been, or will be, sent to the COFA.
- 3.3 We confirm that we have carried out work to assess whether the firm has complied with the Accounts Rules in the report period, namely rules 2 to 6, 8 to 10 and 13.
- 3.4 Where applicable, we confirm that we have carried out work to assess whether the firm has complied with the SRA Accounts Rules 2011 in the report period, namely rules 1,7 to 10, 13 to 21, 27 and 29.
- 3.5 We have found significant breaches of the Accounts Rules and/or the SRA Accounts Rules 2011 and/or significant weaknesses in the firm's systems and controls which put client money at risk. We therefore consider that the SRA should be notified by our qualifying of this report.

# *Impact on Reporting Accountants?*

- Performing the work
  - Are you already:
    - Reviewing systems and controls?
    - Assessing risk?
    - Reflecting this in sample sizes?
    - Focusing on risk areas?
    - Tailoring programme accordingly?
  - In accordance with 2011 Rule 43A.1
  - Then no significant changes necessary at this stage?
  - Another layer?

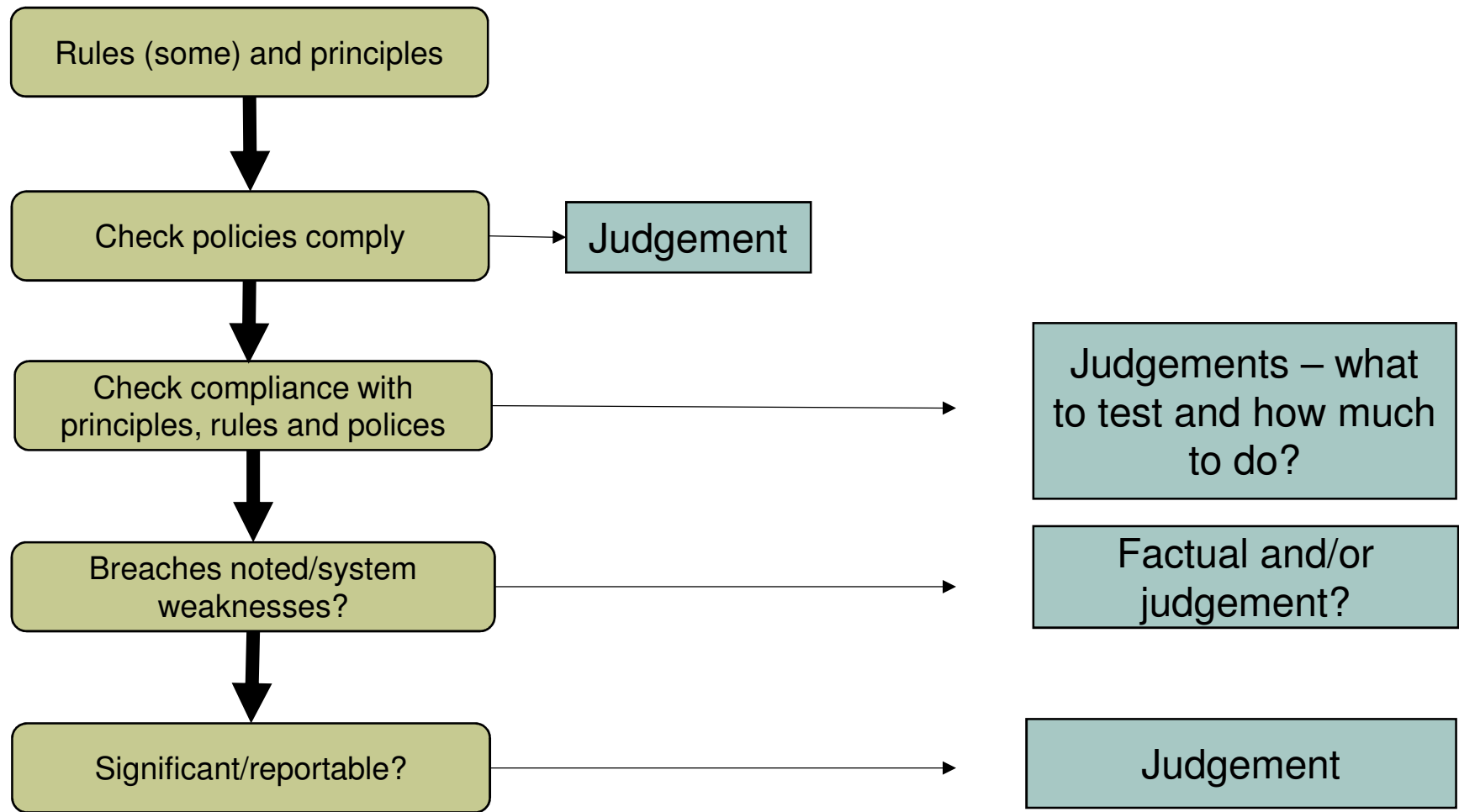
# *Impact on Reporting Accountants?*

Up to 25/11/2019



# *Impact on Reporting Accountants?*

From 25/11/2020



# *Systems and controls*

- Law firms
  - Are they properly documented?
  - Do they now include key policies for Accounts Rules compliance - promptly banking client cheques, transferring money for firm's costs, residual balances etc.
- Reporting Accountants
  - Tested?
  - Suitable?
  - Increased significance
    - work?
    - reporting?
  - AR1 wording



## *AR1 extract*

- 3.1 We are qualified to prepare this report in accordance with rule 12.5 of the Accounts Rules or rule 34 of the SRA Accounts Rules 2011.
- 3.2 We confirm that a copy of this report has been, or will be, sent to the COFA.
- 3.3 We confirm that we have carried out work to assess whether the firm has complied with the Accounts Rules in the report period, namely rules 2 to 6, 8 to 10 and 13.
- 3.4 Where applicable, we confirm that we have carried out work to assess whether the firm has complied with the SRA Accounts Rules 2011 in the report period, namely rules 1,7 to 10, 13 to 21, 27 and 29.
- 3.5 We have found significant breaches of the Accounts Rules and/or the SRA Accounts Rules 2011 and/or significant weaknesses in the firm's systems and controls which put client money at risk. We therefore consider that the SRA should be notified by our qualifying of this report.

# *Reporting to the SRA*

- Remains the case that only qualified reports to be filed
- Cease to hold reports no longer required unless specifically requested
- SRA guidance on serious (and likely to lead to qualification) breaches and moderate (may lead to a qualification) breaches largely unchanged
- Other general factors to consider include a persistent lack of engagement with the recommendations of the reporting accountant

# *Reporting to the SRA*

- Examples in TECH 03/20 AAF more specific
- BUT – neither exhaustive nor definitive
- Designed to
  - provide sensible guidance on ‘common’ breaches
  - assist reporting accountants in considering the nature and extent of the risk
  - highlight when and what follow up work/questions would be expected
  - provide some guidance on further considerations, such as whistleblowing
- Wide ranging, from money not transferred to bill to secret profits on disbursements!

# *Summary*

Brief review of key Accounts Rules issues

ICAEW updated Technical Release

Impact on reporting accountants?



*Any questions?*



# *Future events*

## Essentials CPD 2020: Accounting/Audit and Assurance Spring Update

Date	Location	Presenter
1 May	Manchester	Peter Herbert
6 May	Durham	Peter Herbert
12 May	London	Andrew Mead
14 May	Cambridge	Andrew Mead
18 May	London	Peter Herbert
20 May	Leeds	Helen Kerrigan ACA
8 June	Exeter	Andrew Mead
8 June	London	John Selwood
15 June	Preston	Helen Kerrigan ACA
16 June	London	John Selwood
17 June	Norwich	John Selwood
29 June	Penrith	Andrew Mead
30 June	Liverpool	John Selwood
1 July	East Midlands	John Selwood
7 July	Southampton	Andrew Mead



## *Upcoming AAF webinars*

Date	Location	Viewing
28 January	Live Q&A: New TECH 01/20 AAF (previously TECH 01/06 AAF)	<a href="#">Watch the recording</a>
26 February	Solicitors Regulation Authority (SRA) Accounts Rules – Updated Guidance for Reporting Accountants	Recording to follow
30 March	Changes to ISA (UK) 570 Going concern	<a href="#">Register now</a>
15 April	A practical guide to auditing revenue	<a href="#">Register now</a>
7 May	Practical considerations for auditing estimates	TBC

For details, please visit [icaew.com/aafevents](https://www.icaew.com/aafevents)

# *Thank you for attending*

Please take the time to fill out our short survey.

Contact the Audit & Assurance Faculty

 +44 (0)20 7920 8493

 [tdaf@icaew.com](mailto:tdaf@icaew.com)

 [icaew.com/aaf](https://icaew.com/aaf)

ICAEW and the presenters will not be liable for any reliance you place on the information in this presentation. You should seek independent advice.

© ICAEW 2020