

## Guidance

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#### Planning for and completing an accountant's report

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### Status

This guidance is to help reporting accountant's prepare for, and complete, the accountants reports as required by the SRA [Accounts Rules](https://consultations.sra.org.uk/solicitors/standards-regulations/accounts-rules/) (the Accounts Rules). The guidance also highlights the statutory obligation on reporting accountants to report matters to us.

We recommend both law firms and their reporting accountants have read it carefully prior to commencing their programme of work.

### Who is this guidance for?

This guidance is intended to assist reporting accountants in completing their report. It will also be of interest to the firm's Compliance Officer for Finance and Administration (COFA) and managers in their discussions with the reporting accountant.

### Purpose of this guidance

This guidance is designed to help:

- plan what work might need to be undertaken and how to assure that client money is properly safeguarded
- assess what factors might lead the accountant to decide that the report should be qualified and therefore submitted to us for further consideration of the risks posed.

### Introduction

We require certain firms to obtain an independent accountant's report to confirm that our overarching objective to keep client money safe is met.

If during an accounting period, firms have met the following criteria, they may be exempted from the requirement to obtain an accountant's report:

- i. small amounts of client money are held (an average of less than or equal to £10,000 as well as a maximum of less than or equal to £250,000) at each reconciliation date; or,
- ii. the holding or receipt of money only from the Legal Aid Agency.

For further detail, see rule 12.2 of the Accounts Rules and our guidance, [Do I need to operate a client account?](https://consultations.sra.org.uk/solicitors/guidance/operate-client-account/)

[\[https://consultations.sra.org.uk/solicitors/guidance/operate-client-account/\]](https://consultations.sra.org.uk/solicitors/guidance/operate-client-account/)

Part 4 of the Accounts Rules sets out the key requirements on relevant firms to obtain and deliver, where appropriate, an annual accountant's report.

Only qualified reports need to be submitted to us – see Rule 12.1 (b) of the Accounts Rules. The obligation to deliver qualified reports rests with the firm and its managers - and not the reporting accountants, although in practice, they can and do send the reports to us.

### **When should reports be qualified?**

Reporting accountants should exercise their professional judgement when assessing a firm's compliance with the Accounts Rules and deciding whether their report needs to be qualified.

We only expect reports to be qualified where there has been a significant breach of the Accounts Rules, such that money belonging to clients or third parties is, has been or may be placed at risk. (See section 2 and 3 below for examples).

Breaches arising from administrative errors are not likely to be significant, but still could be if they are persistent, derive from a lack of controls or breakdown of existing controls, and have put client money at risk. We recognise that minor breaches of the Accounts Rules do occur in many firms and we are not expecting all identified breaches to be notified to us in the form of a qualified report.

This guidance is designed to set out the areas of work that a reporting accountant may wish to consider when completing their report. Our aim is to make sure that consumers, firms and the SRA have an appropriate level of assurance that there are adequate controls over the handling by firms of money belonging to clients or third parties; and ultimately, that such money is not being placed at risk. However, we do not want to inflate inappropriately the cost to firms, and ultimately to consumers, by any unnecessary mandatory procedures.

In all cases, the reporting accountant need only undertake checks which they feel are proportionate and targeted to the size of firm and nature of

the work the firm undertakes. Examples of certain checks which they may consider appropriate are provided in section 3 below.

Some firms may wish to ask their reporting accountants to undertake additional work around the firm's systems and controls to aid the development of best practice. Ultimately it will be a matter for the firm to consider what support it may need.

We have also issued separate [guidance on helping firms to keep accurate accounting client records](https://consultations.sra.org.uk/solicitors/guidance/accurate-client-accounting-records/) [<https://consultations.sra.org.uk/solicitors/guidance/accurate-client-accounting-records/>] that reporting accountants and firms might also wish to consider.

## **About this guidance**

The guidance below has three sections:

1. the provisions of the Accounts Rules that we would advise reporting accountants to consider in relation to completing accountants' reports
2. the sorts of factors that may lead to notification of issues and result in the submission of a qualified accountant's report
3. a table setting out some examples of the types of checks that may be undertaken by the reporting accountant to determine if there are risks to money belonging to clients or third parties. The table also includes some examples of the types of consequences the accountants and the firm's COFA and managers may expect to see in different firms depending on the type of control environment prevailing.

## **Obligations on reporting accountants**

Reporting accountants are under a statutory duty as set out in section 34 of the Solicitors Act 1974 and section 5, schedule 2 of the Administration of Justice Act 1985, to immediately report to us:

- any evidence of theft or fraud in relation to money held by a solicitor or a law firm for a client or any other person or in a client account or an account operated by the solicitor
- if they have concerns about whether a solicitor or a law firm is fit and proper to hold money for clients or third parties or operate any such accounts.

We also expect reporting accountants to report to us any termination of the accountant's appointment where this is based on their intention to issue a qualified accountant's report.

We have prescribed the [form that reporting accountants must use](https://consultations.sra.org.uk/solicitors/firm-based-authorisation/existing-firms-applications/accountants-reports/) [<https://consultations.sra.org.uk/solicitors/firm-based-authorisation/existing-firms-applications/accountants-reports/>].

If the reporting accountant considers that their work has been limited in scope to the extent that they feel unable to make the declarations required on the accountant's report form, then they should qualify the report on that basis and make a report to us.

Reporting accountants should also report matters to us if they discover, after making checks with us, that the firm has failed to submit to us a qualified accountant's report.

## **Section 1**

We only require reporting accountants to assess compliance with certain provisions of the Accounts Rules. These provisions are:

- 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
- Storage and retention of accounting records

## **Section 2**

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 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.

However, there are some factors which, in light of our experience and that of reporting accountants, we would expect would lead to a report being qualified.

These are illustrative only, and not intended to be exhaustive. If the reporting accountant identifies a matter that they consider should be drawn to the attention of the SRA, the report should be qualified and submitted to us. Firms should not seek to prevent a reporting accountant from qualifying a report on the basis that the qualification does not fall into the factors set out below.

**Serious factors - the presence of one or more is likely to lead to a qualification:**



1. A significant and/or unreplaced shortfall (including client debit balances or business credit balances) on client account, including client money held elsewhere, for example a client's own account, unless caused by bank error and rectified promptly (see sections 3.1, 3.2 below).
2. Systematic billing for fees and any disbursements that have not been incurred and payments in respect of that bill being made into the business account.
3. Evidence of any disregard for the safety of client money and assets.
4. Actual or suspected fraud or dishonesty by the managers or employees of the firm (that may impact upon the safety of money belonging to clients or third parties).
5. Accounting records not available or significantly deficient or bank accounts/ledgers failing to include reference to a client (rule 8.1, 8.2 and 8.3).
6. A failure to provide documentation requested by the reporting accountant (rule 12.8).
7. Client account bank reconciliations not carried out.
8. The client account is improperly used as a banking facility (rule 3.3). Please refer to our [Warning Notice \[https://consultations.sra.org.uk/solicitors/guidance/improper-client-account-banking-facility/\]](https://consultations.sra.org.uk/solicitors/guidance/improper-client-account-banking-facility/) on this and associated [case studies \[https://consultations.sra.org.uk/solicitors/guidance/improper-use-client-account-banking-facility/\]](https://consultations.sra.org.uk/solicitors/guidance/improper-use-client-account-banking-facility/).
9. Any other significant breaches not already reported to the SRA in accordance with the obligations placed on firms and their compliance officers under the SRA Code of Conduct for Firms.

**Moderate factors - the presence of one or more may lead to a qualification depending on context (including factors such as the number of instances, whether the firm identified the breaches and what corrective action, if any, has been taken as a consequence):**

1. A significant, fully replaced shortfall (including client debit balances or business credit balances) on client account, including client monies held elsewhere unless caused by bank error and rectified in a timely manner (see sections 3.1, 3.2 below).
2. Actual or suspected fraud or dishonesty by third parties that have impacted or may impact on the safety of client money.
3. Serious breaches that have not been reported to us promptly.
4. Failures to inform clients of the risk of money being paid into the business account for costs that have not been incurred.
5. Accounting records insufficient or unreliable (Section 3.7 below) or not retained for six years (rule 13.1).
6. Client account bank reconciliations not regularly carried out at least every five weeks (rule 8.3).
7. Poor control environment (Sections 3.3, 3.4, 3.5, 3.6 below).
8. Performance or review of client account bank reconciliations not adequate (Section 3.7 below).
9. Longstanding residual balances due to clients (Section 3.8 below).

10. Improper use of suspense accounts (Section 3.9 below).

### **Section 3**

The purpose of this section and section 3 below is to provide some examples of the sorts of areas of work that might be considered by the reporting accountants to test compliance with the relevant Accounts Rules as set out in Section 1 and to help them form the judgment whether client money has, is or may be placed at risk. It is not our intention to provide a definitive list of all checks that need be performed by the reporting accountants.

Appropriate planning by the accountant may mean that checks in one area can test compliance in other areas. For example, checking the client account bank reconciliations may assess compliance with a number of the key rules.

Again, the examples are not mandatory or exhaustive.

In all cases, we suggest that the reporting accountants discuss with the firm the areas that they intend to cover in their work programme. It is, however, the accountants' responsibility to make sure that the work they undertake is sufficient to enable completion of the accountant's report and is proportionate and targeted to the size of firm and nature of its work.

The section also includes some guidance on what processes and procedures the reporting accountant may expect to see in an above adequate, adequate and below adequate firm. These are included to assist both the reporting accountant and the firm's COFA and managers responsible for compliance with the Accounts Rules by indicating what good, average and poor looks like.

However, we would only expect firms that demonstrate behaviours that are below adequate to lead to the issue of a qualified report, having regard to whether the factors set out in Section 2 above are present.

## **Key risk areas for checking by the reporting accountants**

### **3.1 Taking money for costs not incurred**

Have you seen any evidence of the firm systematically billing for costs (fees and disbursements) that have not been incurred? Are firm's placing money into the business account in response to a bill for costs not incurred, for example, disbursements for which the client is liable, which gives you concerns about whether a client's money is safeguarded?



Requesting or billing for costs in advance is permissible under our Accounts Rules, provided the firm is always acting in accordance with our Standards and Regulations and in particular safeguarding money that it has been entrusted with.

### **General guidance**

Systematic billing for costs that have not been incurred might suggest that the firm is in financial difficulties and may not be in a position to safeguard money which it has been entrusted with.

See our guidance for risk factors that need to be explained to the client.

**Examples of areas of focus (work should be proportionate, not all of these will always be relevant. Accountants should use their judgement in performing suitable work to check compliance with the rules)**

- Review client files where a bill has been sent to see if risks explained to the client.
- Review how client instructions are recorded and whether they reflect the movement/receipt of money.
- Review office procedures/training manuals to see how the firm view the risks of taking money for costs not incurred
- Review what the firm have done to safeguard money.

**Guidance - indicative of firm with above adequate processes and controls**

- No evidence of a standard/systematic practice of sending bills for costs that have not been incurred.
- Evidence on file of client's being informed of the risks of payment being received into the business account and evidence of client instructions.
- Training and support given to all staff responsible for raising/sending bills.
- Standard processes documented amongst the firm's office/training manual.

**Guidance - indicative of firm with adequate processes and controls**

- Bills only sent for fees and disbursements for which the firm is liable for.



**Guidance - indicative of a firm with below adequate processes and controls that may lead to a qualification of the reporting accountant's report**

- Evidence on file of client's being informed of the risks of payment being received into the business account and evidence of client instructions.
- Standard processes documented amongst the firm's office/training manual.
- Systematic billing for costs that have not been incurred.
- No evidence of any explanation of risks to clients or paying parties.
- No evidence of client instructions on file.
- No standard process documented amongst the firm's office/training manual.

**3.2 Client money in client account**

Have you seen any evidence of the placing of client money in any account or location other than a client bank account (save as permitted by rule 2.2) , or any delay in the placing of money into a client bank account, for a period of time that has resulted in a loss to a client or would otherwise give you concerns about potential fraud or loss of client money?

Have you seen any unallocated round sum transfers between the client account and the business account including for example, in respect of bills for work has not yet been done?

Is there evidence or a concern that the client account is being used as a banking facility?

**General guidance** An unexplainable delay which is considered likely to result in a loss to the client and is evidence of poor systems and controls so that the rules requiring client money to be banked promptly or to be transferred promptly are not complied with.

Round sum transfers between the client account and the business account may be indicative of client monies being improperly used to finance business operations.

A client account is being used as banking facility – see our warning notice and case studies. [See our guidance about taking money for costs](#)





[\[https://consultations.sra.org.uk/solicitors/guidance/taking-money-for-your-firms-costs/\]](https://consultations.sra.org.uk/solicitors/guidance/taking-money-for-your-firms-costs/).

**Examples of areas of focus (work should be proportionate, not all of these will always be relevant. Accountants should use their judgement in performing suitable work to check compliance with the rules)**

**Guidance - indicative of firm with above adequate processes and controls**

**Guidance - indicative of a firm with adequate processes and controls**

- Testing of business account receipts (to assess if receipts include client money).
- Testing whether client money identified in the business account was transferred in accordance with the rules.
- Testing whether client money received was banked in accordance with the rules.
- Testing business account to client account transfers to identify number and reasons for such transfers.
- Testing client bank reconciliation (for example, to assess if reconciling items lead to a delay in the banking of client money or to identify unallocated round sum transfers)
- Testing business bank reconciliations (for example, to assess if reconciling items lead to banking of client money in the business account or to identify unallocated round sum transfers)
- No incidents noted of delays in placing client money into a client bank account (these include money in a business account that becomes client money through, for example, overpayments, credit notes issued to clients in respect of paid bills and cancelled cheques on disbursements).
- No incidents noted of transfers between client accounts and the business account that were not within the Rules and appropriately authorised.
- Some instances of transfers not always being made promptly but where identified, the law firm rectified the issue promptly, transferring client money to an appropriate client bank account in accordance with rule 4.2.
- No incidents noted of a significant delay in banking client money into a client bank account (these include money in a business account that becomes client money through, for example, overpayments, credit notes issued to clients in respect of paid bills and cancelled cheques on disbursements).
- No incidents noted of transfers between client accounts and the business account that were



not within the Rules and appropriately authorised.

**Guidance - indicative of a firm with below adequate processes and controls that may lead to a qualification of the reporting accountant's report**

- Significant delays in banking of client money into a client bank account (these include money in business account that becomes client money through, for example, overpayments, credit notes issued to clients in respect of paid bills and cancelled cheques on disbursements).
- Round sum amounts were transferred out of client account without both authorisation and proper reason (for example, payment of a bill or a disbursement).
- Frequent transfers between the business account and client account without any apparent reason or explanation.

**3.3 Overdrawn client /credit business ledgers - shortages**

Have you identified any debit balances on client ledgers, or credit balances on the business ledger, for a period of time that indicates:

- the firm has used other clients' money on client matters;
- client money has not promptly been placed in a client account; or
- client money being inappropriately withdrawn from client account.
- client money inappropriately held in business account

**General guidance**

Law firms should have controls to prevent client debit balances arising and that prompt a regular review and investigation of business credit balances.

**Examples of areas of focus (work should be proportionate, not all of these will always be relevant. Accountants should use their judgement in performing suitable work to check compliance with the rules)**

- Assessing the controls to see if debit balances can be created (for example, by processing a payment more than the balance held on client account in respect of a client).
- Where debit balances can be processed, test debit balances that arose throughout the period and assess the timeframe taken to correct the debit balance – also understand why the debit balance arose.
- Test documentation that supports regular review of business credit

**Guidance - indicative of firm with above adequate processes and controls**

**Guidance - indicative of a firm with adequate processes and controls**

**Guidance - indicative of a firm with below adequate processes and controls that may lead to a qualification of the reporting accountant's report**

balances and check that action is taken to remove necessary business credit balances promptly from identification.

- Test business credit balances arising in the year to assess if any indicate that the client money was in business account for an inappropriate length of time.
- Systems and controls are such that debit balances do not arise.
- A listing of credit balances on the business ledgers is reviewed at least weekly and each credit balance is investigated, fully understood and action taken where necessary to remove client money in business account.
- Minimal debit balances on client ledgers are reviewed at least weekly and necessary action taken to correct the debit balance.
- A listing of credit balances on the business ledger is reviewed at least monthly and each credit balance is investigated, fully understood and action taken where necessary to remove client money in business account.
- There are no processes in place that would routinely identify debit balances on client ledgers.
- Debit balances that are identified through ad-hoc procedures are reviewed but either no action is taken to investigate and properly correct the debit balance, or such action is not undertaken for over a month from the date of identification.
- There are no processes in place to identify credit balances on the business ledger.
- Business credit balances that are identified through ad-hoc

procedures are reviewed but either no action is taken to investigate and properly correct the credit balance, or such action is not undertaken for a significant period of time from the date of identification.

### **3.4 Withdrawals from client account**

Are withdrawals from client account made only:

- When a bill or notification of costs incurred has been delivered to the client?
- In accordance with rule 5.1 of the rules and with appropriate authorisation and supervision procedures?

#### **General guidance**

**Examples of areas of focus (work should be proportionate, not all of these will always be relevant. Accountants should use their judgement in performing suitable work to check compliance with the rules)**

**Guidance - indicative of firm with above adequate processes and controls**

**Guidance - indicative of a firm with adequate processes and controls**

It is important to check if payment withdrawals are made in accordance with authorisation and supervision procedures.

- Test a sample of client account withdrawals to assess if appropriate client account withdrawals authorisations were in place at the time of the withdrawal.
- Consider whether unauthorised withdrawals could be indicative of fraud/dishonesty
- A formal client account withdrawals process is fully documented and adhered to. Withdrawals can only be processed once the proper authorisation has been obtained.
- Where electronic authorities are permitted, these are only made with a secure IT approval process (note: email approval is not considered secure).
- A client account withdrawals process exists and is adhered to but is not formally documented. Withdrawals can

only be processed once the proper authorisation has been obtained.

**Guidance - indicative of a firm with below adequate processes and controls that may lead to a qualification of the reporting accountant's report**

- A client account withdrawals process does not exist.
- A client account withdrawals process exists but is not adhered to.
- Unauthorised withdrawals from client bank account have been identified.

### 3.5 Control systems

Can the firm demonstrate that it has effective processes (both manual and IT) that are designed to make sure the integrity (i.e. working order) and security (access) over client accounting records and money?

Effective IT systems may include – access controls, firewalls, software and hardware maintenance contracts.

Effective manual systems may include – a system of operating controls to prevent misuse of client money and monitoring controls that would identify such misuse.

### General guidance

Maintenance of an effective risk register.

**Examples of areas of focus (work should be proportionate, not all of these will always be relevant. Accountants should use their judgement in performing suitable work to check compliance with the rules)**

- Obtain documentation about how the firm controls their IT environment.
- Ask the firm to demonstrate either by providing you with a copy of their, or by showing you, their IT access controls.
- Accountants are not expected to perform extensive work around the IT or manual control environment at the firm. But rather are expected to report any results based on the work that they have done

**Guidance - indicative of firm with above adequate processes and controls**

- A strong control environment exists which includes the following:

- The client accounting system is fully documented and includes notes over billing, payments, transfers, new client take on, etc.
- Password access to the IT system/s and passwords are changed at least quarterly.
- IT user access controls are in place.
- Program changes to the IT system are always fully documented and approved before changes commence.
- Leavers ID's and passwords are immediately removed from the IT system once they have left the law firm.
- Firewalls are in place.
- IT general controls are documented to a standard that is commensurate with the size and complexity of the business.

**Guidance - indicative of a firm with adequate processes and controls**

- A reasonable IT control environment exists which includes the following:
  - Password access to the IT system/s and passwords are changed at least annually.
  - IT user access controls are in place.
  - Program changes to the IT system are always fully documented and approved before changes commence.
  - Leavers ID's and passwords are removed from the IT system within one month of the individual leaving the law firm.
  - Firewalls are in place.
  - IT general controls are documented to a standard that is commensurate with the size and complexity of the business.



**Guidance - indicative of a firm with below adequate processes and controls that may lead to a qualification of the reporting accountant's report**

- The client accounting system is not fully documented, but notes exist which support the necessary cycles, eg. billing, payments, transfers, new client take on.
- The control environment does not include characteristics of the "adequate process and controls" noted opposite (Note: the controls should be commensurate to the size and complexity of the law firm).
- The accountant has identified, through their work, a control environment that is ineffective or not fit for purpose.

**3.6 General control environment**

Have you seen any evidence where the systems have not operated effectively or where the firm has not been able to properly account to clients for client money held?

**General guidance**

The COFA or a member of the finance team should (reporting results to the firm's managers) regularly review systems and processes and makes sure they are fit for purpose in accordance with the requirements of the rules.

Reporting structures within the firm should be such that accounts staff readily report errors and systems weaknesses to the COFA.

**Examples of areas of focus (work should be proportionate, not all of these will always be relevant. Accountants should use their judgement in performing suitable work to check compliance with the rules)**

- Consider the firm's breaches register, the extent to which breaches are recorded, followed up, reviewed and action taken.
- Consider previous accountant's reports.
- Consider previous years' accountant's reports and matters reported in those, where appropriate.
- Internal audit
- Complaints by clients?

**Guidance - indicative of firm with above adequate processes and controls**

- Review list of non-moving client account balances
- The COFA, a member of the finance team or the Internal Audit team reviews the systems and controls at least annually and implements actions for improvement where appropriate.
- The COFA makes sure action is taken for all issues included in the Accountant's Report (and any subsequent or additional work commissioned by the firm)
- Also see points under 3.7 below.

**Guidance - indicative of a firm with adequate processes and controls**

- The COFA, a member of the finance team or the Internal Audit team reviews the systems and processes every two to three years and implements actions for improvement where appropriate.
- The COFA makes sure action is taken for all issues included in the Accountant's Report (and any subsequent or additional work commissioned by the firm)
- Also see points under 3.7 below.

**Guidance - indicative of a firm with below adequate processes and controls that may lead to a qualification of the reporting accountant's report**

- There is no formal review of the systems and processes.
- No action is taken from the findings included in the Accountant's Report or any separate report issued to management.
- Also see points under 3.7 below.

**3.7 General Compliance with the rules**

Have you seen evidence of management review/controls designed to make sure compliance with the rules?

**General guidance**

Firms are required to undertake three-way reconciliations between the bank, cash book and client ledger listings at least every 5 weeks. There should be an





evidenced, timely review of such reconciliations.

Recommended processes would include regular staff (finance and legal professionals) training, breach log review, exception reports.

Maintenance of an effective risk register.

- Testing of client bank account reconciliations, any business bank account reconciliations, the three-way reconciliation of the cash book, client ledger listing and bank accounts and the breach register (to assess if they have been reviewed by at least the COFA or a manager).
- Where reconciling items appear on two consecutive monthly reconciliations, check that that they have been identified, challenged and appropriate steps have been taken to correct them.
- Review of documentation supporting reviews performed by the COFA over the client money control environment.

**Examples of areas of focus (work should be proportionate, not all of these will always be relevant. Accountants should use their judgement in performing suitable work to check compliance with the rules)**

**Guidance - indicative of firm with above adequate processes and controls**

- The COFA, or another appropriate individual within the firm, performs a frequent, for example a weekly review of SRA Accounts Rules compliance, including a review of (i) client bank account reconciliations, (ii) any business bank account reconciliations and (iii) breach register. Evidence exists of challenge by the COFA and actions taken to improve the control environment.
- The COFA, or another appropriate individual within the firm, performs a review annually, or as appropriate, of the client money control environment and, where appropriate, acts to improve systems and controls
- The COFA, or another appropriate individual within the firm, performs a detailed annual review of the training requirements for staff – both finance



and legal professionals and makes sure appropriate training is delivered to these individuals.

- If it is not the COFA who performs these tasks, there should be evidence of reporting to and review by the COFA.
- The COFA, or another appropriate individual within the firm, performs at least a five-weekly review of SRA Accounts Rules compliance, including a review of (i) client bank account reconciliation, (ii) any business bank account reconciliations and (iii) breach register. Challenge by the COFA happens, but no evidence exists to support this.
- The COFA, or another appropriate individual within the firm, performs a review annually, or as appropriate, of the client money control environment and, where appropriate, acts to improve processes.
- The COFA, or another appropriate individual within the firm, performs a detailed annual review of the training requirements for staff – both finance and legal professionals and makes sure appropriate training is delivered to these individuals.
- If it is not the COFA who performs these tasks, there should be evidence of reporting to and review by the COFA.

**Guidance - indicative of a firm with adequate processes and controls**

**Guidance - indicative of a firm with below adequate processes and controls that may lead to a qualification of the reporting accountant's report**

- No or insufficiently frequent bank reconciliations are undertaken
- There is no review of one or more of the bank reconciliations or the breaches register.
- The COFA, or another appropriate individual within the firm, performs ad-hoc and/or informal review of SRA Accounts Rules compliance, including a review of (i) client bank account reconciliation, (ii) any business bank account reconciliations, and (iii)



breach register. No challenge or action is taken by the COFA.

- The same reconciling item (other than un-presented cheques) appears on two consecutive monthly bank reconciliations without clear evidence that it has been challenged by the COFA
- The COFA, or another appropriate individual within the firm, does not perform an ad-hoc review at least annually of the client money control environment or does not act, where appropriate, to improve processes.
- If it is not the COFA who performs these tasks, there is no evidence of reporting to and review by the COFA.

### 3.8 Accounting records

Does the firm operate a system that makes sure accounting records to be maintained in an up-to date manner on the double entry system, and in compliance with the rules.

Systems and controls in place are designed to make sure between daily and weekly postings of transactions (depending on size of firm). Exceptions may arise due to circumstances where transactions are outside the ordinary course of business - evidence should exist of law firm's timely investigation and follow up of such items.

#### General guidance

**Examples of areas of focus (work should be proportionate, not all of these will always be relevant. Accountants should use their judgement in performing suitable work to check compliance with the Rules)**

- Testing of client account receipts, payments, transfers and inter ledger transfers
- Testing of business account receipts, payments and transfers. In all cases, this would be to assess if accounting records have been kept up to date under the appropriate timeframes.
- Consider if the firm can, quickly and easily, account to clients for money held on their behalf.

**Guidance - indicative of firm with above adequate processes and controls**

- All client and business transactions are posted to the accounting system by the end of the next working day.



**Guidance - indicative of a firm with adequate processes and controls**

**Guidance - indicative of a firm with below adequate processes and controls that may lead to a qualification of the reporting accountant's report**

- The law firm would, always, be able to promptly account to clients for client money held.
- All client and business transactions are accounted for, either in the system or through an alternative system (eg. through use of spreadsheet before batch processing in the system) promptly following the transaction.
- The law firm would be able to account to clients for client money held. This may not be immediately.
- Client and business account transactions are routinely posted to the client account system more than for example, 5 working days after the date of the transaction.
- The firm does not have an accounting system that is commensurate with the size and complexity of the business and, therefore, cannot account to clients accurately for monies held.

**3.9 Failure to account**

Have you seen evidence of the firm failing to return client money promptly at the end of the matter?

**General guidance**

Residual client balances should be returned promptly to clients at the end of a matter. Where this is not possible, there is clear documentation retained which supports the efforts made to return residual client balances.

**Examples of areas of focus (work should be proportionate, not all of these will always be relevant. Accountants should use their judgement in performing suitable work to check compliance with the Rules)**

- Test the exception report of residual client balances to check that the firm has complied with the rules.
- If no exception report exists, obtain a listing of client matters with balances where no time has been charged for a significant period of time and assess if residual client balances exist and the firm has complied with the rules.

**Guidance - indicative of firm with above adequate processes and controls**

**Guidance - indicative of a firm with adequate processes and controls**

**Guidance - indicative of a firm with below adequate processes and controls that may lead to a qualification of the reporting accountant's report**

- Residual client balances are always returned to clients at the end of a matter and, thus, residual client balances at any one time are rare.
- Residual client balances are returned to clients, although, this can take up to 90 days or longer, where for example the balances relate to legacy matters, provided that there is a system to regularly review balances and take action.
- Residual client balances do exist at any one time; however, the finance team are aware of all of these and are in the process of returning the funds or of dealing with them in accordance the SRA's guidance or by making an application to the SRA for authorisation of the withdrawal.
- The firm has no effective system in place for complying with Rule 2.5.
- Significant - either in themselves or cumulatively - residual client balances are common, and the firm cannot therefore return them to clients.

### **3.10 Suspense ledgers**

Have you seen evidence of an unjustified use of a client suspense account?

**General guidance**

**Examples of areas of focus (work should be proportionate, not all of these will always be relevant. Accountants should use their judgement in performing suitable work to check compliance with the rules)**

Where suspense accounts are used, this should be for temporary items only such as an unidentified receipt.

- Identify if suspense accounts are used (recognising that they may be called alternative names such as miscellaneous or in the names of the Partners)
- Test the balances outstanding to check that they were posted for good reason and, if they are longstanding, that there has



**Guidance - indicative of firm with above adequate processes and controls**

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been appropriate review/challenge and an effective plan in place for their closure.

- Where suspense accounts are used, items are usually no more than, for example, 5 working days old.
- Where a suspense account is used, items are usually no more than, for example, 30 working days old.
- Widespread unjustified use of suspense accounts.
- No process for clearing suspense accounts or outstanding items not followed up.

**Further help**

If you require further assistance, please contact the [Professional Ethics helpline](https://consultations.sra.org.uk/home/contact-us/) [https://consultations.sra.org.uk/home/contact-us/].