

# acting as reporting accountant for solicitor clients

Reports carried out on behalf of solicitor clients are viewed as high risk by ACCA. Ian Pickering explains why and highlights some of the common issues surrounding such clients.

■ Many ACCA firms act as reporting accountants for solicitor clients. The firm provides a report to a third party, the Solicitors Regulation Authority (SRA), on a solicitor's compliance with the Solicitors' Accounts Rules 1998 (SAR 98).

The SRA will rely on the report and a duty of care exists between the reporting accountant and the SRA. ACCA's Practice Monitoring Department views these assignments as being among the highest risk ones undertaken by ACCA firms and will usually include a solicitor file in the sample of files inspected at a monitoring visit.

Solicitor firms which hold client money are required to submit an annual report to the SRA. The SRA is the independent regulatory body for the solicitors' profession and assumed this responsibility from the Law Society in January 2007. The SRA website – [www.SRA.org.uk](http://www.SRA.org.uk) – contains much useful information such as the current version of the SAR 98, as well as previous versions, and the Solicitors' Code of Conduct.

It would not be possible to cover all aspects of the required work to support an accountant's report to the SRA in one article. Nevertheless, set out below are some of the important issues which often crop up as deficiencies in the reports issued to firms following monitoring visits.

## work programme

Firms should ensure that they use an appropriate work programme for reporting on

solicitor clients. There are several proprietary work programmes available but it is beyond the limited scope of this article to provide a detailed assessment of the individual work programmes for solicitor clients and I have not sought to do so.

However, a work programme should be used in addition to the reporting accountant's checklist to ensure that all the necessary work is carried out. The firm should ensure that the programme used adequately deals with the particular areas identified below. In addition, because of the specialised nature of this type of assignment the firm should ensure that it allocates suitably trained and experienced staff to carry out the necessary work.

## background knowledge

Many solicitors are good lawyers but not as accomplished in running a business: they may not devote sufficient attention to the necessary accounting and other systems that the practice needs to ensure compliance with the SAR 98. It is therefore important to gain a sufficient understanding of the solicitor's practice, including the type of work undertaken, the structure of the firm and most importantly its accounting and other systems.

This does not mean simply noting the accounting software used but requires a detailed record of how the systems operates, including post opening, banking procedures and cheque signing. Reporting accountants are not required to undertake detailed tests to ensure that the solicitor's systems comply

with the guidelines for accounting systems and procedures set out in Appendix 3 to the SAR 98.

However, there is an obligation to report any substantial departures from guidelines and it is difficult to see how this would be possible without a good understanding of the systems for handling client money and recording transactions.

## debit balances

It is important to understand that the concept of materiality does not apply to this reporting assignment. Any debit balances which are not capable of set-off against credit balances for the same client constitute a deficit on the client account: the total liabilities to clients must be entered in the accountant's report and any debit balances must not be netted off against this total.

To do this is to fail to disclose the existence of a shortfall on the client account. This requirement is stated explicitly in the notes to section four of the accountant's report form. Failure to disclose the existence of a shortfall is regarded as a serious deficiency when assessing a solicitor file at a monitoring visit.

## office account testing

Many firms fail to appreciate the importance of testing the solicitor's office account transactions. Testing the client account transactions alone would not highlight the presence of client money paid improperly into the solicitor's office bank account. It is vital that the nature and extent of this work is clearly documented.

Some firms rely on having prepared the solicitor's financial statements to discharge this responsibility but often fail to record the work adequately. Where a reporting accountant does not act for the solicitor in any other capacity than that of reporting accountant the

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recording of this work becomes even more critical and a lack of record in the relevant work will be viewed as a serious omission by the Practice Monitoring Department.

#### client account paid cheques

The test to compare the details of payments in the cash book with paid cheques is often neglected because it requires the reporting accountant to obtain a sample of cheques from the bank and the banks can be slow to provide them and usually levy a charge.

The purpose of the test is to verify that the transactions recorded in the client account records are what they purport to be: in particular that the payee is correct and the cheques are authorised by an approved signatory. If there were fraudulent entries in the records the paid cheque test would be an obvious way of testing for such transactions. The SRA expects reporting accountants to do this test: it is on the SRA checklist, which is completed with the accountant's report, for that reason. As you will appreciate, this particular test is very important and a failure to do it is regarded by the Practice Monitoring Department as a serious deficiency.

#### client file reviews

This area of work is not often overlooked entirely but it is, in many cases, poorly documented and does not always achieve the desired objective. The purpose of the client file reviews is to verify that all transactions have been accurately reflected in the client account records; it is a test of the completeness of the records as well as their validity.

Consequently, some of the work done should be based on a sample of client files selected from a source other than the client account records. Transactions apparent from the files should then be checked against the entries in the records to ensure they are all recorded.

#### professional indemnity insurance

Reporting accountants are required to verify that the solicitor has in place qualifying professional indemnity insurance for the period covered by the accountant's report. There is a declaration to this effect in section seven of the accountant's report form. Firms' files often give no indication as to how this requirement has been achieved. This could be achieved by placing on file a copy of the policy or simply recording the policy details. All solicitors renew their professional indemnity insurance on 1 October in each year.

#### conclusion

These are the common areas where files inspected during monitoring visits tend to fall short of the required standard. Providing an accountant's report to the SRA should be viewed at the higher risk end of a firm's work. All too often firms simply fail to appreciate the risk involved in this type of assignment and the fees charged do not reflect this.

A rough and ready measure I always suggest to firms I visit is to look at the level of funds which pass through the solicitor's client accounts over the period covered by the accountant's report by comparison with the level of the reporting accountant's own professional indemnity insurance. This can provide something of a rude awakening for some reporting accountants.

As a final thought, a senior member of staff from the SRA indicated at a conference that of the 9,000 plus accountants' reports filed for solicitors in England and Wales, approximately one third are qualified. It is believed that something in excess of two thirds of the reports should be qualified. ■

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