

## **Guidance**

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### **Status**

This guidance is to help you understand your obligations and how to comply with them. We will have regard to it when exercising our regulatory functions.

### **Who is this guidance for?**

This guidance is for all SRA-authorised firms, and their staff, that:

- received or held client money
- operated a joint account; or
- operated a client's own account as signatory.

Reporting accountants might also find this guidance helpful.

### **Purpose of this guidance**

The purpose of this guidance is to help firms understand when the exemption to the requirement to obtain an accountant's report will apply and to provide guidance on how to assess whether those criteria have been met.

### **Obtaining and delivery of accountants' reports**

Rule 12.1 of the SRA [Accounts Rules](https://higher-rights.sra.org.uk/solicitors/standards-regulations/accounts-rules/) [<https://higher-rights.sra.org.uk/solicitors/standards-regulations/accounts-rules/>] requires firms that hold or receive client money to obtain an accountant's report within 6 months of the end of the accounting period to which the report relates. The report should only be delivered to us if it is qualified.

Please note you should always deliver an accountant's report regardless of its qualification if:



- you are required to under conditions on your practising certificate/firm authorisation, or
- your firm has ceased to operate as an authorised body and to hold or operate a client account and has been asked to obtain and deliver a final report under rule 12.4.

### **Exemptions from the requirement to obtain an accountant's report**

Any firm which holds or receives client money during an accounting period and all that money is from the Legal Aid Agency will not be required to obtain a report.

Rule 12.2(b) of the SRA Accounts Rules confirms that the exemption will also apply where during the accounting period the average balance on client account does not exceed £10,000 and the maximum balance does not exceed £250,000.

During the accounting period a firm must carry out reconciliations of the statement or passbook balance of the general client account and associated accounts.

These reconciliations must be carried out, as a minimum, at least once every five weeks (rule 8.3).

Based on the multiple reconciliations taken over the accounting period the firm must establish:

- a. the average client money balance (calculated by taking the sum of all reconciliation balances and dividing this by the number of reconciliations), and
- b. the maximum of these reconciliation balances.

If, based on these balances, your firm satisfies both exemption criteria, you will not be required to obtain an accountant's report, unless otherwise required under rule 12.4 for example, where you are subject to conditions to deliver a report.

The exemption applies to a single accounting period which could span over 12 months. There may be circumstances where in one calendar year you are exempt but in the second year, the level of client account balances held means that you cannot rely on the exemption. It is your firm's responsibility in all cases to make sure that the rules are complied with and if an accountant's report is required, that the report is obtained.

Exemption will only apply for accounting periods ending from 1 November 2015 onwards. If your last accounting period ended before that date, then you must obtain a report regardless of the amount of client money you held or received.

### Example 1

The accounting year for Firm A runs from 1 April 2019 to 31 March 2020. The firm undertakes reconciliations at the end of each calendar month:

| Reconciliation number | Reconciliation date | Client money balance (including all applicable accounts) |
|-----------------------|---------------------|--|
| 1                     | 30/04/2019          | £11,214  |
| 2                     | 31/05/2019          | £7,487   |
| 3                     | 30/06/2019          | £9,107   |
| 4                     | 31/07/2019          | £9,255   |
| 5                     | 31/08/2019          | £11,394  |
| 6                     | 30/09/2019          | £9,947   |
| 7                     | 31/10/2019          | £11,959  |
| 8                     | 30/11/2019          | £10,053  |
| 9                     | 31/12/2019          | £8,255   |
| 10                    | 31/01/2020          | £4,681   |
| 11                    | 29/02/2020          | £11,105  |
| 12                    | 31/03/2020          | £7,988   |

### Average balance

Add together the individual reconciliation totals. Total equals £112,445. Divide total by number of reconciliations to obtain average balance. Average equals  $£112,445 / 12 = £9,370$ .

### Maximum balance

Establish the highest balance from all reconciliations taken. The highest balance from the 12 reconciliations = £11,959.

### Test against exemption criteria

Is average balance below £10,000? Yes, average balance = £9,370. Is maximum balance below £250,000? Yes, maximum balance = £11,959.

As both criteria are met the firm is exempt from submitting an accountant's report.

### Example 2

The accounting year for Firm B runs from 1 January 2019 to 31 December 2019. The firm undertakes reconciliations once every four weeks (28 days):



| Reconciliation number | Reconciliation date | Client money balance (including all applicable accounts) |
|-----------------------|---------------------|--|
| 1                     | 01/01/2019          | £23,172  |
| 2                     | 29/01/2019          | £124,891   |
| 3                     | 26/02/2019          | £18,184  |
| 4                     | 26/03/2019          | £10,634  |
| 5                     | 23/04/2019          | £2,686   |
| 6                     | 21/05/2019          | £2,209   |
| 7                     | 18/06/2019          | £654   |
| 8                     | 16/07/2019          | £19,277  |
| 9                     | 13/08/2019          | £7,260   |
| 10                    | 10/09/2019          | £12,016  |
| 11                    | 08/10/2019          | £21,391  |
| 12                    | 05/11/2019          | £4,121   |
| 13                    | 03/12/2019          | £7,107   |
| 14                    | 31/12/2019          | £8,347   |

#### Average balance

Add together the individual reconciliation totals. Total equals £261,949. Divide total by number of reconciliations to obtain average balance. Average equals  $£261,949 / 14 = £18,711$ .

#### Maximum balance

Establish the highest balance from all reconciliations taken. The highest balance from the 14 reconciliations = £124,891.

#### Test against exemption criteria

Is average balance below £10,000? No, average balance = £18,711. Is maximum balance below £250,000? Yes, maximum balance = £124,891.

As both criteria have not been met, the exemption does not apply, and an accountant's report must be obtained.

## Questions and answers

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### Q1. How should I submit my accountant's report?

You should submit your report by email to the Accountant's report team. You will receive an automated response confirming receipt which you will



be able to retain as proof of delivery.

Email [Accountant's report team](mailto:Accountant's report team) [<https://higher-rights.sra.org.uk/contact-us/>]

If you wish to send the report by post, we recommend a tracked service such as recorded/special delivery.

## **Q2. Where can I find a copy of the AR1 form?**

You can download a copy of the [AR1 Accountant's Report form on this page](https://higher-rights.sra.org.uk/solicitors/firm-based-authorisation/existing-firms-applications/accountants-reports/) [<https://higher-rights.sra.org.uk/solicitors/firm-based-authorisation/existing-firms-applications/accountants-reports/>].

## **Q3. When will my report be due?**

You must obtain your accountant's report within six months of your firm's accounting period end date.

For example, if your accounting period ends on 31 December 2019, you must obtain the report by the deadline of 30 June 2020.

If the report is qualified it also must be submitted to us by that deadline.

If for any reason your accounting period should change, you must notify us without delay as the reporting deadline will also change accordingly.

## **Q4. This is my first report, what will my accounting period be?**

The accounting period must commence from the exact date on which client money was first held by your firm.

When we receive notification of this date, a standard twelve-month accounting period will be set up on our system. An accounting period may be for a period of less than 12 months or for more than 12 months, up to a maximum period of 18 months.

Although a qualified report may be submitted to us by the accountant, the responsibility for making sure that it is delivered rests with you and your firm.

## **Q5. Can I apply for a waiver?**

Yes, applications for waivers from the need to obtain an accountant's report should be made to the Accountant's report team.

Where appropriate, firms may be granted a waiver of the obligation to obtain an accountant's report.



Please read our [guidance on waivers](https://higher-rights.sra.org.uk/solicitors/resources-archived/waivers/) [https://higher-rights.sra.org.uk/solicitors/resources-archived/waivers/].

### **Q6. My firm is changing legal status, what are my reporting requirements under these circumstances?**

If your firm is changing legal status, you should obtain separate accountant's reports for both entities.

For example, a firm changing from a recognised sole practice to a partnership on 30 September 2019.

In these circumstances, you need to obtain an accountant's report for the sole practice up to the exact date on which the firm held client money as a sole practice, in this case 30 September 2019. The firm would then need their first report as a partnership for the period from 1 October 2019 onwards.

Rule 12.4 gives the SRA the power to ask for a report to be delivered.

### **Q7. I have not held any client money, do I still need to obtain a report?**

No, in accordance with Rule 12.1 of the Accounts Rules, if you have not held client money for the relevant accounting period, you will not be required to obtain an accountants' report.

Should you begin holding client money at any time in the future, the obligation to obtain an accountant's reports will apply from that date, unless the firm is exempt.

### **Further help**

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