

# **SRA Compensation Fund Annual Report and Financial Statements For the Year ended 31 October 2023**

Published June 2024

## **Principal activities**

The primary object of the Compensation Fund (the Fund) is to replace money which a defaulting practitioner or a defaulting practitioner's employee or manager has misappropriated or otherwise failed to account for.

The Fund makes discretionary grants to those persons who have either suffered or is likely to suffer:

- loss in consequence of the dishonesty of a defaulting practitioner or the employee or manager or owner of a defaulting practitioner; or
- loss and hardship in consequence of a failure to account for money which has come into the hands of a defaulting practitioner or the employee or manager or owner of a defaulting practitioner.

The majority of these grants arise from claims made following an intervention by the Solicitors Regulation Authority Limited (SRA) into the practice of a defaulting practitioner. From 1 June 2021 the activities of the SRA transferred to Solicitors Regulation Authority Limited, a company limited by guarantee.

Regulated individuals and licensed bodies are required to pay an annual contribution to the Fund. Contributions are determined and collected on behalf of the Fund by the SRA.

[Download: SRA Compensation Fund Annual Report and Financial Statements For the Year ended 31 October 2023 \(PDF 29 pages, 587KB\)](https://upgrade.sra.org.uk/globalassets/documents/sra/research/compensation-fund-financial-statements-2023.pdf)  
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## **About the Compensation Fund**

The Solicitors Regulation Authority Compensation Fund (the fund) can make payments to members of the public and small businesses. It provides a vital safety net for client money that is not accounted for or has been stolen. Usually, people make a claim on the fund after we have intervened into a law firm they were using. The SRA manages the fund and law firms and solicitors pay into it through an annual contribution.



Established under The Solicitors Act 1974, the fund is not a legal entity and the SRA's role is to administer it only. It is a discretionary fund of last resort and is governed by the SRA Compensation Fund Rules 2021, updated in July 2021. Individuals and businesses must make an application to the fund to receive a payment. We will then consider their claim, bearing in mind our rules.

We seek to recover claims made on the fund through all avenues, including taking action against the intervened solicitors or managers, the firm's insurer and, in certain cases, the firm's former partners and directors. The funding comes from the law firms and the solicitors regulated by the SRA, so recovering costs is important as ultimately our costs are passed onto the public who buy legal services.

In early 2024 the SRA launched a consumer protection review. One of the areas we are looking at in this review is the compensation fund. There is evidence that the risks in the sector are changing. We have recently had to step in to deal with more significant firm failures. This raises questions about the long-term proportionality of our compensation fund arrangements. We are considering how we get the balance right in our approach. The fund is important in helping maintain trust in solicitors, but maintaining the current level of consumer protection might not be in the public interest if it appears that the benefit no longer exceeds a rising cost. We could see large increases in the cost of legal services or reduced choice for consumers, negatively impacting access to justice.

We will engage extensively with consumer groups and the profession to identify the best approach to making sure consumers are appropriately protected.

We support a competitive legal market in which access to justice and public confidence and trust in legal services are maintained.

## **About the SRA**

The Solicitors Regulation Authority (SRA) is the regulator of solicitors and law firms in England and Wales. We regulate over 200,000 solicitors and around 9,300 law firms in England and Wales. Our purpose is to drive confidence and trust in legal services. We work to protect members of the public and support the rule of law and the administration of justice. We are focused on the issues that can transform legal services, making sure the profession delivers the high standard of service that the public deserves. These include:

- maintaining trust in the profession - by identifying and addressing new and emerging problems, including by holding solicitors to account when things go wrong
- encouraging innovation in the legal sector to drive a better service for consumers



- reviewing our approach to consumer protection in the face of changing risks in the sector.

## **Principal activities of the Compensation Fund**

The primary object of the SRA Compensation Fund (the Fund) is to replace money which a defaulting practitioner (primarily solicitors) or a defaulting practitioner's employee, manager or owner has misappropriated or otherwise failed to properly account for. The fund makes discretionary grants to those persons who have either suffered or are likely to suffer financial loss directly resulting from:

- the dishonesty of a defaulting practitioner or the employee or manager or owner of a defaulting practitioner; or
- failure to account for money which has come into the hands of a defaulting practitioner or the employee or manager or owner of a defaulting practitioner, which may include the failure by a defaulting practitioner to complete work for which the defaulting practitioner was paid,

in the course of an activity of a kind which is part of the usual business of a defaulting practitioner and, in the case of a defaulting licensed body, the act or default arose in the course of performance of an activity regulated by the SRA in accordance with the terms of the body's licence. The majority of these grants arise from claims made following an intervention by the Solicitors Regulation Authority Limited (SRA) into the practice of a defaulting practitioner. All regulated practitioners (except those working for the Crown Prosecution Service) and licensed firms of practitioners who hold client money are required to pay an annual contribution to the fund. Contributions are determined and collected on behalf of the fund by the SRA. The cost of processing the claims is borne by the SRA and then charged to the fund.

## **Contribution setting**

The SRA Board follows the four following principles in setting the contribution levels for, and the management of, the fund. These principles were consulted on publicly in June 2020.

### **Principle one - The overriding principle is to maintain the viability of the fund**

We need to ensure that the fund has sufficient money to be able to make the grant payments and pay the administration costs it bears. There is considerable risk involved given the degree of uncertainty over the level, type and timing of interventions that will arise in any year, which is very difficult to predict. Through the annual contribution setting process we ensure that the balance of the fund remains sufficient to make payments as they are required, ensuring that the fund remains viable and consumers are adequately protected.



The fund balance has been on a managed, broadly downward, trajectory for several years since 2018-19. The 2022-23 year has seen by far the highest level of outflows over the last decade.

The fund's cash flow cycle over each financial year is that every October it receives the annual contributions from solicitors and firms of solicitors as part of the annual practicing certificate renewal process. The end of October is therefore typically the peak in the fund's balance. The low point is usually September. The going concern review below considers the recent actual monthly cash balances of the fund, which have been considerably lower due to the increased activity in the year.

**Principle two - we will ensure that the contributions to the fund are as manageable as possible for those we regulate**

In order to help firms and solicitors plan ahead, we will strive to avoid significant fluctuations and volatility in the contribution levels. This means that we must, as set out in principle one, ensure provision is sufficient to cover a level of unanticipated claims as well as anticipated future demand. We will do this by maintaining a reserve that at least covers future demand and takes account of any exceptional cases (such as high value multiple claims), while minimising year-on-year fluctuations.

This is not always possible when there are exceptional interventions, which have very significant impacts in the year they arise on the fund's position and action must be taken to ensure we can meet the fund's payment requirements.

**Principle three - We will collect contributions to the fund in a way that is manageable for those we regulate**

Under principle three the SRA collects the fund's contributions annually, alongside Solicitors' practising certificate fees, which is a well-established process for the regulated community.

**Principle four - We will be transparent about the fund monies and their management**

The expanded information in these 2022-23 financial statements provides further transparency in addition to that provided through our annual application to the Legal Services Board in support of the level of contribution to the fund. This expansion reflects the possibility of greater interest in the fund as a result of the increased activity in the year.

The SRA invites comment on the contribution level within its business plan consultation. The SRA does not consult separately on the contribution levels, which is a decision made by the SRA Board. In considering the appropriate level of contribution the Board will consider

the expected activity within the fund, levels of interventions and the appropriate balance to maintain the fund.

Over the last 10 years the contributions to the Compensation Fund have fluctuated as the requirements of the fund have changed year on year. They are shown in the table below. This also shows the accumulated funds at the end of each financial year (31 October). The lowest point in the fund's cashflow is typically the end of September each year before the annual contribution collection exercise.

<b>Financial year</b>	<b>Individual fee</b>	<b>Firm fee</b>	<b>Accumulated funds (£000s)</b>
2014-15	32	548	44,498
2015-16	32	548	46,692
2016-17	32	548	41,438
2017-18	40	778	48,908
2018-19	90	1,680	66,662
2019-20	60	1,150	60,628
2020-21	50	950	50,610
2021-22	40	760	54,183
2022-23	30	690	25,050
2023-24	30	660	N/a

### **Our approach to Compensation Fund financial modelling**

We use a financial model to support our decision-making process for determining a recommended contribution level. The key element to determining the recommended level is a number of judgements we must make over:

- the degree to which we will use past experience to inform our assessment of what the future may hold.
- how much allowance to make for exceptional intervention events that have very material short term cash outflow impacts.
- our knowledge of potentially significant ongoing and upcoming claims.

The model uses assumptions on volumes of interventions and extrapolates historical data to forecast future receipts of claims and subsequent grant payments in the forthcoming three-year period.

Based on a range of projected potential grant payments in coming years, we determine a recommended minimum level of reserves that the fund should hold to ensure that there is limited risk to its viability, with a particular focus on having sufficient money in the fund at the cyclical low point of September each financial year.

The required following year fund contribution in overall income terms is then divided, to be half raised as an individual solicitor contribution, and half as a law firm contribution.

These 50% overall income contributions are then divided by the projected number of solicitors (recovered from all solicitors other than Crown Prosecution Service solicitors) and applicable law firms (law firms which hold client money on account), to derive the individual unit contributions.

For the 2023-24 year, the contributions were set at £30 per solicitor and £660 per law firm.

## **Governance**

The Council of the Law Society (the Council) has empowered the SRA to deal with all matters relating to the fund.

The financial management and administration of the fund by the SRA is governed by the SRA Compensation Fund Rules which are made under sections 36 and 36A of the Solicitors Act 1974, section 9 of the Administration of Justice Act 1985, sections 21(2) and 83(5)(e) of, and paragraph 19 of Schedule 11 to, the Legal Services Act 2007 and an Order made under section 69 of the Legal Services Act 2007, S.I. 2011 No 1716, with the approval of the Legal Services Board under paragraph 19 of Schedule 4 to the Legal Services Act 2007.

Reference throughout this document to 'the Society' refers to the Law Society as a royal charter body.

Members of the SRA Board during the financial year under review were:

- Anna Bradley Chair
- Ann Harrison Member
- Paul Loft Member
- Selina Ullah Member
- Elizabeth Smart Member
- Vikas Shah Member
- Lisa Mayhew Member
- Nicola Williams Member
- Claire Bassett Member from 1 January 2023
- Rob McWilliam Member from 1 March 2023

Members of the Audit and Risk Committee during the financial year under review were:

- Paul Loft Chair
- Ann Harrison Member until 28 February 2023
- Vikas Shah Member
- Rob McWilliam Member from 1 March 2023



- Claire Bassett Member from 1 March 2023

Given the Council's size (there are 100 places on the Council) the membership records are not shown here but are available on request and are included in the consolidated financial statements of the Law Society Group.

## **Operating and financial review**

During the 2022-23 financial year the fund was impacted by two very large interventions by the SRA, into Metamorph in November 2022 and Axiom Ince in October 2023.

The Metamorph intervention led to significant administration costs charged by the SRA to the fund, and significant grant payments on claims received, as well as material recoveries from statutory trust accounts (the former client account monies held by the Metamorph firms).

The Axiom intervention led to significant administration costs charged by the SRA to the fund. Claims have been received since the year-end and are leading to substantial grant payments in 2023-24.

The 2022-23 year also saw the highest number of interventions in recent times with 65 interventions effected.

The impact of the higher number of smaller interventions and the two exceptionally large interventions was the largest financial impact on the fund in the past 14-year period, as illustrated below. The average annual amount over the period shown is £29m ranging from £16.5m in 2018-19 to £62.2m in this reporting period.

The fund contributions for the year were set prior to, and so without knowledge of, the Axiom Ince intervention. This has meant that the level of cash inflows into the fund from contributions in 2022-23 was modest in relation to the fund's activities in the year.

Despite a material portion of grant payments on the Metamorph intervention being recovered from statutory trust accounts in the 2022-23 financial year, the fund had its largest net reduction in balance in more than 15 years, a £29m reduction. A further significant proportion of grants has been recovered in the early part of the 2023-24 financial year.

## **Subsequent events**

In February 2024 the SRA launched a review of our approach to consumer protection. This may have consequences for the future operation of the fund. The review is expected to finish in 2025.

## **Financial results for the year**

## **Contributions**

The SRA collects contributions on behalf of the fund annually, predominantly as part of the annual practising fee collection exercise. These contributions may be used to provide cover for future claims in any year against the fund.

A contribution of £30 per individual solicitor and £690 per firm of solicitors holding client money (2021-22: £40 and £760 respectively) was approved by the Board at its meeting in July 2022 relating to the practising fee year 1 November 2022 to 31 October 2023.

Contributions received in the financial statements during the 2022-23 year totalled £10.3m compared with £15.6m in the prior year. The majority of contributions are received in October each year as part of the annual practising certificate renewals exercise. In 2021 this exercise ran from 11 October to 11 November and therefore the amount received in November 2021 was higher than usual, resulting in increased collections received in the prior year.

## **Investments**

There was an unrealised loss on the value of investments during the financial year of £565k (2022: £613k). A proportion of the Compensation Fund reserves are now held in an investment portfolio with the aim of delivering growth over the long term. This inevitably brings some short-term volatility and the value of the investment has reduced during the year. At the end of October 2023 the fund had £30.3m in cash and investments compared with £46.2m at the end of October 2022.

## **Grants paid and grant recoveries**

During the year to 31 October 2023 grants were made to the value of £41.1m (2022: £15.0m).

In 2023 grant recoveries were £24.2m, a significant increase of £14.6m from 2022. Recoveries are often received several months or even years after the initial grant is paid and therefore are not necessarily related to grants paid in the same year due to the accounting policies adopted. Grants are recovered primarily from Statutory Trust Accounts (STAs) held on trust by the SRA, which are client monies held by firms into which the SRA has intervened and which the SRA then holds.

The fund received or reopened 2,739 claims in 2023 (2022: 1,285) and closed 2,140 (2022: 1,483). At the end of the year there were 938 open claims (2022: 339) with a total claim amount of £60.1m (2022: £102.1m).

Of the total grant recoveries, £1.1m (2022: £2.1m) relates to monies recovered by cost recovery where the fund is able to recover, from solicitors, the grants that have been paid out to former clients of those solicitors.

### **Statutory Trust Accounts (STAs)**

In its role as the statutory approved regulator of solicitors the Society is the Trustee of separate funds which vest in it as a result of interventions into solicitors' practices in accordance with statute. The Society has delegated the handling of these funds to the SRA which holds and administers them in accordance with the SRA Statutory Trust Rules. The SRA is responsible for ensuring that the funds are properly accounted for and distributed appropriately. These funds are held in STAs. The fund is able to recover from the STAs and other avenues (e.g. insurers), via right of subrogation, grants it has made where the funds held can be identified as due to a claimant who has received a grant from the fund.

Once all reasonable and proportionate efforts have been made to trace beneficiaries, any residual balances remaining in STAs are transferred to the Compensation Fund. In 2023 the amount transferred was £1.0m (2022: £1.0m).

### **Administrative costs**

Costs incurred during the year in administering, maintaining, applying and protecting the fund were £23.8m (2022: £7.3m). Almost all fund administrative costs are incurred by the SRA and recharged to the Fund in accordance with agreed methodology and cost allocation rates. The most significant element of the recharge relates to third party intervention and legal costs incurred by the SRA which totalled £20.4m (2022: £4.0m).

### **Result for the year**

The financial result for the year was a deficit of £29.1m (2022: surplus £3.6m). The change year on year is due to significantly higher grant payments in the year and higher intervention costs due to higher levels of intervention activity in the year, as explained above.

### **Balance sheet**

#### **Current assets**

Net current assets have decreased by £29.1m overall (2022: £3.6m increase) as a result of expenditure exceeding income in the financial year. The composition of current assets has changed with both more funds and a greater proportion of overall funds being invested in a

managed investment portfolio in the year, with the objective of achieving a return on cash balances held pending claim grant payments.

The Compensation Fund's investments are split between funds invested for longer term growth and short-term cash deposits which form the basis of the fund's working capital.

The significant reduction in the overall fund balance has come from cash balances, and therefore a greater proportion of the fund is comprised of investments.

## **Principal risks and uncertainties**

As stated on page 1, the primary object of the fund is to make discretionary grants.

The principal risks of the fund are therefore that it holds insufficient accumulated funds to settle authorised grants or that grants are made in inappropriate circumstances.

These risks are mitigated by the fact that the fund is a discretionary fund of last resort as outlined in the SRA Compensation Fund Rules. This means that the SRA, as administrators of the Fund, must act in the public interest when approving claims made against the fund.

The going concern review below considers the risk of having insufficient funds available to make grants the fund considers it appropriate to make.

The risk of inappropriate grants being made is mitigated by maintaining a robust process of investigation and adjudication.

## **Going concern review**

Our review of fund viability is based on two key considerations:

1. A number of recurring uncertainties:
  - The inherent uncertainty over whether the SRA will be required to make an intervention into a law firm of an exceptional scale in terms of consequential grant claims and the administration cost of intervention.
  - The usual variation in the number of smaller interventions leading to modest individual claims on the fund.
  - The timing of any exceptionally large interventions
2. A key mitigation is the SRA's ability to enforce its powers to raise a special levy contribution against regulated individuals and bodies to fund a shortfall in accumulated funds.

The fund has continued to pay grants once a decision has been reached, despite having a very significant intervention on Metamorph firms in November 2022, with material costs and grant payments over the year,

due to the past and ongoing careful consideration of what levels of funds are held to ensure the viability of the fund.

The Axiom intervention in October 2023 was at a time of year, subsequent to the setting and collection of the 2023-24 contribution, that has increased cashflow pressure on the fund. Nevertheless, the fund continues to progress applications and we are making payments in accordance with the published prioritisation approach.

We therefore expect the fund to be able to continue to make its required payments as decisions on grant applications are made.

Reserves at 31 October 2023 were £25.1m, and at the end of February 2024 were £31.1m. We expect the balance in the fund to reduce across the financial year with the low point being during September 2024. The balance is however forecast to remain sufficient to pay grants as they fall due.

The total budgeted contribution for the 2023-24 practising year was £10.0m (2022-23: £9.7m). Of this budgeted £10.0m in relation to the 2023-24 practising fee year, £9.0m had been invoiced at the end of October 2023 (2022: £8.7m) with a further £0.4m being invoiced by the end of November 2023. Almost all the invoiced contributions were collected immediately.

As noted above, cash reserves are expected to reduce throughout the majority of 2023-24 until contributions for the 2024-25 year are collected. These contributions are due to be collected from October 2024. The level of contributions will be confirmed by the SRA Board during the summer of 2024.

Analysis of open claims on the fund along with the expected inflows into the fund in the form of recoveries enables the Board to be confident that the fund's reserves are sufficient to meet future obligations.

The proposed fund contribution for 2024-25 will, as it is each year, be set at a level sufficient to ensure that the fund will be able to meet its obligations as they fall due.

### **Open claims**

Due to the predominantly cash accounting nature of the accounting policies of the fund, explained further in note 1, no liability is recognised within these financial statements for open claims received.

The movement in open claims during 2022 and 2023 is shown in the table below based on the original claims value recorded:

	<b>2023</b>	<b>2022</b>
	£m	£m

Claims open at 1 November	102.1	75.4
Claims closed or deleted during the year	(168.2)	(82.2)
Net change in value of open claims	0.9	(1.1)
Claims received or reopened during the year	125.3	110.0
Claims open at 31 October	60.1	102.1

We have estimated the grants that may result from the claims outstanding at the end of 2023 and consider that the balances in the fund are sufficient to meet the potential liabilities as they fall due.

Some grant payments will later be recovered from the statutory trust accounts as client balances seized from intervened firms are reconciled. The exact amount to be recovered may take some time to be finalised. At the end of October 2023 the total balance held in statutory trust accounts was £83.4m.

### **Statement of financial control**

The SRA Board acknowledges that it is responsible for the system of internal financial control and has reviewed its effectiveness, having regard to the following key procedures:

- a clearly defined management structure with open lines of communication
- an on-going review by the Board of the cost of claims in relation to the income and assets of the fund
- approval of cash flow forecasts and recommended fund contributions
- a monthly review of actual expenditure.

All decisions and payments pertaining to the fund and STAs are governed by the SRA's schedule of delegations which is approved by the Board and was most recently updated in May 2023. The Compensation Fund is subject to outsourced internal audit as part of the overall programme of SRA internal audit.

It must be stated that a system of internal financial control can provide only reasonable and not absolute assurance against material misstatement or loss.

### **Statement of the SRA Board's Responsibilities in respect of the financial statements**

#### **Council of the Law Society**

The Council of the Law Society is accountable for the maintenance of the fund due to its responsibilities in law. The financial management of the

fund has been delegated by the Council to the Solicitors Regulation Authority Limited.

## **Solicitors Regulation Authority Limited**

Under delegated authority from the Council of the Law Society, the Solicitors Regulation Authority Limited (SRA) is responsible for the preparation of the non- statutory financial statements in accordance with the basis of preparation and accounting policies in note 1 and which show the position of the fund at the end of the financial year and of any surplus or deficit for that period.

The SRA has taken responsibility for preparing non-statutory financial statements although there is no specific legal requirement to do so. The Council and SRA Board must not approve the non-statutory financial statements unless they are satisfied that they have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies in note 1 to the non-statutory financial statements.

In preparing these non-statutory financial statements, the SRA Board has:

- selected suitable accounting policies and then applied them consistently
- made judgements and accounting estimates that are reasonable and prudent
- stated the basis of preparation and accounting policies applied
- prepared the non-statutory financial statements on the going concern basis unless it is inappropriate to presume that the fund will continue in business.

The SRA Board is responsible for keeping adequate accounting records that are sufficient to show and explain the fund's transactions and disclose with reasonable accuracy at any time the financial position of the fund. It is also responsible for safeguarding the assets of the fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Statement of disclosure of information to auditors**

In relation to Board members in office at the date the Board's report is approved, the following applies:

- so far as we are aware, members of the Board are not aware of relevant audit information that has not been disclosed to the fund's auditors
- appropriate governance arrangements are in place and are operated, such as by the activities of the SRA Audit and Risk



Committee and the Board

- we as members of the Board are satisfied that, by the said governance arrangements, members of the Board have taken the steps that they ought to have taken as a member in order to make themselves aware of relevant audit information and to establish that systems and practices are in place so that the fund's auditors are aware of that information.

The annual report was approved by order of the Board on 14 May 2024

A handwritten signature in black ink, appearing to read 'Anna Bradley', with a long horizontal flourish extending to the right.

Anna Bradley

Chair

23 May 2024

## **Independent auditor's report to the Board of the Solicitors Regulation Authority Limited**

### **Opinion on the financial statements**

In our opinion, the special purpose financial statements of the SRA Compensation Fund for the year ended 31 October 2023 are prepared, in all material respects, in accordance with the accounting policies set out in Note 1 to the special purpose financial statements.

We have audited the special purpose financial statements of the SRA Compensation Fund which comprise the balance sheet as at 31 October 2023, the income and expenditure account for the year then ended and notes to the special purpose financial statements, including a summary of significant accounting policies.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK) including ISA (UK) 800 (Revised). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the special purpose financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Independence*

We are independent of the SRA Compensation Fund in accordance with the ethical requirements that are relevant to our audit of the special purpose financial statements in the UK, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

## **Conclusions relating to going concern**

In auditing the special purpose financial statements, we have concluded that the Board of the Solicitors Regulation Authority Limited's use of the going concern basis of accounting in the preparation of the special purpose financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the SRA Compensation Fund's ability to continue as a going concern for a period of at least twelve months from when the special purpose financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Board of the Solicitors Regulation Authority Limited with respect to going concern are described in the relevant sections of this report.

## **Emphasis of matter - basis of accounting and restriction on distribution and use**

We draw attention to Note 1 to the special purpose financial statements which describes the basis of accounting, which is a special purpose framework. The special purpose financial statements are prepared to assist the Board of the Solicitors Regulation Authority Limited to fulfil its stewardship duties in respect of the SRA Compensation Fund. As a result, the special purpose financial statements may not be suitable for another purpose. Our report is intended solely for the Board of the Solicitors Regulation Authority Limited and should not be distributed to or used by parties other than the Board of the Solicitors Regulation Authority Limited. Our opinion is not modified in respect of this matter.

## **Other information**

The Board of the Solicitors Regulation Authority Limited is responsible for the other information. The other information comprises the information presented within the Annual Report, other than the special purpose financial statements and our auditor's report thereon. Our opinion on the special purpose financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the special purpose financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the special purpose financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## **The Board of the Solicitors Regulation Authority Limited's responsibilities**

The Board of the Solicitors Regulation Authority Limited is responsible for the preparation of these special purpose financial statements in accordance with the accounting policies set out in Note 1 and for such internal control as the Board of the Solicitors Regulation Authority Limited determines is necessary to enable the preparation of special purpose financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the special purpose financial statements, the Board of the Solicitors Regulation Authority Limited is responsible for assessing the SRA Compensation Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of the Solicitors Regulation Authority Limited either intends to liquidate the SRA Compensation Fund or to cease operations, or has no realistic alternative but to do so.

## **Auditor's responsibilities for the audit of the special purpose financial statements**

Our objectives are to obtain reasonable assurance about whether the special purpose financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these special purpose financial statements.

*Extent to which the audit was capable of detecting irregularities, including fraud*

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We made enquiries of management, the Audit and Risk Committee and the Board. This included the following:

- how they have identified, evaluated and complied with laws and regulations and whether they were aware of any instances of non-compliance;
- their process for detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
- which internal controls have been established to mitigate risks related to fraud or non-compliance with laws and regulations.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the SRA Compensation Fund, focussing on those laws and regulations that had a direct effect on the special purpose financial statements. The key laws and regulations we considered in this context included sections 36 and 36A of the Solicitors Act 1974 as amended by the Courts and Legal Services Act 1990 and the provisions of the Administration of Justice Act 1985.

In addition, the SRA Compensation Fund is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: data protection and health and safety. *In order to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, we made enquiries of management and those charged with governance about whether the entity is in compliance with such laws and regulations and we inspected any relevant regulatory and legal correspondence.*

We considered management's incentives and opportunities for fraudulent manipulation of the financial statements (including revenue recognition and the risk of override of controls) and determined that the principal risk was related to posting inappropriate journal entries to manipulate financial results and management bias in accounting estimates.

#### *Audit response to risks identified*

- We reviewed the financial statement disclosures and tested to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- We made enquiries of management and the Board;



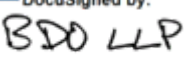
- We read minutes of meetings of those charged with governance;
- In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; considered completeness of related party transactions; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- We challenged assumptions made by management in significant accounting estimates.

Our audit procedures were designed to respond to risks of material misstatement in the special purpose financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the special purpose financial statements, the less likely we are to become aware of it.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).  
[<http://www.frc.org.uk/auditorsresponsibilities>] This description forms part of our auditor's report.

## Use of our report

This report is made solely to the Board of the Solicitors Regulation Authority Limited, as a body, in accordance with the terms of our engagement letter dated 23 August 2023. Our audit work has been undertaken so that we might state to the Board of the Solicitors Regulation Authority Limited those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the SRA Compensation Fund and the Board of the Solicitors Regulation Authority Limited, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:  
  
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BDO LLP  
Chartered Accountants  
Birmingham  
United Kingdom  
Date 29 May 2024

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

## Income and expenditure account for the year ended 31 October 2023

		Income		
	Income	Note	2023 £'000	2022 £'000
Contributions received in the current year		7	10,285	15,649
			<b>10,285</b>	<b>15,649</b>
Grant recoveries		3	24,165	9,644
Interest and dividends received		4	908	298
Residual balances received from Statutory Trust accounts		9	1,002	958
<b>Total Income</b>			<b>36,360</b>	<b>26,549</b>
		Expenditure		
	Expenditure	Note	2023 £'000	2022 £'000
Grants paid		2	(41,055)	(15,049)
Administration costs		6	(23,795)	(7,280)
Auditors' remuneration – audit fees			(40)	(34)
Income tax		5	(38)	-
<b>Total Expenditure</b>			<b>(64,928)</b>	<b>(22,363)</b>
Loss on investments		8	(565)	(613)
(Deficit) / Surplus for the year			(29,133)	3,573
<b>Fund balance as at 1 November</b>			<b>54,183</b>	<b>50,610</b>
<b>Fund balance as at 31 October</b>			<b>25,050</b>	<b>54,183</b>

All activities derive from continuing activities. The notes to the financial statements for the year ended 31 October 2023 form part of these non-statutory financial statements.

## Balance sheet as at 31 October 2023

	Current Assets	Note	2023 (£'000)	2022 (£'000)
Investments		8	22,187	15,422
Bank and cash			8,130	30,783
Money owed from the SRA		9	-	7,978
<b>Total Current Assets</b>			<b>30,317</b>	<b>54,183</b>
Money owed to the SRA		9	(5,267)	-
<b>Total Current Liabilities</b>			<b>(5,267)</b>	<b>-</b>
<b>Net Current Assets</b>			<b>25,050</b>	<b>54,183</b>



**Accumulated Funds**

25,050

54,183

The notes to the financial statements for the year ended 31 October 2023 form part of these non-statutory financial statements.

The financial statements of the SRA Compensation Fund were approved by:

Paul Philip

CHIEF EXECUTIVE, SRA

Anna Bradley

CHAIR, SRA BOARD

**Date: 23 May 2024**

**[Notes to the financial statements for the year ended 31 October 2023](#)**

**1. Accounting policies**

**Basis of preparation**

The financial statements have been prepared in accordance with the following accounting policies. As the fund is maintained and administered pursuant to sections 36 and 36A of the Solicitors Act 1974 as amended by the Courts and Legal Services Act 1990 and under the provisions of the Administration of Justice Act 1985, it is not required to prepare statutory financial statements or comply with applicable United Kingdom accounting standards or the Companies Act 2006 but has chosen to prepare non-statutory financial statements and have them audited as good governance.

The accounting policies adopted by the fund are described below and these have been applied consistently.

**Cash flow statement**

No separate cash flow statement is prepared as the accounting policies adopted by the fund are predominantly on a cash accounting basis.

### **Contributions**

Fund contributions received in conjunction with SRA practising fees are recognised in full when an invoice is raised following an application from a solicitor or a firm. The contributions relate to practising years which begin on 1 November each year. These amounts are recognised in full and not deferred and therefore the financial statements include amounts invoiced in advance relating to the following year.

### **Grants paid**

Grants paid by the fund are discretionary in nature and are accounted for when paid. Grant authorisation is given by an adjudication panel or an authorised adjudicator under delegated authority from the Board.

### **Grants recovered via right of subrogation from the Statutory Trust Accounts**

The fund is able to recover from the STAs, via right of subrogation, grants it has made provided certain procedures are followed. Recoveries from the STAs are recognised when cash is received.

### **Grants recovered from solicitors**

The fund is able to recover grants from solicitors that have been paid out to former clients of those solicitors. Recoveries from solicitors are recognised when cash is received.

### **Residual balances received from Statutory Trust Accounts (STAs)**

Remaining funds held in STAs are transferred to the fund once all reasonable efforts to establish and trace beneficiaries have been exhausted. Income from residual balances in STAs is recognised when the cash is received.

### **Investments**

Investments consist of managed investment funds. Movement in the value of investments is recognised separately in the income and expenditure statement.

### **Interest and dividends**

Income is received in the form of interest and dividends. Income arising on bank and cash amounts is received as interest. Interest and dividend income is accounted for when cash is received.

### **Administration costs**

Administration costs are incurred by the fund via a recharge from the SRA in accordance with an agreed cost allocation methodology and cost allocation rates. Administration costs are recognised when actually calculated and notified to the fund by the SRA.

Certain costs are incurred directly by the fund and are recognised when paid.

### **Taxation**

The fund is only liable to taxation on its investment income at the basic rate of tax and normal dividend rates of income tax and obtains no tax relief for its overhead expenditure. Charges for taxation are recognised when paid or received and no account is taken of deferred taxation assets and liabilities.

### **Valuation of investments**

Investments consist of managed investment funds. Investments are measured at fair value. Changes in fair value are recognised separately within the income and expenditure statement. The fair value of investments is obtained at the balance sheet date based on valuations normally using prices obtained from an independent pricing source.

### **Going concern**

The Board has considered the level of reserves which, coupled with the fact that the fund's grants are discretionary, means the Board believes the fund has sufficient funds available to it to meet future obligations as they fall due.

Despite the significant levels of grant payments and administration costs over the past year, the fund continues to hold reasonable reserves. The latest forecasts for the fund based on a recommended substantial increase in fund contribution income, and an absence of a major intervention of the likes seen over the past year and a half, indicate that there should continue to be sufficient reserves through the next 18 months and beyond.

In the event of a major intervention, the SRA has the power to raise an additional levy on regulated individuals and bodies between the annual October practicing certificate collections if required and might need to

use this if a very large intervention arose subsequent to the approval of the proposed 2024-25 contribution.

Based on the reforecasts and the available liquid resources, the Board has no doubt over the fund's ability to continue as a going concern for at least 12 months after the date on which the financial statements are signed. The Board, therefore, considers it appropriate for the accounts to be prepared on a going concern basis.

## 2. Grants paid

Grants paid in 2023 totalled £41.1m (2022: £15.0m).

## 3. Grant recoveries

Grants recoveries in 2023 totalled £24.2m (2022: £9.6m) of which £23.1m (2022: £7.5m) were recovered through rights of subrogation from the STAs and £1.1m (2022: £2.1m) being recovered directly from solicitors.

## 4. Investment income and interest received

Interest and dividends received in 2023 totalled £908k (2022: £298k). Loss on investments was £565k (2022: £613k loss).

## 5. Income tax

Income tax is payable on gross interest earned during the year from money market funds and treasury deposits. Tax paid in the year was £38k (2022: £nil). Income tax falling due on investment income for the financial year totals £182k (2022: £43k). This tax will be paid in future periods.

## 6. Administration costs

	2023 (£'000)	2022 (£'000)
Direct cost of processing fund claims	2,094	1,939
Direct cost of interventions and other legal costs	20,448	4,022
<b>Total Direct Cost</b>	<b>22,542</b>	<b>5,961</b>
Allocated cost of other regulatory activity that administers and protects the fund	948	1,040
Contribution to overhead costs	221	228
Investment and cash management fees	94	51
<b>Total Administration Costs</b>	<b>23,795</b>	<b>7,280</b>

All administration costs except investment and cash management fees are incurred by the SRA and recharged to the fund.

## 7. Compensation Fund contributions

Contributions recognised in 2023 totalled £10.3m (2022: £15.6m) of which £9.0m (2022: 8.7m) related to the practicing year 2023-24. Of the expected £9.7m for the 2022-23 practicing year a further £0.8m had been invoiced by the end of December 2022 resulting in income in line with forecast for the year.

## 8. Investments

A large proportion of the fund's reserves are held in a managed investment portfolio. The movement in the portfolio during the year is shown in the table below.

	<b>2023 (£000)</b>	<b>2022 (£000)</b>
<b>Balance at 1 November</b>	15,422	-
Investment in year	6,559	16,000
Interest and dividends received	862	83
Management fees	(91)	(48)
Net (loss) on investments	(565)	(613)
<b>Balance at 31 October</b>	<b>22,187</b>	<b>15,422</b>

## 9. Related party transactions

The Law Society has ultimate accountability for the maintenance of the fund and the STAs, delegated to the SRA. Both the SRA and the STAs are therefore considered to be related parties for the purpose of financial reporting.

The SRA collects all fund contributions on behalf of the fund, as disclosed within the income and expenditure account. In addition, the SRA charges the fund administration costs, as disclosed in note 6. Amounts due to the SRA at 31 October 2023 were £5.3m (2022: £8.0m owed from SRA to the fund) and are disclosed on the balance sheet.

Transactions with the STAs are recovery of grants under rights of subrogation and amounted to £23.1m (2022: £7.5m).

Further monies are also received from residual balances in STAs once all reasonable efforts have been made to trace beneficiaries. Any remaining funds are then transferred to the fund and amounted to £1.0m in 2023 (2022: £1.0m).

Disclosure of related parties arising from Council members and Board members, included in recharged costs, are disclosed in the Society

consolidated financial statements where required.

There are no other significant related party transactions.

## **10. Disclosure of significant assets and liabilities**

Due to the predominantly cash accounting nature of the accounting policies certain assets and liabilities are not included in the financial statements. The most significant are explained below.

### **Open claims**

As explained in note 1, grants made are recognised when cash is paid. Amounts approved for payment and those related to outstanding claims being investigated are not included in the financial statements.

No reliable estimate can currently be made of future claims against interventions in progress and no estimate is made of amounts recoverable from the seized accounts relating to those interventions.

### **Statutory Trust Accounts (STA), undistributed balances**

The 2006 Re Ahmed judgement provided for any undistributed STA balances (residual balances) to be transferred to the fund after reasonable investigations to distribute them.

In 2023 this resulted in £1.0m being transferred from STAs to the fund (2022: £1.0m). This is in addition to the funds received via rights of subrogation.

### **Statutory Trust Accounts, amounts due via right of subrogation**

In accordance with the accounting policies, no amounts are recognised within the balance sheet or income and expenditure account in respect of amounts due to the fund via rights of subrogation from the STAs as these amounts are only recognised when paid.

Whilst the amounts due to the fund are likely to be significant, it is not possible to accurately quantify the amount due until the work has been completed. At the end of October 2023 the total balance held in STAs was £83.4m (2022: £14.7m).

### **Uninsured firms**

From 1 October 2012 the SRA Compensation Fund Rules were changed to provide cover for claims made against uninsured firms that would previously have been covered by the Assigned Risks Pool (ARP) under certain arrangements for non-applied firms. This cover is similar to that

provided historically through the ARP arrangements whilst still retaining the discretionary nature of the Compensation Fund. The cover extends to claims made against firms that are practising whilst uninsured and includes six-year run-off cover in the event that a practice ceases without successor practice whilst uninsured.