



## MEMORANDUM

**To:** Technical Representatives  
**From:** Roger Morris  
**Date:** 8 December 2015  
**Ref:** TM 12/15

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### **HAT SRA ACCOUNTS RULES 2011 MANUAL ~ NOVEMBER 2015**

The HAT SRA Accounts Rules 2011 Manual (November 2015) applies for accounting periods ending on or after 1 November 2015.

There are three major changes to the SRA Accounts Rules 2011 which are effective from the above date. As a result of these changes, it will be necessary to reissue letters of engagement in respect of these assignments, as the wording in Rule 35 has consequently been amended. The changes are:

#### **Requirement to obtain an Accountant's Report:**

The following exemption has been introduced (so long as the Report is not a 'cease to hold' Accountant's Report, as this is always required to be obtained):

If the solicitor's practice held client money, but the average balance during the accounting period did not exceed £10,000, and the maximum balance during the accounting period did not exceed £250,000, based on reconciled statement / passbook balances of accounts holding client money, when the reconciliation is performed at intervals of not more than once every five weeks, there is no requirement to obtain an Accountant's Report.

#### **Scope of the Reporting Accountant's work:**

The SRA Accounts Rules 2011 no longer prescribe the procedures to be undertaken by the Reporting Accountant, however, it remains the case that it is necessary for the Reporting Accountant to confirm (subject to any qualification) that the SRA Accounts Rules 2011 have been complied with.

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If the solicitor has a strong internal control system, supported by either a full time COFA or an internal audit department, where test checks are undertaken regarding compliance with the SRA Accounts Rules 2011, it may be possible to review and rely upon their work and for the Reporting Accountant to reduce the level of testing which they perform.

The procedures which have been included within this Manual represent those which should be performed when it is not intended to place reliance upon test checks which have been performed internally by the solicitor. Where reliance is being placed upon those test checks, appropriately tailoring of the detailed work programmes should be performed to remove procedures which are not required on the assignment. It is expected that this will be the position for most users of the HAT SRA Accounts Rules 2011 Manual.

### **Requirements for the Accountant's Report to be qualified:**

The requirement for the Accountant's Report to be qualified has been amended such that this is only necessary when there is are material breaches of the Accounts Rules and / or significant weaknesses in the firm's systems and controls for compliance with the Accounts Rules.

The [SRA's Ethics Guidance: Accountants' Report \(AR1\) and Guidance for Firms and Accountants](#), which additionally provides further guidance on situations when the Accountant's Report is likely to require qualification, states:

“In our view, the Report should only be qualified where the breaches identified are material and likely to put client money at risk. When considering whether a breach is material, the Reporting Accountant should have regard to Rule 8 and associated guidance of the SRA Authorisation Rules for Legal Services Bodies and Licensable Bodies 2011 (the Authorisation Rules). Material breaches are likely to arise as a result of an intention to break the rules and / or as a result of a significant weakness in the firm's systems and controls such that there has been a systematic break down of controls designed to prevent breaches. Breaches arising from administrative error are less likely to be material, but still could be if they are persistent, derive from a lack of controls or break down of controls, and have put client money at risk. We recognise that trivial, non-material breaches of the 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. In all cases, the Accountant should ensure the work they undertake is proportionate and targeted to the size of firm and nature of the work the firm undertakes.”

We are always pleased to receive feedback on our manuals. If you have any comments on this Manual then please email [roger@hatgroup.co.uk](mailto:roger@hatgroup.co.uk).