



Solicitors UPDATE

Spring 2015

Allotts Chartered Accountants

Rotherham

The Old Grammar School
13 Moorgate Road
Rotherham S60 2EN
Tel: 01709 828400
Fax: 01709 829807
Email: info@allotts.co.uk

Doncaster

Sidings Court, Lakeside
Doncaster DN4 5NU
Tel: 01302 349218
Fax: 01302 321739
Email: donc@allotts.co.uk

Directors

J N (Jackie) Saunders BA FCA DCha
Steven G Pepper FCA
Neil S Highfield FCA
Steven Watson BA ACA CTA
Mark Garrison BCom FCA DCha

Consultant

A E (Tony) Grice BA FCA Cert PFS

Financial Services

01709 828400
Email: fsd@allotts.co.uk

www.allotts.co.uk

Allotts Chartered Accountants is the trading name of Allotts Business Services Ltd. Registered in England and Wales Registered No 07453228.

Registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales.

In this issue:

Anti Money Laundering Campaign

Misuse of Client Accounts

Small Firms and the SRA

SRA Accounts Rules

Welcome to the latest edition of the Allotts' Solicitors Newsletter. At Allotts, we are proud of the relationship we have built up with our many solicitor clients over a number of years. We have a dedicated solicitor service team who have vast experience in all areas of the legal sector.

Services we offer include:

- Expert advice on the requirements of the SRA Accounts Rules 2011
- Preparation of your annual accounts
- Tax planning and compliance
- Growth and business development advice, including advice on mergers and acquisitions
- VAT advice
- Partner and partnership tax returns
- Assistance with COLP and COFA roles
- Limited company incorporations and LLP conversions



Useful Links

Solicitors Regulation Authority

www.sra.org.uk

Law Society

www.lawsociety.org.uk

Law Gazette

www.lawgazette.co.uk

COLP/COFA information

<http://www.lawsociety.org.uk/advice/practice-notes/compliance-officers/>

Our reputation is based on the high quality service which we provide. We appreciate that each legal practice is different and that's why our services are tailored to meet your individual needs.

For more information or for a free initial no-obligation consultation, call one of the solicitors team, Mark Garrison, David Waining, Lindsey Birley or David Ward on 01709 828400 or email mark.garrison@allotts.co.uk.

Anti Money Laundering Campaign



The SRA are now the majority of the way through their anti money laundering campaign, helping firms to test the systems they have in place to identify suspicious activity. The campaign was launched in September with a report due back in May. Overall the SRA believe it has been well received by the profession and they say there has been some interesting feedback so far.

The anti money laundering campaign launched in September with the aim of supporting solicitors and law firms. By the end of February around half of the 500 law firms identified as high-risk by the SRA had been visited with the majority having their systems assessed and approved as strong enough to identify suspicious activity. Only around 20 of the firms visited so far have been deemed to require a further visit to help strengthen their controls.

The legal sector is one of a number of areas of work that is deemed high-risk of attracting organised criminals seeking to launder the proceeds of crime, a fact established in a 2013 Financial Action Task Force report. Concerns had also been raised by the National Crime Agency (NCA) about the quality of suspicious activity reports submitted by the profession and the reduction in numbers submitted over recent years to the central reporting body the UK Financial Investigation Unit.

The SRA campaign is about testing the processes that it was felt were, perhaps, most at risk of being targeted for money laundering. The aim being to ensure they are set up to identify suspicious activity and are making reports to the NCA where it is relevant to do so. The campaign is also to raise staff awareness of these systems and encourage them to ensure they apply them to effectively identify suspicious activity and make reports to the NCA.

There is now guidance on the SRA website, which can be found by going to www.sra.org.uk/aml and which outlines a number of "red flags" which warn solicitors that an activity may be suspicious.

Misuse of Client Account

An increase in firms misusing the client account has prompted a warning from the SRA. The regulator announced in December that it had received dozens of reports of firms using their accounts for improper (and occasionally criminal) purposes.



The issues usually relate to firms allowing clients to use the client account as a banking facility, something that is not looked upon favourably by the SRA. Rule 14.5 of the SRA Accounts Rules covers the use of client account and is quite clear as to the requirement for the account to be used only for legal services. Breaches of this Rule could facilitate money laundering offences.

The SRA issued a warning notice in December and stated that any instances of abuse of the rules or failure to comply with the warning notice could lead to disciplinary action.

Barco, an escrow provider operated by the Bar Council, has recently announced that it has an agreement in place to offer its services to solicitors, which could reduce the risks associated with holding client money. This scheme has been provisionally approved by the SRA and could potentially remove the need for a compensation fund as it would be separately insured and regulated by the FCA. Under the scheme all funds remain in segregated bank accounts until the parties have agreed to a transfer.

Further to this issue, the chairman of the Legal Services Board recently commented that the misuse of client money is one of the biggest regulatory risks and that the regulators are looking to prioritise finding alternatives to solicitors holding client money. In response the Law Society president pointed out that the number of instances of misuse is minimal compared to the number of transactions in a year.

Small Firms and the SRA

The Solicitors Regulation Authority were rebuked recently for a case involving a solicitor formerly of Addleshaw Goddard and two solicitors from much smaller firms. It was perceived that the authority had shown leniency towards the “city” firm solicitor as opposed to the treatment of the other solicitors in a similar case.



This highlighted smaller firm's ongoing perception of bias and their continued sense of mistrust in the authority. This mistrust, whilst not founded on any hard facts, has developed over the years and is the target of a number of reforms proposed by the new head of the SRA, Paul Philip, who set about a tour of solicitors firms during the first year of his tenure in an attempt to better understand the different types of firms in the sector.

The perception of a number of small firms is that the SRA would like to concentrate on the larger firms, namely the top 10 and large corporate ABS's. There has been a discussion paper issued to negate this perception and improve the SRAs' reputation amongst smaller firms.

The SRA have now included a small firm section on their website and plan to introduce trained supervision officers employed to deal only with small firms, thereby improving their reviews of files and systems.

In addition to this there are two further proposals to assist smaller firms:

1. Changes to the COLP and COFA approval system, which since its inception has been a one-size-fits-all, with allowances to smaller firms to name their officers through the mySRA portal.
2. From 6 April 2015 existing sole practitioners are to be allowed to complete a one-off authorisation to practise in place of the previously annual endorsement of the practising certificate thus reducing the regulatory burden and the risk of the application not being accepted.

These changes are designed to reduce the burden on smaller firms, whilst at the same time not removing the element of regulation that helps the public perceive the industry as safe. Further deregulation may follow, or at least alterations to make the system seem fairer to the small firms in relation to how much paperwork they are required to complete when compared to their larger competitors around the country.

In addition to these changes the SRA have committed to replacing the technology behind the mySRA portal to enable it to become more straightforward and user friendly.

SRA Accounts Rules Update

The COFA and COLP regime was one of the topics of conversation when Paul Philip addressed the Westminster Legal Policy Forum in September. The head of the SRA hinted that the framework of the rules would need to be revised to be useful to the profession in the long run.

This followed on from the proposed removal of the accountants report and the potential increased requirements this would place on the COFA representative at each member firm. If the accountants report was removed, these individuals would be required to make a declaration that the practice is compliant with the SRA Rules.



These original proposals were watered down, however, and the following rules were brought in on 31 October:

- Only accountants reports which are qualified have to be submitted to the SRA
- There is no requirement to obtain an accountants report at all where the firm only receives client money from the Legal Aid Agency

The SRA issued a further consultation document on accountants reports in November 2014 to consider allowing greater judgement for accountants, defining the circumstances in which reports are qualified and excluding certain low risk firms from the requirement to obtain a report. The consultation specifies a number of areas which accountants should examine and recommends that only “substantive deficiencies” should be reported. These amendments to the accounts rules were initially to be brought in by April 2015 subject to approval from the Legal Services Board, but this has now been postponed until later in the year.

The current SRA Accounts Rules are overly prescriptive in places and are in need of revision. The SRA will carry out a wider review of the rules in due course, taking into account the developing role of the COFA.



Rotherham Office:

The Old Grammar School
13 Moorgate Road
Rotherham
S60 2EN
Tel: 01709 828400
Fax: 01709 829807
Email: info@allotts.co.uk

Doncaster Office:

Sidings Court
Lakeside
Doncaster
DN4 5NU
Tel: 01302 349218
Fax: 01302 321739
Email: donc@allotts.co.uk

Website:

www.allotts.co.uk

Directors:

Jackie Saunders BA FCA DChA
Steven Pepper FCA
Neil Highfield FCA
Steven Watson BA ACA CTA
Mark Garrison BCom FCA DChA

Consultant:

Tony Grice BA FCA Cert PFS

Specialist Sectors:

Solicitors
Farming & Agriculture
Charities & Not for Profit
Education
Medical Services
Sage Support
Professional Practices
Trusts & Estates

Allotts Services:

Business Services
Corporate Services
HR Services
Independent Financial Advisors
(Provided by Allotts Financial Services Ltd)
IT Services
Payroll Services
Taxation Services
VAT Services
Wealth Management

Allotts Chartered Accountants is the trading name of Allotts Business Services Limited