

SRA consultation

Proportionate regulation: reporting accountant requirements

Response by the Junior Lawyers Division of the Law Society of England and Wales

The Junior Lawyers Division of the Law Society of England and Wales (the 'JLD') represents LPC students, paralegals who have completed the LPC, trainee solicitors, and solicitors up to five years qualified. With a membership of approximately 75,000, it is important that we represent our members in all matters likely to affect them either currently and / or in the future.

The JLD responded to the 'Overseas Accounts Rules' consultation in December 2014, and is now responding to the 'Proportionate Regulation: Reporting Accountant Requirements' consultation (the '**Consultation**'). The JLD has concerns regarding the SRA's Consultation, its impact on the wider profession and for our members' future careers, namely:

- **(para 20):** we understand from the Consultation that the SRA would like to rely more on the professional judgement of the accountant completing the report. One concern here is accountability. If an accountant 'gets it wrong', and this results in client money being compromised, it is not clear who is accountable. This uncertainty may compromise protection of client assets held or otherwise affected by the actions of legal service providers.

As the SRA rightly points out in **paragraph 27** 'delegating [the responsibility of compliance with the SRA's rules] to a third party over which [the SRA] has no regulatory control would not be consistent with [the SRA's] overall approach.' The JLD believes that the same principle should apply here.

- **(para 22):** it is unclear what 'substantive deficiency' means. How does one define a 'substantive' deficiency? Further, is the SRA suggesting that a deficiency which is not 'substantive' is unworthy of being reported to the SRA? The JLD believes there is a real risk to the consumer with this approach.
- **(para 24/25):** The JLD believes there are positives in requesting a declaration at the point of bulk renewal. Whilst it may not be inconceivable that a firm who had chosen not to comply with the rules would make a false declaration of compliance, we also do not believe the practice of making a false declaration would be common or widespread. Requesting declarations should act as an extra check, rather than definitive evidence of compliance.



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- **(para 35):** The JLD is concerned with the proposal to exempt firms from obtaining an accountant's report on the basis they hold an average balance of client funds of less than £10,000 in each accounting year. We do not consider this to be an appropriate measure of risk to client money. It is **only** a measure of the **amount** of client money at risk. The latter is of course an important factor to take into account, but the JLD considers it should not be the sole factor.

Whilst the JLD considers this an important issue for the SRA to consider, the JLD considers that the 'Proportionate Regulation: Reporting Accountant Requirements' consultation does not affect the majority of its members directly at this present time, and it is understood that other stakeholders and representative bodies are raising these issues on behalf of their members that are directly affected. The JLD feels it is necessary, however, to raise the above concerns.

The Junior Lawyers Division

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