

Proportionate regulation: changes to reporting accountant requirements

Summary of responses

Introduction

- 1 On 18 November 2014 we issued a consultation document seeking views on proposals to change the requirement to deliver annual accountant's reports set out in the SRA Accounts Rules 2011 ("the Accounts Rules"). The proposals were designed to ensure that regulation is proportionate and targeted, with the aim of reducing costs for legal services providers and consumers.
- 2 The consultation closed on 28 January 2015. This report summarises the key points emerging from the responses.
- 3 A summary by number of the answers to the questions posed is at Appendix 1. A breakdown of the composition of respondents and a list of those respondents who consent to their details being publicised is at Appendix 2.

Appendix 1 - The responses

Question 1: Do you agree with the proposal that we should rely more on the professional judgement of the accountant completing the report? Do you see any specific issues or concerns with this approach?

- 4 Most respondents were in agreement with the proposal, although a number did suggest the need for further guidance from the SRA on matters that should be covered in the report. Furthermore, a number of respondents were in agreement that the current system of reporting is not fit for purpose.
- 5 One respondent recognised that without a detailed framework, which describes the characteristics that the SRA would expect a law firm's client money accounting system to have, the proposals will likely result in inconsistency of approach.
- 6 The Law Society suggested that 'there should be more scope for an accountant to use their professional judgement about the adequacy of the firms systems and controls. In particular, the exercise of greater professional judgement in qualifying reports will help to ensure that only when client money is at risk and/or there are serious breaches are reports qualified.'
- 7 One respondent firm of accountants highlighted a potential advantage of the proposed reporting form, noting that 'the Reporting Accountant will be required to engage with firms in relation to the effectiveness of their systems and the control environment

which should then lead to firms focusing on how to improve these, rather than simply looking to 'avoid' rule breaches under the current reporting regime.

- 8 The Solicitors Disciplinary Tribunal (SDT) stated that many cases brought before the Tribunal relate to the mishandling of client money and felt that a move in emphasis towards reliance on an accountant's professional judgement could have a risk of encouraging more complex and disputed disciplinary proceedings, due to a possible temptation for solicitors to blame their accountants for their own shortcomings in the event of enforcement action by the SRA.

SRA Reply

- 9 We will implement the proposals, noting the general support for the direction of travel. It is important to clarify that these proposals do not change the requirements in the Accounts Rules 2011 ("the Accounts Rules") that firms have to follow or the systems that they have to maintain to ensure compliance. The responsibility to comply with the Accounts Rules remains on the firm, not on the Reporting Accountant, and we do not therefore believe that any risk that disciplinary proceedings will become more difficult or complex in relation to breaches of those rules will materialise. Further, and for the avoidance of doubt, the guidance that we have issued confirms that one of the circumstances which will lead the reporting accountant to qualify the report is where there has been a significant failure by the solicitor to provide requested documentation.
- 10 Under the Accounts Rules, the reporting accountant has to be a member of one of five professional bodies and must also be a registered auditor (or a manager or employee of one).¹ They will have professional obligations (for example to make proper examination of records). Allowing accountants to adopt testing processes that are appropriate to the particular firm and focusing the qualified reports on material breaches is likely to provide reports that are of more benefit to the firm and, if disciplinary proceedings are necessary, to the SRA and the SDT.
- 11 We accepted the need to provide more guidance to firms and accountants in relation to the reports and testing procedures – this issue is covered below.

Question 2: Do you agree with the revised criteria for qualification as reflected in amendments to the format of the accountant's report located at Annex 1?

- 12 Respondents were broadly in agreement with the proposal whilst again noting the need for clear guidance, with a number of respondents in particular seeking clarity on what might be considered 'substantive' in relation to compliance with the rules.
- 13 The Law Society stated: 'We agree with the proposal but in order for it to be effective accountants will need some guidance on what might be considered a serious deficiency in each area to ensure consistency in qualification and reporting. Lack of guidance for COLPs and COFAs on reporting material breaches has led to considerable confusion and a variation in reporting practices. We would not want to see this repeated for reporting accountants'.
- 14 One respondent highlighted a benefit in targeted criteria, responding that '[the revised criteria] remove considerable information which previously appeared to have limited value and took time to collate and created unnecessary costs.'

¹ See Account Rule 34.1

- 15 The Solicitors Disciplinary Tribunal noted that there should be 'clear and unequivocal guidance to the accountant as to the SRA's expectations to ensure compliance with the relevant regulatory objectives'.
- 16 A minority of respondents were not in favour of guidance from the SRA, with the City of London Law Society noting that 'any such guidance would naturally acquire considerable authority and may come to confine the accountants' discretion', preferring that any such guidance 'should be developed by the accountancy professional bodies for their members'.

SRA Reply

- 17 In responses to this question and to questions 1 and 6 a significant number of respondents highlighted the need for further guidance. We took the view that it was important to develop this guidance collaboratively and to take on board the input of both legal practitioners and of accountants and their representatives.
- 18 The revised accountant's reports form and new draft guidance were discussed with that group, and have been amended where appropriate to reflect comments made at the discussion and subsequently by e-mail². We also circulated the documents to our small practices and sole practitioner's virtual reference groups for further comments.³The guidance is intended for both firms and accountants and subject to any comments from Board members will be published online following this meeting.
- 19 In response to points made by respondents, the guidance specifically sets out the new approach. In our view, the report should only be qualified where the breaches identified are material and are therefore likely to put client money at risk. It clarifies that, whilst we recognise that trivial breaches of the Accounts Rules do occur in many firms, we are not expecting all identified breaches to be notified to us in the form of a qualified report. It goes on to provide assistance to accountants in deciding when breaches are material and when reports should be qualified; setting out (in section 2 of the guidance) some indicative factors indicating a significant weakness in the firm's systems and controls, such as a significant and/or unreplaced shortfall on client account. Further, it includes a table setting out particular checks and controls that the accountant might wish to perform if appropriate for the firm (section 3), highlighting 'best practice', 'adequate practice' and 'below adequate practice'. 'Below adequate practice' could lead to qualification, depending whether there is a risk to client money. The 'best practice' element of the guidance – which was welcomed by members of the working group - is there to assist firms in benchmarking their accounting processes and making improvements should they wish to do so.

Question 3: Do you have any specific comments on the proposed revisions to the format of the accountant's report in particular do you think: a) that the wording covers the main areas accountants should be reporting on? b) that the level of detail we suggest is given by the accountant in the report if deficiencies are found is right?

- 20 One respondent highlighted that the SRA is 'obviously looking towards a risk-based approach towards the issue and it follows that the wording needs to cover this more modern and useful approach'.

² The Law Society also submitted some further comments from Committee members and practitioners.

³ These were set up as part of our package of small firms initiatives – see <http://www.sra.org.uk/smallfirms/>

- 21 Broadly the comments on the specific formatting of the accountant's report came from the accountancy firms, the majority of whom were in favour of the changes, noting they were 'supportive of a slimmed down version of the report' and 'we do believe that the wording covers the main areas that accountants should be reporting on'.
- 22 The ICAEW suggested that 'the space provided on [the report] for any matters in relation to deficiencies in the firm's systems of where the accountant has not been able to satisfy him/herself may not be sufficient for the level of detail that is needed here.
- 23 A number of respondents, including one firm of accountants offered more detailed comments and assistance in finalising the AR1 form and associated guidance for accountants.

SRA Reply

- 24 We have produced a revised report form, taking into account the comments of respondents and the further process of development via the working group set out above.

Question 4: Do you think that the revised approach will have an impact on fees charged by accountants to do the work?

- 25 A number of respondents felt that the revised approach would lead to an increase in fees, with one respondent noting that 'reporting accountants will be inclined to perform more work rather than less, resulting in an increase in fees for law firms'.
- 26 The Law Society said that the impact of the changes needed to be assessed. They stated 'If the SRA confirms that the current system for undertaking an accountants' review will be acceptable in future the impact on fees for many firms will be limited, as many will chose in the short term to continue with the same tests. However, there will be flexibility for firms who wish to do so to have more tailored reports prepared. It is likely that these reports will be more expensive, as they will be individualised audits. If, however, the SRA does not deem that the existing procedures are acceptable under the new scheme and there is a need for new sets of procedures to be designed for these types of reviews there will inevitably be an additional cost.'
- 27 The ICAEW, amongst others, felt that with the SRA's stated intention to reform the Accounts Rules in 2016, that there would be extra costs for accountants and firms coming to terms with a new system that would then be subject to more radical change a further 6-12 months later. They recognised that 'the cost of work could rise again as the accountant revises or devises new work programmes to address [these] changes'.
- 28 A number of respondent accountancy firms felt that costs to Reporting Accountants would increase due to the transition to the proposed reporting requirements and suggested that these would be recovered from increased fees. Additionally, they suggest that if the revised work programme of reporting resulted in increased time costs, that their on-going fees would also increase.
- 29 The Liverpool Law Society felt that 'the additional time spent and increased risk [for the accountant] will be passed on in the fee charged to the firm'.
- 30 The City of London Law Society on the other hand stated that 'Whilst this approach is likely to remove some unnecessary activities which are currently driven by the

checklist, this will be counterbalanced by some additional work in assessing the risks presented by the client firm, and in planning the audit programme to effectively address the client's risk profile. On balance, we do not believe that the revised approach should have any material impact on fees charged, but the investment should produce a better report which is more relevant to the firm.'

- 31 Other respondents concurred that the impact on costs would be neutral, or felt that there would be a decrease in costs. One firm of chartered accountants stated "Under the old 'tick and bash' approach one used relatively inexperienced staff, properly supervised, whose work could be reviewed by someone more senior. By moving to a risk-based approach, more senior people will need to be involved in the work, as only they will have the experience to identify when there could be a problem. These factors will tend to balance each other out, so overall I don't predict a huge change in cost".
- 32 The Sole Practitioners Group stated that "one would hope that less detail than potentially unnecessary checking should give rise to a lower level of fees. No doubt accountants will be guided significantly by the level of expertise of those involved in preparing the books of account and if previous experience shows few deficiencies if any then of the time spent on a subsequent report may be significantly reduced."

SRA Reply

- 33 We have carefully considered the issues of potential cost of implementation raised by the respondents.
- 34 There are no changes to the Accounts Rules in relation to how firms should treat client money. This means that firms do not have to design new internal accounting procedures to accommodate the reforms.
- 35 Instead the new approach is intended to achieve two results. Firstly, as set out above, it means that reporting accountants will not feel obliged to qualify reports for non-material breaches to the Accounts Rules that do not put client money at risk.
- 36 Secondly it provides discretion to reporting accountants as to how to assess whether the Accounts Rules are complied with. We are no longer prescriptive in terms of how the accountant must assess that compliance. The guidance contains advice on how they might wish to do so in discussion with firms and in accordance with their professional judgment bearing in mind the firm's size and complexity, areas of work, systems and controls and compliance history. If firms wish to agree with their accountants to continue using the current prescriptive sampling method as a way of carrying out that assessment they are free to do so provided that this gives them the information needed to properly complete the form we require. Further, if firms have already commenced work with their accountant for the next accounting deadline, they are not obliged to change the procedures.
- 37 This means that any upward impact on accountant's fees as a result of these reforms will be limited.
- 38 Given this position, we consider that it is appropriate to make these changes now before wholesale change of the Accounts Rules themselves. The SRA's reform programme in this area, as in others, involves a number of stages. There are no doubt many issues that will arise in preparation and consultation on a set of new Accounts Rules and any implementation should allow adequate time for these issues to be

resolved. What is important is that the changes implemented now in stage 2 are consistent with the general approach that will be taken later.

- 39 Focusing the accountants report on the safety of client money rather than on checklists or minor breaches of technical requirements is an approach that will match our intentions in relation to the Accounts Rules as a whole.

Question 5: Do you consider that the revised approach will have any impact on attitudes to compliance by COFAs/the firms?

- 40 Many respondents recognised that the revised approach put a greater emphasis on systems and processes for the firms, with one large firm of accountants noting that the 'revised framework will encourage COFAs and firms to improve their systems and implement suggestions made by their advisers'. The Association of Chartered Certified Accountants (ACCA) agreed and noted that 'any impact is likely to be positive' and 'this should encourage greater engagement with the accounting requirements by both COFAs and firms'.
- 41 A significant minority were concerned that 'individuals responsible for client money may view the proposals as a relaxation of the Rules and this in turn could result in a more lax attitude towards them'.

SRA reply

- 42 These changes should encourage COFAs and firms to take a more purposive approach – our publication of best practice advice in the guidance will help firms to increase standards. Although the new guidance confirms that generally, accounts do not need to be qualified for non material breaches, this does not reflect a relaxation of the rules themselves but is a statement of the position that the SRA takes in relation to breaches of rules generally; see also guidance note (x) to Rule 8 of the SRA Authorisation Rules 2011.

Question 6: Do you think that the proposed changes should be supported by separate guidance to aid the accountants in the work they should be undertaking?

- 43 Respondents strongly endorsed the need for guidance and a framework to provide accountants with the tools they need to do their work objectively, with the ICAEW noting that 'in the absence of any guidance from the SRA there will be an expectation gap and too much room for interpretation which could result in inconsistencies in the level of work performed and hence assurance provided.'
- 44 The Law Society stated that 'it is essential that guidance that sets out the removal of prescription does not negate the need for accountants to undertake all necessary tests to ensure themselves of the firm's compliance with SRA requirements.'
- 45 A number of respondents, including one firm of accountants, offered to assist the SRA in producing guidance to aid accountants in meeting the new requirements.

SRA reply

- 46 We have developed further guidance in discussion with stakeholders as set out above.

Question 7: Do you consider that it would be helpful to require a declaration of compliance by the firm with their obligation to obtain/deliver a report in accordance with the Accounts Rules as some stakeholders have suggested to us? If you do it would be helpful if you could explain why.

- 47 One respondent noted the comments provided by the SRA in the consultation and re-highlighted that 'if a law firm was in a position of not complying they may well also be satisfied to falsely declare... on balance we tend to agree that a separate annual declaration by a firm that it has complied with the SRA Accounts Rules has limited value.'
- 48 Many other respondents concurred with the view of the SRA, that it was unnecessary to ask firms to sign a specific declaration of compliance with the Accounts Rules.
- 49 Those respondents that favoured a declaration felt that it would focus the mind of the firm on compliance.

SRA reply

- 50 Our view remains that it is inappropriate to 'regulate by declaration' and that firms should comply with all the rules in the Handbook. We consider that asking firms to sign a declaration of compliance as part of the annual bulk renewal process will not add value in real terms and we concur with those respondents who felt that we should not introduce this change.

Question 8: Do you think that the existing obligations on reporting accountants to notify us immediately of significant concerns during the course of preparation of their reports should be tightened or enhanced in any way?

- 51 Respondents overwhelmingly felt that the current obligations were sufficient and acceptable, including one respondent firm which noted that 'Reporting Accountants are already obliged to report on fraud and concerns over the firm's ability to meeting its commitments to clients and the SRA'.
- 52 The Sole Practitioners Group noted 'there is a rigorous requirement of accountants to report fraud, dishonesty or improper use of a client account and there is no particular reason why that should change or require to be tightened up.'
- 53 The Law Society stated 'There is the potential for a firm with a qualified report not to submit it to the SRA. While we do not believe the duty needs to be enhanced, it is therefore important that all accountants are reminded of their duty to report to the SRA if client money is at risk.'

SRA reply

- 54 We agree that the existing reporting obligations are generally adequate. However, we have added a requirement in the standard terms of engagement in Account Rule 35.1 for the accountant to notify us immediately if they discover that a previously qualified report has not been filed. The guidance for reporting accountants also contains a reminder of their duties to immediately report to us any evidence of theft or fraud or significant concerns about the fitness and propriety of the firm to hold client money. The Rules also impose a requirement on the firm and the accountant to retain a copy of the report for at least 6 years (increased from 3 years in the current rules).

Question 9: Do you think we should be exploring the option to require reporting accountants to deliver reports to us as opposed to leaving the obligation on the firms?

- 55 Although the majority of respondents felt strongly that the obligation should remain with the solicitor firms, there were a small minority of responses from the accountancy sector who felt that the option should be explored.
- 56 One respondent firm highlighted that 'as the regulated firm, with the responsibility for compliance to its regulatory body, we feel the obligation to submit reports must remain with us... rather than a third party.' The SDT also noted that [requiring reporting accountants to deliver reports directly to the SRA] may also further increase accountants' fees in response to what they will probably perceive as an extra layer of responsibility placed on their shoulders'.
- 57 A respondent accountants firm recognised that there 'is a potentially greater risk of differences of opinion between firms and the Reporting Accountants [as a result of the proposals for change]. It is important that the Reporting Accountant is able to report their findings and opinions to the SRA in these situations as they will typically represent higher risk instances'.
- 58 The Law Society felt that the obligation should remain on the solicitor's firm but did suggest that 'the new simplified report could be submitted electronically to limit the work for the SRA'.

SRA reply

- 59 We will retain the current position. The responsibility to comply with the rules lies with the firm, and those respondents that represented solicitors were particularly clear that we should not change the current requirement. We will look into options for electronic filing in line with the further development of the SRA's systems.

Question 10: Do you agree with the proposal to introduce risk-based criteria that will exempt firms with a certain profile from the requirement to obtain and deliver an accountant's report?

- 60 A significant number of respondents felt that this approach would have merit if based on the SRAs experience of risk and loss to clients, with the ICAEW noting 'we would be supportive of proposals to introduce risk-based criteria that might exempt certain firms from the requirement... where empirical evidence supports their low risk and where mechanisms were in place to ensure that the criteria were being adhered to.'
- 61 ACCA stated 'Subject to appropriate criteria being identified, ACCA supports this proposal, as it represents a further move towards proportionate regulation.'
- 62 The Law Society said: 'We agree that there may be some firms who could be exempted from the requirements on a risk basis. However, the SRA has provided no evidence that the categories of firms it has selected are less risky than those who are required to submit a report.'
- 63 Some other respondents opposed the idea taking the view that any risk to client money was unacceptable.

SRA reply

- 64 No system can provide a guarantee of 100% client protection – and indeed to do so would disproportionately increase the costs of regulation and therefore act as a barrier to firms entering the market and/or increase costs to consumers. The aim must be to ensure any safeguards or requirements are appropriately targeted at areas of highest risk, both in terms of the likelihood of that risk materialising and the nature of any harm that might result. The maximum client account levels we have proposed will limit the degree of harm that can arise in exempted firms (see our reply to Question 11 below). Further, we note that other consumer protections exist (such as compulsory professional indemnity insurance and the compensation fund, should risks materialise). Therefore, as a matter of general approach, we do consider it appropriate to continue to impose a blanket requirement to obtain a report from all firms, particularly given that this is not the only way for serious concerns about risks to client money to be brought to our attention.

Question 11: Do you agree that our proposed criteria capture a lower level of risk to client monies? Are there any concerns that these criteria pose an unacceptable level of risk to client monies? Or do you think we have missed other criteria?

- 65 Although several respondents gave a cautious response, seeking further evidence of the risk profiles of the firms that would not be required to submit a report, there was significant support for the suggested approach of providing additional categories of lower risk firms that would not have to submit accounting reports.
- 66 A number of respondents (including ACCA) agreed that the average aggregate balance on a client account. Other respondents pointed out the need to look at maximum balances and/or a power to require reports from exempted firms in exceptional circumstances. For example, ICAEW stated
- “The criteria suggested could also mask large sums of client monies held for small periods so it might be preferable to have an additional one off limit at any point in time”.
- 67 Others such as the Sole Practitioners Group felt that we should consider not exempting firms that carry out certain activities e.g. estate administration work or conveyancing. A number of respondents stated that we should define the aggregate limit carefully to avoid possible manipulation of the rule, for example by specifying that average should be set as the ‘mean’ and including all separate client accounts held by the firm. There were also suggestions (for example from a large firm of accountants) that the number and value of transactions should be considered.
- 68 The Manchester Law Society suggested that the SRA analyse the compensation fund payments to assist in determining the criteria for capturing a lower level of risk and that in the interim the SRA may also wish to review the average balance criteria for waivers (currently set at £10,000).
- 69 One respondent suggested that, as an alternative to removing the requirement for low risk firms, that instead these firms could be required 'to deliver an Accountant's Report on a rotation basis, perhaps every two to three years'.

- 70 Those respondents that had opposed the exemption of any firms from the requirement tended to repeat their opposition in response to this question.

SRA reply

- 71 'In the consultation paper we stated that 'our current thinking that the appropriate criterion is to exclude the firms which hold an average balance of client funds of less than £10,000 in each accounting year'.
- 72 We consider that the £10,000 limit consulted upon remains an appropriate test, subject to the suggested addition below and based on the risk assessment set out in the succeeding paragraphs. We have used client money information supplied by firms as part of the annual bulk practising certificate renewal exercise (PCRE) which includes average, maximum and minimum balances. These values are based on reconciliations that are in effect snapshots which in accordance with the Accounts Rules must occur at least once every five weeks but can occur much more often. The frequency of the reconciliations will affect the average produced. Our analysis of client money data has shown us that the proposed category of firms that have a £10,000 or less average client account balance over the year includes some firms that hold very significant maximum amounts of client money, potentially on a one-off basis. This includes firms who have a maximum client money balance of many multiples of the average - including some firms with a maximum over £1 million.
- 73 We therefore consider that as well as imposing a maximum average client balance we should use an additional criterion. Although we do not hold data on the number or type of transactions that firms carry out, we do hold data on their maximum client balance. We believe that this is a reasonable measure as it links clearly to the impact of any failures. We therefore decided that in order to be exempt, firms should have had a maximum client balance of no more than £250,000 at any reconciliation point during the accounting year. This would require any firm that carries out anything more than a negligible amount of conveyancing or estate administration activity to continue to obtain an accountant's report, such that there is no need to formally exclude those activities from any exemption.
- 74 Applying both of these criteria (average client account balance of no more than £10,000 and a maximum balance of no more than £250,000) would exempt 1014 firms from the need to file an accountants report based on data we collected as part of the November 2014 PCRE. This is around 13% of firms who reported holding client money. We will refer to these firms as the 'exempted firms'.
- 75 We made a number of comparisons of the relevant risks posed by the exempted firms compared to 'all firms' - the general population of firms that hold client money⁴.
- 76 Details of these comparisons are set out in our Impact assessment. Our conclusion overall is that exempted firms are significantly lower risk in areas relating to client money and accountant's reports than the general population of firms that hold client money. This does not mean that as a category these firms are entirely risk free –but we are satisfied that the risk is at a tolerable level and that given that other consumer protections such as compulsory professional indemnity insurance exist it is not appropriate to continue to impose a blanket requirement to obtain a report.

⁴ Firms that do not hold client money were excluded from the analysis.

- 77 We recognise that some firms within the exempted firms' category may present particular risks. The draft amendment Rules retain the right for the SRA to require individual firms within the exempted category to obtain and/or submit accountants reports. Reported matters and other intelligence will lead us to investigate individual firms where needed and to impose immediate conditions requiring them to obtain reports on an annual or more frequent basis if the risk posed require such action⁵. Some practitioners are already subject to special accounting report requirements by virtue of such conditions on their practicing certificate and these requirements will remain in place even if the firm within which they work would otherwise be within the exempted category.
- 78 The exclusion will of course only apply to firms in respect of an accounting period in which they meet the criteria. If in any subsequent period the amount of client money held will exceed either of the limits then the firm will be required to obtain a report for that period.
- 79 We considered whether it was appropriate to specifically exclude any new firms from the exempted category – so that, for example, we would continue to require all firms to obtain an accountant's report in their first two years of operation. However, we decided not to recommend such action. Many new firms will be managed by solicitors with good records whom we already regulate and such firms will not be inherently risky. Any particular concerns raised by an individual application for authorisation can be dealt with by our Authorisation Directorate who will retain a power to impose a requirement to obtain and/or submit a report when considering applications.
- 80 We have retained the requirement that all firms (including those that will be otherwise exempted) which close down or otherwise cease to hold client money should obtain a 'ceasing to hold accountant's report' to ensure that they have properly accounted for all client money.
- 81 We do not hold the data to specifically assess whether firms that only hold client money on account of costs and disbursements presented lower risks as a group. However we consider that the great majority of these firms will be included in the proposed exclusion category in any event.
- 82 The amendment Rules therefore exempt firms from the requirement to obtain an accountants report if during the relevant accounting year they have had an average client account balance of £10,000 or less, and a maximum client account balance of £250,000 or less. (Firms are already used to collating this data for PCRE so the burden of doing so for these purposes should be lessened). As suggested by respondents we define the average balance figure by reference to the mean and we confirm that the total maximum balance is based on the total of all client accounts held, including for example all separate designated deposit accounts as well as general client account.

Question 12: Do you have any suggestions for themes or specific areas or issues we should consider in our forthcoming review of the Accounts Rules as a whole?

- 83 A number of respondents provided helpful themes and specific suggestions of issues that should be considered in the forthcoming review, in particular there was a general consensus that a more principle-based approach and a reduction in complexity would be welcomed. One respondent stated 'The accounts rules have been in place for a

⁵ See Rule 32.2

very long time and are long overdue a review so it is encouraging that this consultation is taking place in stages.The rules based approach should be more in line with OFR.'

84 Specific suggestions included:

- looking at the simplified approach to the Accounts Rules proposed for overseas firms as a precedent;
- modernising the rules to reflect the realities of internet banking;
- removing the prescriptive timetable in Rule 17 on transferring costs to office account;
- dealing with changed VAT and third party funds issues.

Other comments from the respondents

85 Alongside responses to the consultation questions, a small number of respondents provided additional commentary on the proposals. The City of London Law Society restated concerns over whether it 'is proportionate or necessary to tackle [the issues of this consultation] now and separate from the wider review [phase 3], and whether the benefits accruing from doing so adequately compensate for the disruption and risks it entails for both form and the accountancy profession.'

Appendix 2 - Respondents to the Consultation

Type of respondent	Responses
Law firms / solicitors	14
Accountancy firms	16
Representative groups, trade and membership associations	7
Local law societies	4
Other	1
TOTAL	42

This list includes only those who have agreed to their names appearing in a list of respondents.

Law firms and solicitors in private practice

A L Hughes & Co
Carol Ann Gregorious
DJM Solicitors
Gordons LLP
Janes Solicitors
John Cooke
Lane & Co Solicitors
Mayfield Bell
Reeves & Co LLP
Rix & Kay Solicitors LLP
WH Law LLP

Accountancy firms

Armstrong Watson
Baker Tilly
Crow Clark Whitehill LLP
D A Locke & Co
Deloitte
Francis Clark LLP
Grant Thornton UK LLP
Harwood Hutton
Hazlewoods LLP

Martin Briggs & Co
Mazars
Menzies LLP
MHA Accountancy Network
PwC UK
Ryecroft Glenton
Wilkins Kennedy LLP

Representative groups, trade and membership bodies, professional bodies

Association of Accounting Technicians
Association of Chartered Certified Accountants
Institute of Chartered Accountants in England Wales
Institute of Legal Finance & Management
Junior Lawyers Division's of The Law Society
The Law Society
The Sole Practitioners Group

Local Law Societies

City of London Law Society
City of Westminster and Holborn Law Society
Liverpool Law Society
Manchester Law Society

Other

Solicitors Disciplinary Tribunal