

Draft/SRA's Guidance to Reporting Accountants and firms on planning and completion of the annual Accountant's Reports, under Rule 32 of the SRA Accounts Rules 2011

INTRODUCTION

We require firms to obtain an independent Accountant's Report to confirm that the overarching objective in Rule 1.1 of the SRA Accounts Rules 2011 (the Account Rules) is met – namely that client money is kept safe. Rule 1.2 sets out in more detail the principles that firms must meet to fulfil this overarching objective, including the delivery of annual Accountant's Reports.

We have modified our approach to the provision of Accountant's Reports to rely more on the Reporting Accountants' professional judgement when preparing and finalising the Report and to require only qualified Reports to be submitted to us. This guidance is intended to assist both the Accountants and the firm's COFA and managers in completing the Report, the current form of which can be found on our website.

If during an accounting period, firms have met certain criteria around i) the small amounts of client money held (an average of less than or equal to £10,000 as well as a maximum of less than or equal to £250,000) or ii) the holding or receipt of money only from the Legal Aid Agency, they may be exempted from the requirement to obtain an Accountant's Report; for further detail see Rule 32.

Rule 39 of the Accounts Rules, which required Accountants to undertake a lengthy standard number of detailed checks and tests when examining a firm's accounting records, has now been removed. Instead, Rule 38 requires the Accountants to use their professional judgement in adopting a suitable work programme and in deciding whether their subsequent Report needs to be qualified.

In our view, the Report should only be qualified where the breaches identified are material and likely to put client money at risk. (See section 2 and 3 below for examples.) 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 accept that in light of the current prescriptive nature of the Accounts Rules, both the Accountants and the firms which instruct them may need some assistance and guidance at this time in:-

- planning what work might need to be undertaken and how to assure that client money is properly safeguarded ; and
- assessing what factors might lead to the Accountant to decide that the Report should be qualified and therefore submitted by the firm to us for further consideration of the risks posed.

We will keep this guidance under review and update it, as necessary.

Please note that we have also issued separate guidance on accounting procedures and systems that Reporting Accountants and firms will wish to have regard to – see SRA Guidelines – Accounting procedures and Systems.

We appreciate that some firms may wish to ask their Reporting Accountants to undertake additional work around the firm's systems and controls to aid the development of best practice, around compliance issues such as the effective operation of office account, the firm's compliance with the "client due diligence" requirements of the Money Laundering Regulations and cyber security. Ultimately this will be a matter for the firm to consider what it may need. This Guidance is therefore only designed to set out the areas of work that a Reporting Accountant may wish to consider to enable the completion of the Accountant's Report and the reporting of appropriate concerns to us. Our aim is to ensure that both we and the firms we regulate have an appropriate level of assurance that there are adequate controls over client money while not inflating inappropriately the cost to firms, and ultimately to consumers, by any unnecessary mandatory procedures.

The contents of this Guidance are not mandatory although we would expect both firms and the Accountant to have read it carefully prior to commencing their programme of work.

Please remember that Reporting Accountants are under a duty pursuant to Section 34(9) of the Solicitors Act 1974 and the terms of their engagement with firms 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 (see also Rule 35.1 of the Accounts Rules). The duty also extends to reporting to us a termination of the Accountant's appointment based on an intention to issue a qualified Accountant's Report. If the Reporting Accountant considers that their work has been limited in scope to the extent that they feel unable to make the declarations required on the Accountant's Report form, then they should qualify the report on that basis. We have recently extended the obligation to also inform us immediately if the Reporting Accountants discover a failure by the firm to submit a previously qualified Accountants' Report to us as required by the Accounts Rules (see Rule 32).

About this Guidance

This Guidance has 3 sections:-

- the provisions of the Accounts Rules that need to be considered by the Reporting Accountant and which need to be covered by the Accountant's Report
- the sorts of factors which we consider may lead to notification of issues and hence submission of the Accountant's Report
- a table setting out some examples of the types of checks or test procedures that may be undertaken by the Accountants and some guidance about the types of results/situations the Accountants and the firm's COFA and managers may expect to see in an above adequate, adequate and below adequate firm.

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SECTION 1

We only require Reporting Accountants to assess compliance with the provisions of certain elements of the Accounts Rules. These provisions are set out below:

- Rule 1 – The overarching objective and underlying principles
- Rule 7 – Duty to remedy breaches
- Rule 13 – Client accounts
- Rule 14 – Uses of a client account
- Rule 17 – Receipt and transfer of costs
- Rule 18 – Receipt of mixed payments
- Rule 20 – Withdrawals from a client account
- Rule 21 – Method of and authority for withdrawal from a client account
- Rule 27 – Restrictions on transfers between clients
- Rule 29 – Accounting records for client accounts.

If the circumstances outlined in Rule(s) 8, 9, 10, 15, 16 and 19 are applicable the Accountant is required to assess compliance accordingly.

SECTION 2

In view of the intention to rely on the Reporting Accountants' professional judgement, we do not consider it appropriate to define when a report **must** be qualified. The assessment requires an understanding of the seriousness of all the risks posed in the context of the firm's size and complexity, areas of work, systems and controls and compliance history. However, there are some areas where both our and the Reporting Accountants' experiences shows a risk to client money and which we would therefore expect may lead the Reporting Accountant to consider a qualification. Notwithstanding these matters, if the Reporting Accountant identifies a matter that he/she considers should be drawn to the attention of the SRA, the report should be qualified and submitted to the SRA. A law firm should not seek to prevent a Reporting Accountant from qualifying a report on the basis that the qualification does not fall into the factors set out below.

These factors (which are illustrative only and not intended to be exhaustive) include:-

Serious factors – the presence of one or more is likely to be material and/or represent a significant weakness in the firm's system and controls, and lead towards a definite qualification:-

1. A significant and/or unreplaced shortfall (including client debit balances or office credit balances) on client account, including client monies held elsewhere unless caused by bank error and rectified in a timely manner (see sections 3.1, 3.2 below).
2. Evidence of the wilful disregard for the safety of client funds by such action as the deliberate overriding of the SRA Accounts Rules 2011 and/or Accounting Guidelines.

3. Actual or suspected fraud or dishonesty by the managers or employees of the firm (that may impact upon the safety of client funds).
4. Material breaches have not been reported by the firm to us in accordance with the Authorisation Rules or the separate duty to report serious failure to comply with the rules in the SRA's Handbook or serious misconduct by any person in accordance with Outcome 10.3 and 10.4 of the Code of Conduct. This is in respect of material breaches that the Accountant becomes aware of as a result of work undertaken in respect of client money. A detailed assessment of the firm's financial position is not required.
5. No or wholly inadequate accounting records or records not retained. (Rule 29.17).
6. Significant failure to provide documentation requested by the Reporting Accountant.
7. Three way client account bank reconciliations not carried out (Rule 29.12).
8. Client account used as a banking facility (Rule 14.5).

Moderate factors – the presence of which one or more may be material and/or represent a significant weakness in the firm's systems and controls, and lead towards a potential qualification:-

1. A significant, fully replaced shortfall (including client debit balances or office credit balances) on client account, including client monies held elsewhere unless caused by bank error and rectified in a timely manner (see sections 3.1, 3.2 below).
2. Actual or suspected fraud or dishonesty by third parties that may impact on the safety of client funds
3. Material breaches that have not been reported to us within one month of identification in accordance with the Authorisation Rules.
4. Accounting records insufficient or unreliable (Section 3.7 below) or not retained for 6 years (Rule 29.17).
5. Three way client account bank reconciliations not regularly carried out at least every 5 weeks (Rule 29.12).
6. Poor control environment (Sections 3.3, 3.4, 3.5, 3.6 below).
7. Performance or review of three way bank reconciliations not adequate (Section 3.7 below).
8. Longstanding residual balances due to clients (Section 3.8 below).
9. Improper use of suspense accounts (Section 3.9 below).

SECTION 3

The purpose of this section is **not** to provide a mandatory or definitive list of all test procedures required to be performed in all circumstances by the Reporting Accountants. Its aim is to provide some examples of the sorts of areas of work that might be used by the Reporting Accountants to test compliance with the relevant Accounts Rules as set out in Section 1.

In all cases, we suggest that the Reporting Accountants discuss with the firm in advance the areas that they intend to cover in their work programme. It is, however, the Accountants' responsibility to ensure that the work they undertake is sufficient to enable completion of the Accountants' Report and proportionate and targeted to the size of firm and nature of its work.

Detailed below is an overview of some of the key rules and areas that the Reporting Accountant **may** wish to cover when planning the work they will undertake. Appropriate planning by the Accountant may mean that testing in one area may cover issues of compliance in other areas. For example, by

checking the client account bank reconciliation it may be possible to be satisfied that a number of the key rules are being complied with. Again the examples are not mandatory and are intended to be helpful to both the Accountants and the firms concerned.

The section also includes some guidance on what processes and procedures the Reporting Accountant may expect to see in an above adequate, adequate and below adequate firm. These are included to assist both the Accountant and the COFA and managers responsible for compliance with the Rules in knowing what good, average and poor looks like but we would only expect firms in the below adequate section to lead to the issue of a qualified report and if the factors set out in section 2 above are present.

Outcome of Reporting Accountant test procedures	General guidance	Examples of areas of focus (work should be proportionate, not all of these will always be relevant. Accountants should use their judgement in performing suitable work. Checking compliance with the Rules may be achieved by carrying out a selection of tests)	Guidance – indicative of firm with above adequate processes and procedures	Guidance – indicative of a firm with adequate processes and controls	Guidance – indicative of a firm with below adequate processes and controls that may lead to a qualification
<p>3.1 Client money in client account</p> <p>Have you seen any evidence of the placing of client money in any account or location other than a client bank account, or any delay in the placing of money into a client bank account, for a period of time that has resulted in a loss to a client or would otherwise give you concerns about potential fraud or losses to client money?</p> <p>Have you seen any round sum transfers between the client account and the</p>	<p>A delay of 5 working days over that required by the rules is considered likely to result in a loss to the client or is evidence of a lack of attention or focus on the rules, which require client money to be banked 'without delay' or to be transferred within 2 or 14 days.</p> <p>Round sum transfers between the client account and the office account may be indicative of client monies being improperly used to finance business operations.</p>	<ul style="list-style-type: none"> • Testing of office account receipts (to assess if receipts include client money). • Testing whether client money identified in the office account was transferred in accordance with the rules. • Testing whether client money received was banked in accordance with the rules. • Testing office account to client account transfers to identify number and reasons for such transfers. • Testing client bank 	<p>No incidents noted of client money being placed in any account or location other than a client bank account.</p> <p>No incidents noted of delays in placing client money into a client bank account (these include money in an office account that becomes client money through, for example, overpayments, credit notes issued to clients in respect of paid bills and cancelled cheques on disbursements).</p> <p>No incidents noted of transfers between client accounts and the office</p>	<p>Minimal incidents of client money being placed in any account or location other than a client bank account.</p> <p>In such incidents, the law firm rectified the issue promptly (within 5 working days), transferring client money to an appropriate client bank account.</p> <p>No incidents noted of banking client money into a client bank account with a delay of in excess of 5 working days (these include money in an office account that becomes client money through, for example, overpayments, credit notes</p>	<ul style="list-style-type: none"> • Client money was routinely placed in an account or location other than a client bank account and/or there were delays of over 5 working days above that required by the rules in transferring these funds to a client account. • Incidents were noted of a delay in excess of 5 working days in banking of client money into a client bank account (these include money in office account that becomes client money through, for example, overpayments, credit notes issued to clients in

<p>office account ?Rule 7, Rule 13, Rule 14, Rule 17, Rule 18</p>		<p>reconciliation (for example, to assess if reconciling items lead to banking of client money outside the timeframes in the rules or to identify round sum transfers in breach of the Rules).</p> <ul style="list-style-type: none"> • Testing office bank reconciliations (for example, to assess if reconciling items lead to banking of client money in the office account or to identify round sum transfers not required). 	<p>account that were not within the Rules and appropriately authorised.</p>	<p>issued to clients in respect of paid bills and cancelled cheques on disbursements).</p> <p>No incidents noted of transfers between client accounts and the office account that were not within the Rules and appropriately authorised.</p>	<p>respect of paid bills and cancelled cheques on disbursements).</p> <ul style="list-style-type: none"> • Round sum amounts were transferred out of client account without both authorisation and proper reason (for example, payment of a bill or a disbursement).
<p>3.2 Overdrawn client /credit office ledgers - shortages</p> <p>Have you identified any debit balances on client ledgers, or credit balances on the office ledger, for a period of greater than 14 days that indicate:</p> <ul style="list-style-type: none"> • the firm has used other clients' money on client matters; • client money has not promptly been placed in a client account; or • client money being inappropriately withdrawn from client account. <p>Rule 7, Rule 13, Rule</p>	<p>Law firms should have controls to avoid client debit balances arising and that prompt a regular review and investigation of office credit balances.</p>	<ul style="list-style-type: none"> • Test the computerised system to assess if debit balances can be created (for example, by processing a payment in excess of the balance held on client account in respect of a particular client). • Where debit balances can be processed, test debit balances that arose throughout the period and assess the timeframe taken to remove the debit balance – also understand why the debit balance arose. • Test documentation that supports regular 	<p>Systems and practices are such that debit balances do not arise.</p> <p>A listing of credit balances on the office ledgers is reviewed at least weekly and each credit balance is investigated, fully understood and action taken where necessary to remove client funds in office account.</p>	<p>Debit balances on client ledgers are reviewed at least weekly and necessary action taken to remove the debit balance. A listing of credit balances on the office ledger is reviewed at least monthly and each credit balance is investigated, fully understood and action taken where necessary to remove client funds in office account.</p>	<ul style="list-style-type: none"> • There are no processes in place that would routinely identify debit balances on client ledgers. • Debit balances that are identified through ad-hoc procedures are reviewed but either no action is taken to investigate and properly remove the debit balance or such action is not undertaken for over a month from the date of identification. • There are no processes in place to identify credit balances on the office ledger. • Office credit balances that are identified through ad-hoc

<p>14, Rule 17, Rule 18, Rule 20, Rule 21, Rule 27, SRA Guideline 2.7 and 4.5</p>		<p>review of office credit balances and check that action is taken to remove necessary office credit balances within one month of the date on which it was identified.</p> <ul style="list-style-type: none"> • Test office credit balances arising in the year to assess if any indicate that client money was in office account for an inappropriate length of time. 			<p>procedures are reviewed but either no action is taken to investigate and properly remove the credit balance or such action is not undertaken for over a month from the date of identification.</p>
<p>3.3 Withdrawals from client account</p> <p>Are withdrawals of client money made only in accordance with pre-approved authorisation procedures? Rule 20, SRA Guideline 4.1</p>	<p>It is important to check if payment withdrawals are made in accordance with authorisation procedures.</p>	<ul style="list-style-type: none"> • Test a sample of client account withdrawals to assess if appropriate client account withdrawals authorisations were in place at the time of the withdrawal. • Consider whether unauthorised withdrawals could be indicative of fraud/dishonesty 	<p>A formal client account withdrawals process is fully documented and adhered to. Withdrawals can only be processed once the proper authorisation has been obtained.</p> <p>Where electronic authorities are permitted, these are only made with a secure IT approval process (note: email approval is not considered secure).</p>	<p>A client account withdrawals process exists and is adhered to, but is not formally documented. Withdrawals can only be processed once the proper authorisation has been obtained.</p>	<ul style="list-style-type: none"> • A client account withdrawals process does not exist. • A client account withdrawals process exists but is not adhered to. • Unauthorised withdrawals from client bank account have been identified.
<p>3.4 Control systems</p> <p>Can the firm demonstrate that it has effective processes (both manual and IT) that are designed to ensure the integrity (i.e. working order) and security (access) over client accounting records</p>	<p>Effective IT systems may include – access controls, firewalls, software and hardware maintenance contracts.</p> <p>Effective manual systems may include – a system of operating controls to prevent misuse of client money and monitoring</p>	<ul style="list-style-type: none"> • Obtain documentation about how the firm controls their IT environment. • Ask the firm to demonstrate either by providing you with a copy of their, or by showing you, their IT access controls. • Accountants are not 	<p>A strong control environment exists which includes the following:</p> <ul style="list-style-type: none"> - The client accounting system is fully documented and includes notes over billing, payments, transfers, new client take on, etc. - Password access to the IT system/s and passwords 	<p>A reasonable IT control environment exists which includes the following:</p> <ul style="list-style-type: none"> - Password access to the IT system/s and passwords are changed at least annually. - IT user access controls are in place. - Program changes to the 	<ul style="list-style-type: none"> • The control environment does not include characteristics of the “adequate process and controls” noted opposite (<i>Note: the controls should be commensurate to the size and complexity of the law firm</i>). • The accountant has

<p>and money? Rule 29, SRA Guideline 5.5</p>	<p>controls that would identify such misuse.</p>	<p>expected to perform extensive work around the IT or manual control environment at the firm. But rather are expected to report any results based on the work that they <i>have done</i></p>	<p>are changed at least quarterly. - IT user access controls are in place. - Program changes to the IT system are always fully documented and approved before changes commence. - Leavers ID's and passwords are immediately removed from the IT system once they have left the law firm. - Firewalls are in place. - IT general controls are documented to a standard that is commensurate with the size and complexity of the business.</p>	<p>IT system are always fully documented and approved before changes commence. - Leavers ID's and passwords are removed from the IT system within one month of the individual leaving the law firm. - Firewalls are in place. - IT general controls are documented to a standard that is commensurate with the size and complexity of the business. - The client accounting system is not fully documented, but notes exist which support the necessary cycles, e.g. billing, payments, transfers, new client take on, etc.</p>	<p>identified, through their work, a control environment that is ineffective or not fit for purpose.</p>
<p>3.5 General control environment Have you seen any evidence where the systems have not operated effectively or where the firm has not been able to properly account to clients for client money held? Rule 7, Rule 13, Rule 14, Rule 17, Rule 18, Rule 29, SRA Guidelines</p>	<p>The COFA or a member of the finance team should (reporting results to the firm's managers) regularly review systems and processes and ensures they are fit for purpose in accordance with the requirements of the Rules. Reporting structures within the firm should be such that accounts staff readily report errors and systems weaknesses to the COFA.</p>	<ul style="list-style-type: none"> • Consider the firm's breaches register, the extent to which breaches are recorded, followed up. Reviewed, action taken. • Consider previous Accountant's reports. • Consider previous years' Accountant's reports and matters reported in those, where appropriate. • Internal audit • Complaints by clients? • Review list of non-moving client account balances 	<p>The COFA or a member of the finance team reviews the systems and processes at least annually and implements actions for improvement where appropriate. The COFA ensures action is taken for all issues included in the Accountant's Report (and any subsequent or additional work commissioned by the firm Also see points under 3.7 below.</p>	<p>The COFA, a member of the finance team or the Internal Audit team reviews the systems and processes every two to three years and implements actions for improvement where appropriate. The COFA ensures action is taken for all issues included in the Accountant's Report (and any subsequent or additional work commissioned by the firm Also see points under 3.7 below.</p>	<ul style="list-style-type: none"> • There is no formal review of the systems and processes. • No action is taken from the findings included in the Accountant's Report or any separate report issued to management. • Also see points under 3.7 below.

<p>3.6 General Compliance with the Rules</p> <p>Have you seen evidence of management review/controls designed to ensure compliance with the SRA Accounts Rules? SRA Guidelines</p>	<p>Firms are required to undertake three way reconciliations between the bank, cash book and client ledger listings at least every 5 weeks. There should be an evidenced, timely review of such reconciliations. Recommended processes would include regular staff (finance and legal professionals) training, breach log review, exception reports.</p>	<ul style="list-style-type: none"> • Testing of client bank account reconciliations, office bank account reconciliations, the three way reconciliation of the cash book, client ledger listing and bank accounts and the breach register (to assess if they have been reviewed by at least the COFA or another appropriate individual). • Where reconciling items appear on two consecutive monthly reconciliations, check that that they have been identified, challenged and appropriate steps have been taken to remove them. • Review of documentation supporting reviews performed by the COFA over the client money control environment. 	<p>The COFA, or another appropriate individual within the firm, performs a review on more than one occasion each month, of SRA Accounts Rules compliance, including a review of (i) client bank account reconciliations, (ii) office bank account reconciliations, (iii) three way reconciliation of the cash book, client ledger listing and bank accounts; and (iv) breach register. Evidence exists of challenge by the COFA and actions taken to improve the control environment.</p> <p>The COFA, or another appropriate individual within the firm, performs a review annually, or as appropriate, of the client money control environment and, where appropriate, takes action to improve processes.</p> <p>The COFA, or another appropriate individual within the firm, performs a detailed annual review of the training requirements for staff – both finance and legal professionals and ensures appropriate training is delivered to these individuals.</p> <p>If it is not the COFA who performs these tasks, there should be evidence of</p>	<p>The COFA, or another appropriate individual within the firm, performs at least a five-weekly review of SRA Accounts Rules compliance, including a review of (i) client bank account reconciliation, (ii) office bank account reconciliations, (iii) three way reconciliation of the cash book, client ledger listing and bank accounts; and (iv) breach register. Challenge by the COFA happens, but no evidence exists to support this.</p> <p>The COFA, or another appropriate individual within the firm, performs a review annually, or as appropriate, of the client money control environment and, where appropriate, takes action to improve processes.</p> <p>The COFA, or another appropriate individual within the firm, performs a detailed annual review of the training requirements for staff – both finance and legal professionals and ensure appropriate training is delivered to these individuals.</p> <p>If it is not the COFA who performs these tasks, there should be evidence of reporting to and review by the COFA.</p>	<ul style="list-style-type: none"> • No or insufficiently frequent bank reconciliations are undertaken • There is no review of one or more of the bank reconciliations or the breaches register. • The COFA, or another appropriate individual within the firm, performs ad-hoc and/or informal review of SRA Accounts Rules compliance, including a review of (i) client bank account reconciliation, (ii) office bank account reconciliations, (iii) three way reconciliation of the cash book, client ledger listing and bank accounts; and (iv) breach register. No challenge or action is taken by the COFA. • The same reconciling item (other than un-presented cheques) appears on two consecutive monthly bank reconciliations without clear evidence that it has been challenged by the COFA • The COFA, or another appropriate individual within the firm, does not perform an ad-hoc review at least annually of the client money control environment or
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			reporting to and review by the COFA.		<p>does not take action, where appropriate, to improve processes.</p> <p>If it is not the COFA who performs these tasks, there is no evidence of reporting to and review by the COFA.</p>
<p>3.7 Accounting records</p> <p>Does the firm operate a system that allows accounting records to be maintained in an up-to date manner and in compliance with the Rules Rule 29, SRA Guideline 2.3</p>	<p>Processes in place are designed to ensure between daily and weekly postings of transactions (depending on size of firm). Exceptions may arise due to circumstances where transactions are outside the ordinary course of business – evidence should exist of law firm’s timely investigation and follow up of such items.</p>	<ul style="list-style-type: none"> • Testing of client account receipts, payments, transfers. • Testing of office account receipts, payments and transfers. In all cases, this would be to assess if accounting records have been kept up to date under the appropriate timeframes. • Consider if the firm is able to, quickly and easily, account to clients for money held on their behalf. 	<p>All client and office transactions are posted to the accounting system by the end of the next working day.</p> <p>The law firm would, at all times, be able to account to clients for client money held.</p>	<p>All client and office transactions are accounted for, either in the system or through an alternative system (e.g. through use of spreadsheet before batch processing in the system) by 5 working days following the transaction.</p> <p>The law firm would be able to account to clients for client money held.</p>	<ul style="list-style-type: none"> • Client and office account transactions are routinely posted to the client account system in excess of 5 working days after the date of the transaction. • The firm does not have an accounting system that is commensurate with the size and complexity of the business and, as a consequence, cannot account to clients accurately for monies held.
<p>3.8 Failure to account</p> <p>Have you seen evidence of firms failing to return client money at the end of the matter? Rule 14.3 and rule 14.4</p>	<p>Residual client balances should be returned to clients at the end of a matter. Where this is not possible, there is clear documentation retained which supports the efforts made to return residual client balances.</p>	<ul style="list-style-type: none"> • Test the exception report of residual client balances to check that the firm has complied with the Rules. • If no exception report exists, obtain a listing of client matters where no time has been charged for at least 90 days and assess if residual client balances exist and the firm has complied with the 	<p>Residual client balances are always returned to clients at the end of a matter and, thus, residual client balances at any one time are rare.</p>	<p>Residual client balances are returned to clients, although, this can take up to 90 days. Residual client balances do exist at any one time; however, the finance team are aware of all of these and are in the process of returning the funds or of dealing with them in accordance with Rules 20.1 (k) and/or Rule 20.2.</p>	<ul style="list-style-type: none"> • The firm has no effective system in place for complying with Rules 14.3 and 14.4. • Significant – either in themselves or cumulatively - residual client balances are common and the firm cannot therefore return them to clients

		Rules.			
<p>3.9 Suspense ledgers</p> <p>Have you seen evidence of inappropriate use of a client suspense account? Rule 29.25</p>	<p>Where suspense accounts are used, this should be for temporary items only such as an unidentified receipt or payment.</p>	<ul style="list-style-type: none"> Identify if suspense accounts are used (recognising that they may be called alternative names such as miscellaneous or in the names of the Partners) Test the balances outstanding to check that they were posted for good reason and, if they are longstanding, that there has been appropriate review/challenge and an effective plan in place for their closure. 	<p>Where suspense accounts are used, items are usually no more than 5 working days old.</p>	<p>Where a suspense account is used, items are usually no more than 30 working days old.</p>	<ul style="list-style-type: none"> Widespread unjustified use of suspense accounts. No process for clearing suspense accounts or outstanding items not followed up.