

**The Law Society Compensation Fund  
Annual Report and Financial Statements  
For the Year ended 31 October 2016**

**Principal activites ..... 1**  
**Governance..... 2**  
**Operating and financial review..... 4**  
**Principal risks and uncertainties ..... 7**  
**Statement of financial control ..... 8**  
**Statement of the Society’s responsibilities in respect of the financial statements. 9**  
**Independent auditors' report to the Council of the Law Society..... 11**  
**Income and expenditure account for the year ended 31 October 2016 ..... 13**  
**Balance Sheet as at 31 October 2016 ..... 14**  
**Notes to the financial statements for the year ended 31 October 2016..... 15-21**

## **Principal activities**

The primary object of the Compensation Fund (the Fund) is to replace money which a defaulting practitioner or a defaulting practitioner's employee or manager has misappropriated or otherwise failed to account for.

The Fund makes discretionary grants to those persons who have either:

- suffered loss as a consequence of the dishonesty of a defaulting practitioner or the employee or manager or owner of a defaulting practitioner; or
- suffered loss and hardship in consequence of a failure to account for money which has come into the hands of a defaulting practitioner or the employee or manager or owner of a defaulting practitioner.

The majority of these grants arise from claims made following an intervention by the Solicitors Regulation Authority (SRA) into the practice of a defaulting practitioner.

Regulated individuals and licensed bodies are required to pay an annual contribution to the Fund. Contributions are determined and collected on behalf of the Fund by the Law Society of England and Wales (the Society).

## **Governance**

The Council of the Law Society (the Council), as the governing body of the Society has ultimate accountability for maintenance of the Fund in accordance with the SRA Compensation Fund Rules 2011 which are made under sections 36 and 36A of the Solicitors Act 1974, section 9 of the Administration of Justice Act, sections 21(2) and 83(5)(e) of, and paragraph 19 of Schedule 11 to, the Legal Services Act 2007 and an Order made under section 69 of the Legal Services Act 2007, S.I. 2011 No 1716, with the approval of the Legal Services Board under paragraph 19 of Schedule 4 to the Legal Services Act 2007.

The management of the Fund has been delegated by the Council to the Solicitors Regulation Authority Board (the Board) of the Law Society and the administration of the Fund is governed by the SRA Compensation Fund Rules 2011.

Reference throughout this document to “the Society” refers to the Law Society as a royal charter body which consists of the Law Society professional body (TLS) and the Solicitors Regulation Authority (SRA).

**Governance (continued)**

Members of the Board during the financial year under review were:

Enid Rowlands	Chair
Julia Black	Member
Graham Chisnall	Member until 31 December 2015
Martin Coleman	Member until 31 December 2015
Jane Furniss	Member
Bill Galvin	Member until 31 December 2015
David Heath	Member
Cindy Leslie	Member until 31 December 2015
Moni Mannings	Member until 31 April 2016
Paul Marsh	Member
Peter Phippen	Member until 31 December 2015
Chris Randall	Member
Shamit Saggarr	Member
Elaine Williams	Member
David Willis	Member
Sharon Darcy	Member from 1 January 2016
Barry Matthews	Member from 1 January 2016
Geoff Nicholas	Member from 1 January 2016
Dame Denise Platt	Member from 1 January 2016
Deep Sagar	Member from 1 January 2016
Tony Williams	Member from 1 January 2016

Chief Executive of the SRA:

Paul Philip

### **Governance (continued)**

The Board similarly delegated certain powers and duties during the financial year to the Finance and Resources Committee and the Standards Committee. These committees advise the Board on all policy and technical matters relating to the Fund and professional indemnity.

Members of the Finance and Audit Committee (previously Finance and Resources Committee) during the financial year under review were:

Graham Chisnall	Chair until 31 December 2015
Bill Galvin	Member until 31 December 2015
Peter Phippen	Member until 31 December 2015
David Willis	Member from 1 November 2015 Chair from 1 January 2016
Sharon Darcy	Member from 1 January 2016
Deep Sagar	Member from 1 January 2016
Shamit Sagar	Member from 1 January 2016

Members of the Policy Committee (previously Standards Committee) during the financial year under review were:

Julia Black	Chair
Jane Furniss	Member
Chris Randall	Member
Moni Mannings	Member until 31 December 2015
Elaine Williams	Member until 31 December 2015
Geoff Nicholas	Member from 1 January 2016
David Heath	Member from 1 January 2016

Given the Council's size (there are 100 places on the Council) the membership records are not shown here but are available on request and are included in the consolidated financial statements of the Law Society Group.

## **Operating and financial review**

### **Results for the year**

#### **Contributions**

Contributions are collected annually, as part of the annual practising fee collection process, by the Society on behalf of the Fund. These contributions form part of the overall Fund balance and may be used to provide cover for future claims in any year against the Fund.

A contribution of £32 per individual and £548 per firm which holds client money (2015: £32 and £548 respectively) was approved by the Board at their meeting in June 2016 relating to the practising fee year 1 November 2016 to 31 October 2017.

The contribution remaining as in the prior year, reflects the continued decision of the Council and the Board to reduce the sizeable reserves held in the Fund. The total budgeted contribution for the 2016/17 practising year was £8.5m which is consistent with the 2015/16 practising year.

Of the budgeted £8.5m in relation to the 2016/17 practising fee year, £6.5m had been invoiced at the end of October 2016 (2015: £6.5m) with the remainder being invoiced by the end of January 2017. Contributions recognised during the year totalled £8.8m compared with £9.1m in 2015.

#### **Investment income**

Investment income increased by £228k to £339k in 2016. This increase was due to an investment being made in longer term cash deposits which started in 2015 and had matured part way through the year. At the end of October 2016 the Fund had £40.8m in cash and investments compared with £39.7m at the end of October 2015.

#### **Grants paid and grant recoveries**

During the year to 31 October 2016 grants were made to the value of £10.3m (2015: £17.9m).

In 2016 grant recoveries were £10.9m, an increase of £3.9m from 2015 (2015: £7m). Recoveries are often received several months or even years after the initial grant is paid and therefore are not necessarily related to grants paid in the same year due to the accounting policies adopted. Grants are recovered primarily from Statutory Trust Accounts held by the Society (see below for further details).

The Fund received 1,504 claims in 2016 (2015: 1,174) and closed 1,397 (2015: 1,430). At the end of the year there were 399 open claims (2015: 292) with a total amount of £42.1m (2015: £36.8m) (see note 9 for further information). The average claim amount open at the year end is lower than in the prior year (2016: £106k, 2015: £126k).

## **Operating and financial review (continued)**

### **Statutory Trust Accounts (STAs)**

The Society is the Trustee of separate funds held as a result of interventions into solicitors' practices and as Trustee is responsible for ensuring that the funds are properly accounted for and distributed appropriately. These funds are held in STAs. The Fund is able to recover from the STAs and other avenues (e.g. insurers), via right of subrogation, grants it has made where the funds held can be identified as due to a claimant who has received a grant from the Fund.

Monies received by the Fund via right of subrogation during 2016 totalled £10.9m compared to £7.0m in 2015.

Once all reasonable and proportionate efforts have been made to trace beneficiaries, any residual balances remaining in STAs are transferred to the Compensation Fund. In 2016 the amount transferred was £1.0m (2015: £0.6m).

Of the total grant recoveries, £1.2m (2015: £1.5m) relates to monies recovered by cost recovery where the Fund is able to recover from solicitors, grants that have been paid out to former clients of those solicitors. The decrease in the year is due to timing of recoveries being remitted from the Society to the Compensation Fund with £0.5m of the 2015 recoveries being due for remittance at 31 October 2014. Remittances are now carried out on a monthly basis.

### **Administrative costs**

Costs incurred during the year in administering, maintaining, applying and protecting the Fund were £8.7m (2015: £10.5m). Almost all Fund administrative costs are incurred by the Society and recharged to the Fund in accordance with agreed methodology and cost allocation rates. The most significant element of the recharge relates to third party intervention and legal costs incurred by the Society, the remaining costs considered in calculating the recharge include Society direct staff costs and the Society's central services costs which incorporate Finance, Human Resources and Development, Facilities and IT. The administrative costs which are not incurred by the Society include bank charges and auditor fees.

### **Result for the year**

The surplus for the year was £2.2m (2015: Deficit £11.5m). The movement to a surplus from the deficit in the prior year mainly arises as a result of a significant decrease in the grants paid in the year coupled with an increase in grant recoveries.

## Operating and financial review (continued)

### Balance sheet and cash flow

Accumulated funds as at 31 October 2016 were £46.7m, compared with £44.5m as at 31 October 2015.

Reserves are expected to reduce throughout most of 2017 as the majority of the income in relation to the 2016/17 practising year was invoiced at the end of 2016. Contributions for the 2017/18 year are due to be collected from October 2017.

Analysis of open claims on the Fund along with the expected inflows into the Fund in the form of recoveries provides confidence that these reserves are sufficient to meet future obligations.

### Current assets

Current assets have increased by £2.2m overall. The balance in the bank has increased in the year by £1m as a result of the timing surrounding collections and payments.

The Fund's investments are now split between investments in Lloyds and Barclays Global Investors.

The amount held by the Fund in cash is intended to be kept at minimal levels required to support day to day requirements.

### Open claims

Due to the predominantly cash accounting nature of the accounting policies of the Fund, as explained in note 1, no liability is recognised within these financial statements for open claims received.

The movement in open claims open during 2016 & 2015 is shown in the table below based on the original claims value recorded:

	<b>2016</b>	<b>2015</b>
	<b>£'m</b>	<b>£'m</b>
Claims open at 1 November	36.8	43.8
Claims closed or deleted during the year	(106.1)	(93.6)
Net change in value of open claims	1.7	(0.7)
Claims received or reopened during the year	109.7	87.3
Claims open at 31 October	<b>42.1</b>	<b>36.8</b>

We have estimated the grants that may result from the claims outstanding at the end of 2016 and consider that the balances in the Fund are more than sufficient to meet the potential liability.



### **Principal risks and uncertainties**

As stated on page 1, the primary object of the Fund is to make discretionary grants to those persons who have either:

- suffered loss as a consequence of the dishonesty of a defaulting practitioner or the employee or manager or owner of a defaulting practitioner; or
- suffered loss and hardship in consequence of failure to account for money which has come into the hands of a defaulting practitioner or the employee or manager or owner of a defaulting practitioner.

As such the principal risk of the Fund is that it holds insufficient accumulated funds to settle authorised grants or that grants are made in inappropriate circumstances.

The above risks are mitigated by the fact that grants from the Fund are discretionary as outlined in rule 3.3 of the SRA Compensation Fund Rules 2011<sup>1</sup> (A grant out of the Fund is made wholly at the discretion of the Society. No person has a right to a grant enforceable at law). However, in practice the Society must act in the public interest when approving claims made against the Fund. As a result, should insufficient funds be available for grants the Fund considers it appropriate to make, the Society could enforce its powers to raise a special levy contribution against regulated individuals and bodies to fund the shortfall in accumulated funds. This would, however, carry reputational risk with these groups and therefore would be an action of last resort. The risk of inappropriate grants being made is mitigated by a maintaining a robust process of investigation and adjudication.

Note 9 provides further details of claims open at the year end.

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<sup>1</sup> A copy of the SRA Compensation Fund Rules 2011 is available online at <http://www.sra.org.uk/solicitors/handbook/compfund>

### **Statement of financial control**

The Board acknowledges that it is responsible for the system of internal financial control and has reviewed its effectiveness, having regard to the following key procedures:

- a clearly defined management structure with open lines of communication;
- an on-going review by the Board of the cost of claims in relation to the income and assets of the Fund;
- approval of annual expenditure budgets;
- a monthly review of actual expenditure against budget;

All decisions and payments pertaining to the Fund and STAs are governed by the SRA's schedule of delegations which was approved by the Board in February 2009 and most recently updated in June 2016. The Board reviews the effectiveness of the internal financial processes with financial management representatives and Deloitte LLP, our outsourced provider of internal audit services.

It must be stated that a system of internal financial control can provide only reasonable and not absolute assurance against material misstatement or loss.

## **Statement of the Council of the Law Society and SRA Board's Responsibilities in respect of the financial statements**

### **Council of the Law Society**

The Council of the Law Society is accountable for the maintenance of the Fund due to its responsibilities in law.

The financial management of the Fund has been delegated by the Council to the Solicitors Regulation Authority (SRA) Board of the Law Society.

### **SRA Board**

Under delegated authority from the Council of the Law Society, the SRA Board is responsible for the preparation of the non –statutory financial statements in accordance with the basis of preparation and accounting policies in note 1 and which show the position of the Fund at the end of the financial year and of any surplus or deficit for that period.

The SRA Board has taken responsibility for preparing non-statutory financial statements although there is no specific legal requirement to do so. The Council and SRA Board must not approve the non-statutory financial statements unless they are satisfied that they have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies in note 1 to the non-statutory financial statements.

In preparing these non-statutory financial statements, the SRA Board have:

- selected suitable accounting policies and then applied them consistently;
- made judgements and accounting estimates that are reasonable and prudent;
- stated the basis of preparation and accounting polices applied;
- prepared the non-statutory financial statements on the going concern basis

The SRA Board are responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund. They are also responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Statement of the Council of the Law Society and SRA Board's Responsibilities  
in respect of the financial statements (Continued)**

**Statement of disclosure of information to auditors**

In relation to Board members in office at the date the Board's report is approved, the following applies:

- so far as we are aware, members of the Board are not aware of relevant audit information that has not been disclosed to the Fund's auditors; and,
- appropriate governance arrangements are in place and are operated, such as by the activities of the SRA Finance & Audit Committee and the Business and Oversight Board;
- we and members of the Board are satisfied that, by the said governance arrangements, members of the Board have taken the steps that they ought to have taken as a member in order to make themselves aware of relevant audit information and to establish that systems and practices are in place so that the Fund's auditors are aware of that information.

Paul Philip  
CHIEF EXECUTIVE, SRA

Enid Rowlands  
CHAIR, SRA BOARD

Robert Bourns  
PRESIDENT OF THE LAW SOCIETY

Michael Garson  
TREASURER

Date:

## **Independent auditors' report to the Council of the Law Society**

### **Report on the financial statements**

#### **Our opinion**

In our opinion, the Compensation Fund's (the "Fund") financial statements (the "financial statements"):

- give a true and fair view of the state of the Fund's affairs as at 31 October 2016 and of its surplus for the year then ended; and
- have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies in note 1 to the financial statements.

#### **Emphasis of matter**

In forming our opinion on the financial statements, which is not modified, we draw attention to the fact that the accounting policies used and disclosures made are not intended to, and do not, comply with the requirements of United Kingdom Generally Accepted Accounting Practice.

#### **What we have audited**

The financial statements, comprise of:

- the Balance sheet as at 31 October 2016;
- the Income and Expenditure account for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is the basis of preparation and accounting policies in note 1 to the financial statements.

In applying the financial reporting framework, the SRA Board has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

### **Responsibilities for the financial statements and the audit**

#### **Our responsibilities and those of the Law Society Council and SRA Board**

As explained more fully in the Statement of Responsibilities set out on page 9 and 10, the Council of the Law Society has delegated responsibility for the financial management of the fund to the SRA Board. The SRA Board is responsible for the preparation of the financial statements in accordance with the basis of preparation and accounting policies in note 1 to the financial statements.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Independent auditors' report to the Council of the Law Society (continued)**

### **Our responsibilities and those of the Law Society Council and SRA Board (continued)**

This report, including the opinion, has been prepared for and only for management's purposes to assist the Council of the Law Society to discharge its stewardship obligations and fiduciary responsibilities in respect of the Fund under the Bye-laws in our engagement letter dated 12 September 2016 and for no other purpose.

We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund, save where expressly agreed by our prior consent in writing.

### **What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the SRA Board; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the SRA Board's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements for the year ended 31 October 2016 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

PricewaterhouseCoopers LLP  
Chartered Accountants  
London

**Income and expenditure account for the year ended 31 October 2016**

INCOME	NOTE	<b>2016 £'000</b>	<b>2015 £'000</b>
Contributions received in the current year	6	8,830	9,141
		<b>8,830</b>	<b>9,141</b>
Grant recoveries	7	10,862	7,009
Investment income received	3	339	111
Residual balances received from Statutory Trust accounts	7	967	622
<b>TOTAL INCOME</b>		<b>20,998</b>	<b>16,883</b>
<b>EXPENDITURE</b>			
Grants paid	2	(10,268)	(17,876)
Administration costs	5	(8,709)	(10,492)
Auditors' remuneration – audit fees		(36)	(23)
Income tax	4	209	(4)
<b>TOTAL EXPENDITURE</b>		<b>(18,804)</b>	<b>(28,395)</b>
<b>Surplus / (Deficit) for the year</b>		<b>2,194</b>	<b>(11,512)</b>
Fund balance as at 1 November		<b>44,498</b>	<b>56,010</b>
Fund balance as at 31 October		<b>46,692</b>	<b>44,498</b>

All activities derive from continuing activities. The notes on pages 15-20 form part of these non-statutory financial statements.

**Balance sheet as at 31 October 2016**

	NOTE	<b>2016 £'000</b>	<b>2015 £'000</b>
<b>CURRENT ASSETS</b>			
Investments – cash funds		33,915	33,882
Bank and cash		6,921	5,856
Emergency funding debtors	8	-	-
Money owed from the Law Society	7	<u>5,856</u>	<u>4,760</u>
<b>TOTAL CURRENT ASSETS</b>		<b><u>46,692</u></b>	<b><u>44,498</u></b>
<b>CURRENT LIABILITIES</b>			
Amounts owed to the Law Society	7	<u>-</u>	<u>-</u>
<b>TOTAL CURRENT LIABILITIES</b>		<b><u>-</u></b>	<b><u>-</u></b>
<b>NET CURRENT ASSETS</b>		<b><u>46,692</u></b>	<b><u>44,498</u></b>
<b>ACCUMULATED FUNDS</b>		<b><u>46,692</u></b>	<b><u>44,498</u></b>

The notes on pages 15-20 form part of these non-statutory financial statements.

The financial statements of the Compensation Fund were approved by:

Paul Philip  
CHIEF EXECUTIVE, SRA

Enid Rowlands  
CHAIR, SRA BOARD

Robert Bourns  
PRESIDENT OF THE LAW SOCIETY

Michael Garson  
TREASURER

Date:



## Notes to the financial statements for the year ended 31 October 2016

### 1 Accounting policies

#### *Basis of preparation*

The financial statements have been prepared in accordance with the following accounting policies. As the Fund is maintained and administered pursuant to sections 36 and 36A of the Solicitors Act 1974 as amended by the Courts and Legal Services Act 1990 and under the provisions of the Administration of Justice Act 1985, it is not required to prepare statutory financial statements or comply with applicable United Kingdom accounting standards or the Companies Act 2006 but has chosen to prepare non-statutory financial statements and have them audited as good governance.

The accounting policies adopted by the Fund are described below and these have been applied consistently.

#### *Cash flow*

No separate cash flow statement is prepared as the accounting policies adopted by the Fund are predominantly on a cash accounting basis.

#### *Contributions*

Fund contributions received in conjunction with Society practising fees are recognised in full when an invoice is raised following an application from a solicitor or a firm. The contributions relate to practising years which begin on the 1 November each year. These amounts are recognised in full and not deferred and therefore the financial statements include amounts invoiced in advance relating to the following year.

#### *Grants paid*

Grants paid by the Fund are discretionary in nature and are accounted for when paid. Grant authorisation is given by an adjudication panel or an authorised adjudicator under delegated authority from the Board.

#### *Grants recovered via right of subrogation from the STAs*

The Fund is able to recover from the STAs, via right of subrogation, grants it has made provided certain procedures are followed. Recoveries from the STAs are recognised when cash is received.

#### *Grants recovered from solicitors*

The Fund is able to recover from solicitors, grants that have been paid out to former clients of those solicitors. Recoveries from solicitors are recognised when cash is received.

## Notes to the financial statements for the year ended 31 October 2016 (continued)

### 1 Accounting policies (continued)

#### *Residual balances received from Statutory Trust Accounts*

Remaining funds held in Statutory Trust Accounts are transferred to the Fund once all reasonable efforts to establish and trace beneficiaries have been exhausted. Income from residual balances in Statutory Trust Accounts is recognised when the cash is received.

#### *Investment income*

Investment income is received monthly in the form of dividends and interest. Income arising on bank and cash amounts is received as interest. Investment income is accounted for when cash is received.

#### *Administration costs*

Administration costs are incurred by the Fund via a recharge from the Society in accordance with agreed cost allocation methodology and cost allocation rates. Administration costs are recognised when actually calculated and notified to the Fund by the Society.

Certain costs are incurred directly by the Fund and are recognised when paid.

#### *Taxation*

The Fund is only liable to taxation on its investment income at the basic rate and normal dividend rates of income tax and obtains no tax relief for its overhead expenditure. Charges for taxation are recognised when paid or received and no account is taken of deferred taxation assets and liabilities.

#### *Valuation of investments*

Investments, constituting managed cash funds, are valued at their mid-market value at the Balance Sheet date on a portfolio basis. Given the cash nature of investments, except in exceptional circumstances, the mid-market value of investments is £1 for £1. Should any movements in mid-market value occur they shall be recognised through the income and expenditure account.

Of the investments none were held under fixed term arrangements (2015: £25m recoverable in March 2016) and are all available for withdrawal with no more than seven days notice.

## Notes to the financial statements for the year ended 31 October 2016 (continued)

### 1 Accounting policies (continued)

#### *Going concern*

The level of reserves coupled with the fact that the Fund's grants are discretionary means the Board believe the Fund has sufficient funds available to it to meet future obligations as they fall due. The Society also has the power to raise an additional levy on regulated individuals and bodies between the annual collections if required. The Fund is therefore considered a going concern.

### 2 Grants paid

Grants paid in 2016 totalled £10.3m (2015: £17.9m).

### 3 Investment income received

	<b>2016</b> <b>£'000</b>	<b>2015</b> <b>£'000</b>
Dividends	33	55
Interest	306	56
	<u>339</u>	<u>111</u>

### 4 Income tax

Income tax is payable on gross dividends and interest earned during the year from money market funds and treasury deposits. Income tax falling due on investment income for the financial year totals £85k (2015: £23k).

On a paid and received basis and as reported in the income and expenditure account, £209k of income tax was received this year (2015: Paid £4k). This was due to a large rebate of £229k as a result of historic overpayments.

**Notes to the financial statements for the year ended 31 October 2016  
(continued)**

**5 Administration Costs**

	<b>2016</b> <b>£'000</b>	<b>2015</b> <b>£'000</b>
Direct cost of processing Compensation Fund claims	1,589	1,506
Direct cost of intervention and other legal costs	<u>5,183</u>	<u>6,601</u>
<b>TOTAL DIRECT COST</b>	<u>6,772</u>	<u>8,107</u>
Allocated cost of other regulatory activity that administers and protects the Fund	<u>677</u>	<u>567</u>
<b>TOTAL ALLOCATED COST</b>	<u>677</u>	<u>567</u>
Contribution to premises costs and other central overheads:		
Central costs contribution	<u>1,260</u>	<u>1,817</u>
<b>TOTAL CONTRIBUTION COST</b>	<u>1,260</u>	<u>1,817</u>
<b>TOTAL ADMINISTRATION COSTS</b>		
Recharged from the Society	8,709	10,491
Bank charges	<u>-</u>	<u>1</u>
<b>TOTAL ADMINISTRATION COSTS</b>	<u><u>8,709</u></u>	<u><u>10,492</u></u>

## **Notes to the financial statements for the year ended 31 October 2016 (continued)**

### **6 Compensation Fund contributions**

Contributions recognised in 2016 totaled £8.8m (2015: £9.1m) of which £6.5m (2015: £6.5m) related to the practicing year 2016/17. Of the budgeted £8.5m for the 2016/17 practicing year (2015: £8.5m) a further £2.2m (2015: £2m) had been invoiced by the end of January 2017.

### **7 Related party transactions**

The Society has ultimate accountability for the maintenance of the Fund and the STA's. Both the Society and the STA's are therefore considered to be related parties for the purpose of financial reporting.

The Society collects all Fund contributions on behalf of the Fund, as disclosed within the income and expenditure account. In addition the Society charges the Fund administration costs, as disclosed in note 5. Amounts due from the Society at 31 October 2016 are £5.9m (2015: due from the Society £4.8m) and are disclosed within the balance sheet.

Transactions with the STAs are recovery of grants under rights of subrogation and amounted to £10.9m (2015: £7.0m).

Further monies are also received from residual balances in STAs once all reasonable efforts have been made to trace beneficiaries. Any remaining funds are then transferred to the Fund and amounted to £1.0m in 2016 (2015: £0.6m).

Disclosure of related parties arising from Council members and Board members, included in recharged costs, are disclosed in the Society consolidated financial statements.

There are no other significant related party transactions.

### **8 Emergency funding debtors**

Emergency funding is provided to agents appointed by the SRA to complete transactions due at the time of intervention, as the intervened solicitors' funds will have been frozen.

As at 31 October 2016 there were no emergency funding balances outstanding from agents (2015: Nil).

## Notes to the financial statements for the year ended 31 October 2016 (continued)

### 9. Disclosure of significant assets and liabilities

Due to the predominantly cash accounting nature of the accounting policies certain assets and liabilities are not included in the financial statements. The most significant are explained below.

#### *Open claims*

As explained in note 1, grants made are recognised when cash is paid. Amounts approved for payment and those related to outstanding claims being investigated are not included in the financial statements.

No estimate can currently be made of future claims against interventions in progress and no estimate is made of amounts recoverable from the seized accounts relating to those interventions.

#### *Statutory Trust Accounts, undistributed balances*

The 2006 Re Ahmed judgment provided for any undistributed STA balances (residual balances) to be transferred to the Fund after reasonable investigations to distribute them.

In 2016 this resulted in £1.0m being transferred from STAs to the Fund (2015: £0.6m). This is in addition to the funds received via rights of subrogation. The SRA is continuing to identify historic undistributed balances which can be transferred to the Fund.

#### *Statutory Trust Accounts, amounts due via right of subrogation*

In accordance with the accounting policies, no amounts are recognised within the balance sheet or income and expenditure account in respect of amounts due to the Fund via rights of subrogation from the STAs as these amounts are only recognised when paid.

Whilst the amounts due to the Fund are likely to be significant we are currently unable to accurately quantify the amount due. At the end of October 2016 the total balance held in STAs was £15.3m (2015: £22.3m).

#### *Uninsured Firms*

From 1 October 2012 the SRA Compensation Fund Rules were changed to provide cover for claims made against uninsured firms that would previously have been covered by the Assigned Risks Pool (ARP) under the arrangements for non-applied firms. This cover is similar to that provided historically through the ARP arrangements whilst still retaining the discretionary nature of the Compensation Fund. The cover extends to claims made against firms that are practising whilst uninsured and includes six year run-off cover in the event that a practice ceases without successor practice whilst uninsured.