

Appendix 3 – SRA Guidelines – Accounting Procedures and Systems

1. Introduction

- 1.1 These guidelines, published under rule 26 of the SRA Accounts Rules 2011, are intended to be a benchmark or broad statement of good practice requirements which should be present in an effective regime for the proper control of client money. They should therefore be of positive assistance to firms in establishing or reviewing appropriate procedures and systems. They do not override, or detract from the need to comply fully with, the Accounts Rules.
- 1.2 References to managers or firms in the guidelines are intended to include sole practitioners, recognised bodies and licensed bodies, and the managers of those bodies.

2. General

- 2.1 Compliance with the Accounts Rules is the equal responsibility of all managers in a firm. This responsibility also extends to the Compliance Officer for Finance and Administration, whether or not a manager (see rule 6). They should establish policies and systems to ensure that the firm complies fully with the rules, including procedures for verifying that the controls are operating effectively. Responsibility for day to day supervision may be delegated to one or more managers to enable effective control to be exercised. Delegation of total responsibility to a cashier or book-keeper is not acceptable.
- 2.2 The firm should hold a copy of the current version of the Accounts Rules and/or have ready access to the current on-line version. The person who maintains the books of account must have a full knowledge of the requirements of the rules and the accounting requirements of firms.
- 2.3 Proper books of account should be maintained on the double-entry principle. They should be legible, up to date and contain narratives with the entries which identify and/or provide adequate information about the transaction. Entries should be made in chronological order and the current balance should be shown on client ledger accounts, or be readily ascertainable, in accordance with rule 29.9.
- 2.4 Ledger accounts for clients, other persons or trusts should include the name of the client or other person or trust and contain a heading which provides a description of the matter or transaction.
- 2.5 Manual systems for recording client money are capable of complying with these guidelines. A computer system, with suitable support procedures will, however, provide an efficient means of producing the accounts and associated control information.
- 2.6 When introducing new systems, care must be taken to ensure:
 - (1) that balances transferred from the books of account of the old system are reconciled with the opening balances held on the new system before day to day operation commences;
 - (2) that the new system operates correctly before the old system is abandoned. This may require a period of parallel running of the old and new systems and

the satisfactory reconciliation of the two sets of records before the old system ceases.

- 2.7 The firm should ensure that office account entries in relation to each client or trust matter are maintained up to date as well as the client account entries. Credit balances on office account in respect of client or trust matters should be fully investigated.
- 2.8 The firm should establish policies and operate systems for the payment of fair and reasonable interest to clients in accordance with rules 22 and 23.

3. Receipt of client money

- 3.1 The firm should have procedures for identifying client money, including cash, when received in the firm, and for promptly recording the receipt of the money either in the books of account or a register for later posting to the client cash book and ledger accounts. The procedures should cover money received through the post, electronically or direct by fee earners or other personnel. They should also cover the safekeeping of money prior to payment to bank.
- 3.2 The firm should have a system which ensures that client money is paid promptly into a client account.
- 3.3 The firm should have a system for identifying money which should not be in a client account and for transferring it without delay.
- 3.4 The firm should determine a policy and operate a system for dealing with money which is a mixture of office money and client money, or client money and out-of-scope money, or client money, out-of-scope money and office money, in compliance with rules 17-19.

4. Payments from client account

- 4.1 The firm should have clear procedures for ensuring that all withdrawals from client accounts are properly authorised. In particular, suitable persons should be named for the following purposes:
 - (1) authorisation of internal payment vouchers;
 - (2) signing client account cheques;
 - (3) authorising telegraphic or electronic transfers.

No other personnel should be allowed to authorise or sign the documents.

- 4.2 The firm should establish clear procedures and systems for ensuring that persons permitted to authorise the withdrawal of client money from a client account have an appropriate understanding of the requirements of the rules, including rules 20 and 21 which set out when and how a withdrawal from client account may properly be made.
- 4.3 Persons nominated for the purpose of authorising internal payment vouchers should, for each payment, ensure there is supporting evidence showing clearly the reason for the payment, and the date of it. Similarly, persons signing cheques and authorising

transfers should ensure there is a suitable voucher or other supporting evidence to support the payment.

- 4.4 The firm should have clear systems and procedures for authorising withdrawals from client accounts by electronic means, with appropriate safeguards and controls to ensure that all such withdrawals are properly authorised.
- 4.5 The firm should have a system for checking the balances on client ledger accounts to ensure no debit balances occur. Where payments are to be made other than out of cleared funds, clear policies and procedures must be in place to ensure that adequate risk assessment is applied.

N.B. If incoming payments are ultimately dishonoured, a debit balance will arise, in breach of the rules, and full replacement of the shortfall will be required under rule 7. See also rule 20, guidance notes (iii)(a) and (iv)(a).

- 4.6 The firm should establish systems for the transfer of costs from client account to office account in accordance with rule 17.2 and 17.3. Normally transfers should be made only on the basis of rendering a bill or written notification. The payment from the client account should be by way of a cheque or transfer in favour of the firm or sole principal – see rule 21.4.
- 4.7 The firm should establish policies and operate systems to control and record accurately any transfers between clients of the firm. Where these arise as a result of loans between clients, the written authority of both the lender and borrower must be obtained in accordance with rule 27.2.
- 4.8 The firm should establish policies and operate systems for the timely closure of files, and the prompt accounting for surplus balances in accordance with rule 14.3.
- 4.9 The firm should establish systems in accordance with rule 14.4 to keep clients (or other people on whose behalf money is held) regularly informed when funds are retained for a specified reason at the end of a matter or the substantial conclusion of a matter.

5. Overall control of client accounts

- 5.1 The firm should maintain control of all its bank and building society accounts opened for the purpose of holding client money. In the case of a joint account, a suitable degree of control should be exercised.
- 5.2 Central records or central registers must be kept in respect of:
- (1) accounts held for client money, which are not client accounts (rules 15.1(a), 16.1(d) and 29.19);
 - (2) practice as a liquidator, trustee in bankruptcy, Court of Protection deputy or trustee of an occupational pension scheme (rules 8 and 29.20);

- (3) joint accounts (rules 9 and 29.21);
- (4) dividend payments received by an executor, trustee or nominee company as nominee (rules 28.2 and 29.23); and
- (5) clients' own accounts (rules 10, 15.1(b) and 30.3).

5.3 In addition, there should be a master list of all:

- general client accounts;
- separate designated client accounts;
- accounts held in respect of 5.2 above; and
- office accounts.

The master list should show the current status of each account; e.g. currently in operation or closed with date of closure.

5.4 The firm should operate a system to ensure that accurate reconciliations of the client accounts are carried out at least every five weeks. In particular it should ensure that:

- (1) a full list of client ledger balances is produced. Any debit balances should be listed, fully investigated and rectified immediately. The total of any debit balances cannot be "netted off" against the total of credit balances;
- (2) a full list of unpresented cheques is produced;
- (3) a list of outstanding lodgements is produced;
- (4) formal statements are produced reconciling the client account cash book balances, aggregate client ledger balances and the client bank accounts. All unresolved differences must be investigated and, where appropriate, corrective action taken;
- (5) a manager or the Compliance Officer for Finance and Administration checks the reconciliation statement and any corrective action, and ensures that enquiries are made into any unusual or apparently unsatisfactory items or still unresolved matters.

5.5 The firm should have clear policies, systems and procedures to control access to computerised client accounts by determining the personnel who should have "write to" and "read only" access. Passwords should be held confidentially by designated personnel and changed regularly to maintain security. Access to the system should not unreasonably be restricted to a single person nor should more people than necessary be given access.

5.6 The firm should establish policies and systems for the retention of the accounting records to ensure:

- books of account, reconciliations, bills, bank statements and passbooks are kept for at least six years;
- paid cheques, digital images of paid cheques and other authorities for the withdrawal of money from a client account are kept for at least two years;

- other vouchers and internal expenditure authorisation documents relating directly to entries in the client account books are kept for at least two years.

5.7 The firm should ensure that unused client account cheques are stored securely to prevent unauthorised access. Blank cheques should not be pre-signed. Any cancelled cheques should be retained.