

# Guidance

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### Helping you keep accurate client accounting records

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#### *Status*

This guidance is to help you understand your obligations with regards to keeping accurate records relating to the receipt and handling of client money. We will have regard to it when exercising our regulatory functions.

#### *Who is this guidance for?*

This guidance is for all SRA-authorised firms, and their staff, that receive or hold client money. Reporting accountants may also find it helpful when reviewing a firm's systems and controls.

You may also like to refer to our separate guidance on joint accounts and record keeping [<https://www.sra.org.uk/solicitors/guidance/joint-accounts-record-keeping/>] .

#### *Purpose of this guidance*

The SRA Accounts Rules [<https://www.sra.org.uk/solicitors/standards-regulations/accounts-rules/>] (Accounts Rules) require you to keep and maintain accurate, contemporaneous, and chronological records to show your dealings with client money (rule 8.1).

This guidance helps you to understand ways in which you might comply with these obligations, as well as providing wider best practice advice.

#### *Client money - good accounting practices*

How you meet the requirement to maintain accurate, contemporaneous and chronological records will depend on the systems and controls your firm has in place. These will be driven by size of your firm and the type of work it does.

To help minimise errors and increase the likelihood that your books of account will balance, we advise that:



- your books should be maintained on the double-entry principle. This means that every transaction relating to client money should be recorded in at least the client cash book and the client ledger.
- your books should be legible, up to date and contain narratives alongside the entries which identify and provide adequate information about the transaction. The current balance, if not shown on the client ledger account, should be readily ascertainable. In accordance with Rule 8, entries should be made in chronological order and record the date of the underlying transaction.
- ledger accounts should include the name of the client or other person or trust for whom the money is held and contain a heading which provides a description of the matter or transaction, for example, Client: Mr A Nother: Matter: sale of 1 Property Road, London. This will help you link the money held or received with those for whom it is held.
- business account entries (which reflect, for example, money due to your firm for costs) in relation to each client or trust matter are kept up to date as well as the client account entries. This is because it is important to make sure that any credit balances on the business side of the client ledger in respect of client or trust matters are reviewed on a regular basis. For example, at the same time you carry out client account reconciliations, and fully investigated in case of any impact on the client or trust matter and the monies you hold for them.
- you keep a separate contemporaneous and chronological record of any inter-ledger transfers.

### *Receipt of client money*

We expect you to have systems and controls in place for identifying client money, including cash, when received in the firm, and for promptly recording the receipt of the money in, for example, a cash diary. This could be 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 being banked.

So that you can comply with rule 2.3 (which requires you to make sure that client money is paid promptly into a client account) you should have a clear system or process in place to achieve this.

### *Payments from client account*

You should have clear procedures for ensuring that all withdrawals from client accounts are properly authorised. Good compliance can be achieved by making sure you have:



- established clear systems and controls 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 Accounts Rules and sufficient seniority within the firm.
- persons nominated to authorise payments. That person should ensure that there is evidence which supports the reason for each payment, and that this is recorded together with the date of the payment.
- procedures for ensuring that sufficient money is held for a particular client before any withdrawals are made for that client. Your controls should be adequate to prevent a debit balance arising but if one does, the controls should make sure that it is identified and rectified promptly.
- systems for the transfer of costs from a client to a business account. Normally transfers should be made only after issuing a bill or other written notification of costs. Rule 8.4 requires you to keep a readily accessible central record of all bills or other written notifications of costs given by you.
- systems which help to control and record accurately any transfers between different clients of the firm. Where these arise as a result of loans between clients, the written authority of both the lender and borrower should be obtained and retained on the file.
- checks and controls to make sure client files are closed promptly, and the prompt payments back to clients of any residual balances.
- systems which make sure clients (or other people on whose behalf money is held) are kept regularly informed when funds are retained for a specified reason (which should be in respect of the delivery by you of regulated services) at the end of a matter or the substantial conclusion of a matter. This should help ensure that your client account is not being used as a banking facility when there is no need for you to hold onto monies.

### *Overall control of client accounts*

It is important that you maintain control of all your bank and building society accounts opened for the purpose of holding client money.

Effective management of your accounts means that you should be able to produce a list of all:

- general client accounts
- separate designated client accounts
- third party managed accounts (TPMAs)
- client's own accounts or joint accounts operated by you
- business accounts.

The list would show the current status of each account including all those closed during the accounting period.

Rule 8.3 requires you to make sure that reconciliations of the client accounts are carried out at least every five weeks.

We suggest that you operate a system which helps make sure that you can produce:

- a full list of client ledger balances. Any debit balances should be separately listed, fully investigated and rectified promptly. The total of any debit balances cannot be deducted against the total of credit balances
- a full list of unpresented cheques
- a full list of outstanding lodgements
- formal statements reconciling the client account cash book balances, aggregate client ledger balances and the client bank accounts. If you identify any unresolved differences they should be investigated and, where appropriate, corrective action taken.

If you are using a TPMA, you should make sure that you operate a system which helps you make sure that you obtain regular statements from the TPMA provider. Your review of the statements should help confirm that the movement of money reflects the transactions noted on the client file.

A manager of your firm or your Compliance Officer for Finance and Administration (COFA) will want to check the reconciliation statement for all accounts the firm hold and monitor what corrective action has been taken before signing off the records. They will also want to make sure that they make enquiries into any unusual or apparently unsatisfactory items or unresolved matters. It would be helpful to record the date on which records were signed to show, for example, how long it was before matters were resolved.

Most firms will be operating computerised client accounts. If you do, you will want to make sure that you have clear policies, systems and procedures which set out access controls and visibility. You will also want to make sure that physical controls are in place, for example the use of PIN numbers and tiered passwords. This helps manage the risk of a cyber-attack that could result in a loss of client money.

It is important to make sure that passwords are held confidentially by designated personnel and changed regularly. If you do not already do this, then it is important that revised policies are implemented.

You should carefully consider how many people have access to passwords and how they are set. If only one person has access then there is a danger of a lack of oversight and control, along with the need for contingency

arrangements if that person is not in the business. If too many people have access, then it becomes more difficult to apply effective controls and have consistent oversight. Firms will need to consider what is the right number in light of the size of the firm, the number of offices and the volume and complexity of transactions to prevent a breach of the Accounts Rules.

### *Further help*

If you require further assistance, please contact the Professional Ethics helpline [<https://www.sra.org.uk/home/contact-us/>] .