

[Entity letterhead]

PricewaterhouseCoopers LLP

1 Embankment Place
London
WC2N 6RH

Attention: Julian Jenkins

Dear Sirs

2016 Compensation Fund Letter of Representation

This representation letter is provided in connection with your audit of the financial statements of The Compensation Fund (the "Fund") for the year ended 31 October 2016 for the purpose of expressing an opinion as to whether the financial statements of the Fund have been prepared in accordance with the basis set out in note 1 to the accounts, including the financial position as at 31 October 2016, and the surplus of income over expenditure for the year then ended.

As outlined in the Statement of Responsibilities the Council of the Law Society is responsible 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.

The SRA has taken responsibility for preparing financial statements although there is no specific legal requirement to do so.

The SRA Board acknowledges responsibility for preparing financial statements of the Fund which are in accordance with the accounting policies and for making accurate representations to you.

We confirm that the following representations are made on the basis of enquiries of management and staff of the Fund with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy ourselves that we can properly make each of the following representations to you.

We confirm, on behalf of all members of the SRA Board, to the best of our knowledge and belief, and having made the appropriate enquiries, the following representations:

1. Confirmation that the financial statements have been prepared in accordance with the accounting policies in note 1. The basis is akin to cash accounting and information comes directly from AX with minimal adjustment, an extended TB is available to show mapping and adjustments made. The ETB is fairly simplistic and has been audited by PwC.

2. Confirmation only of the delegated authority and responsibility for preparing financial statements as per 1 above.

3. Confirmation of enquiries made of management and staff can be covered through internal enquiry. Inspection of supporting documents can include the testing performed by Deloitte and possibly review of Compensation Fund Recharge which is the only large subjective cost in the year.

Financial statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated 12 September 2016, for the preparation of the financial statements in accordance with the chosen accounting policies for the year ended 31 October 2016.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- Significant assumptions used by us in making accounting estimates are reasonable.
- All events subsequent to the date of the financial statements have been adjusted or disclosed.
- There are no uncorrected misstatements, both individually and in the aggregate, to the financial statements as a whole.
- The financial statements disclose all matters of which we are aware that are relevant to the Fund's ability to continue as a going concern, including all significant conditions and events, mitigating factors and the Fund's plans. The Fund also has the intent and ability to take actions necessary to continue as a going concern.

Specifically we confirm that we have considered the outstanding claims the Fund has been notified of and, despite the significant value, we do not expect we will pay out a large proportion of the claims value and therefore we consider that the Fund retains sufficient reserves to meet the liabilities of the claims we are aware of. Ultimately we could request further funding from the profession should claims arise that we do not have reserves to meet, or delay payment of grants. However we do not envisage this occurring.

- 4.
- Standard process for pwc to insist on a new engagement letter for each set of financial statements and is consistent with the updated letter signed in the prior year adjusted to reflect the updated view of the governance structure.
 - All transactions being recorded can be supported by;
 - i) Monthly bank rec's performed ensuring all cash movements captured. As the majority of items are cash with no few assets and liabilities recorded this will cover the majority of items being captured.
 - ii) Some comfort taken from the work Deloitte have performed.
 - iii) Comp fund recharge- being the most significant non cash item the calculation of this can be provided, there is no change in the calculation method from prior year.
 - Due to cash accounting basis the only significant assumption is the Comp Fund recharge. For disclosed items there are specific representations below.
 - Subsequent events is not testable. Comfort over this should come from management involved in the business confirming they are not aware of anything.
 - Comfort in that PwC have identified no errors above the defined levels.
 - As with the above this cannot be specifically tested. Disclosure of all matters relevant to going concern includes the 2 specific reps below.
 - Comfort over the going concern assumption comes from cash flow forecasts of the fund, the discretionary nature of many payments and the ability of the fund to make an additional call upon the profession if required.
 - Consideration of the outstanding claims, for completeness, valuation and likelihood of payment would need to be confirmed by management. Testing done by Deloitte has identified that all cases they have tested were correctly included on the report and have on a sample basis tested the original claims notified value to the report and any findings reflected in the financial statements.

Information Provided

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

- so far as we are aware, members of the SRA 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 through the activities of the SRA Finance & Audit Committee, the Law Society Audit Committee, the Business and Oversight Board and oversight of the SRA Board;
- we and members of the SRA Board are satisfied that, by the said governance arrangements, members of the SRA 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.
- We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the Fund from whom you determined it necessary to obtain audit evidence.

- 5.
- Confirmation only that the board is not aware of anything that has not been disclosed to the auditors.
 - Point 2 is only confirming the governance arrangements in place
 - 3rd point relies on the governance structure above to provide members with relevant information. This really relates to the more subjective items (such as the specific items on legal cases, CF recharge etc) Again I don't believe this is something an external party could test. In terms of making sure the auditors are aware this is done through engagement between finance team and PwC for the day to day transaction and access PwC have to the audit committee and CEO's to raise issues on subjective items (such as their reporting on the CF recharge in the audit report).
 - In terms of access we have given PwC anything they have requested. As per above they also had access to CEO's and audit committee and so would have raised any issue of not receiving info.

Fraud and non-compliance with laws and regulations

- We acknowledge our responsibility for the maintenance of internal control to prevent and detect fraud.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by employees, former employees, analysts, regulators or others.
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Related party transactions

We confirm that the ultimate controlling party is the Council of the Law Society. The Council of the Law Society has ultimate accountability for the maintenance of the Fund and governing powers from responsibilities in law.

We confirm that the attached appendix to this letter is a complete list of the Fund's related parties. All transfer of resources, services or obligations between the Fund and these parties have been disclosed to you, regardless of whether a price is charged. We are unaware of any other related parties, or transactions between disclosed related parties.

Employee Benefits

We confirm that we have made you aware of all employee benefit schemes in which employees of the company participate. Although overall governance is maintained by the Council, the day to day operational decisions and therefore these responsibilities are delegated under authority to the SRA Board as explained in the Statement of responsibilities.

6.

- Responsibility will stay with the board.
- Auditors have been provided with the risk registers of the group. No further risk assessment has been requested.
- Confirmation only of communicating instances of fraud of which the board are aware. As above the auditors also have access to the audit committee and to whistle blowing reports.
- As above re confirming all instances that the board is aware of.

7. The confirmation of "ultimate controlling party" is a matter of fact which Legal should be able to confirm but which has not changed.

These are the related parties as disclosed within the Law Society, it should be prepared to the best of management's knowledge (engaging an external firm is not likely to extend this list). The compensation fund only transacts with The law Society and Stat trust accounts and so no further disclosure is required.

8. N/A as none for the compensation fund as it has no employee's

Contractual arrangements/agreements

All contractual arrangements (including side-letters to agreements) entered into by the Fund have been properly reflected in the accounting records or, where material (or potentially material) to the financial statements, have been disclosed to you.

Litigation and claims

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and such matters have been appropriately accounted for and disclosed in accordance with the chosen accounting policies.

Taxation

We have complied with the taxation requirements of all countries within which we operate and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any corporation or other direct tax or any indirect taxes. We are not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and we have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

Specific representations relating to the Fund

Compensation Fund recharge

- The amounts recharged to the Fund of £8.7m (2015 £10.4m) are calculated on the basis advised by leading counsel. Whilst the agreement for allocating the aforementioned costs allows some flexibility in the amounts recharged, we believe that the percentages allocated are appropriate and reflective of the share of costs incurred in relation to Fund's business. We confirm that all of the underlying percentage allocations included in the calculations are a fair reflection of the elements relevant to the Fund's operations and these changes reflect the evolving nature of the interaction between the two entities.

Unrecognised assets and liabilities disclosures

- We confirm that the disclosures made in relation to the unrecognised assets and liabilities represent management's best estimates and therefore we are satisfied that the disclosures made in the accounts are fair reflection of the position with respect to these. We do not believe it is necessary to include any other assets or liabilities.

Axiom

- We confirm that no liability is expected to arise with regards to Axiom litigation case.

9. The compensation fund does not enter into agreements in its own right with all transactions going through the Society. Confirmed with Sourcing and Legal that they are not aware of any contracts with the Compensation fund.

10. The accounting policies adopted do not require legal claims to be disclosed. However the existence of any claims can be confirmed by the legal team. Again this is not something that could be externally tested.

11. Tax is only relevant in the UK for the Compensation Fund and the tax comps are prepared by PwC.

12.

Comp Fund Recharge

The recharge can be recalculated for the full year as a proof in total. The method of recharge has not changed from that used at the end of last year which can be evidenced.

Unrecognised assets and liabilities disclosure

Disclosure is only made in relation to the original claims value of outstanding claims. Testing done by Deloitte has identified that all cases they have tested were correctly included on the report and have on a sample basis tested the original claims notified value to the report and any findings reflected in the financial statements.

Axiom

As stated above expected costs associated to legal provisions are not required to be disclosed under the accounting rules for the Compensation Fund and the position at time of signing is that no costs are expected to be paid in relation to any claims associated to Axiom cases.

As minuted by the following representatives on [date]

Paul Philip
(Chief Executive SRA Board)

Appendix A –List of related parties

Solicitors Indemnity Fund

Solicitors Indemnity Fund Limited

Legal Indemnity Operations Limited

Legal Practice Technologies Limited

Six Clerks Insurance Services Limited (trading as Chancery PII)

Riliance Software Limited

Queens Counsel Appointments Limited

The Compensation Fund

The Law Society Services Limited

The Law Society Educational Trust

The Law Society Charity

The Law Society Trustees Limited

The Law Society Pension Fund

The Council members of the Law Society

Members of the management board of the Law Society

Members of the SRA board

Members of the Audit Committee of the Law Society

Members of the Remuneration Committee of the Law Society

Global Law Summit Limited

Assigned Risk Pool

Statutory Trust Accounts