

[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:

***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.

### ***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.

### ***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.

### ***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

- The risk of a need to make payments arising from the Axiom cases remains low.

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