

SRA BOARD

31 May 2017

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Compensation Fund 2016 Financial Statements

Purpose

- 1 This paper presents the Compensation Fund 2016 Financial Statements, Letter of Representation and Statement of Disclosure for the period ending 31 October 2016.

Recommendation

- 2 The Board is asked to:
 - a) agree the Compensation Fund 2016 Financial Statements and Letter of Representation (annex 1b).

If you have any questions about this paper please contact: Richard Collins, Executive Director, Strategy, richard.collins@sra.org.uk

This paper is marked official because it contains sensitive information.

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CLASSIFICATION – OFFICIAL**Compensation Fund 2016 Financial Statements****Introduction**

- 3 As part of the year end external audit process the SRA Board is asked to approve the 2016 year-end Financial Statements and to approve signing of the Letter of Representation to the auditors. The Letter of Representation requires the approver to make representations based on enquiries of management and staff with relevant knowledge and experience and, where appropriate, inspection of supporting documentations sufficient to allow the approver to properly make the representations.
- 4 To provide assurance to the Board to enable it to make these representations, a review was performed of the work already performed by the external auditors. This work was then mapped to the Compensation Fund Financial Statements (see annex 1a). Where this identified additional assurance was required Deloitte was engaged to perform additional independent testing. The results of the work performed are summarised below.

Executive summary

- 5 Deloitte performed substantive testing over grant payments, residual balance recoveries, grant recoveries via subrogation and grant recoveries from defaulting solicitors. 197 items were tested giving coverage between 80% and 99% by value where applicable. The work performed by Deloitte identified a small number of control issues (such as missing evidence, forms not being signed in line with approved procedures etc) but no items that have led to misstatements in the Financial Statements and so no adjustments have been made as a result of the work performed.
- 6 Of the work performed by the external auditors and additional testing performed by group finance, no further misstatements were identified.

Scoping of work

- 7 A review has been performed of the draft Compensation Fund Financial statements (Balance Sheet, Income Statement and Notes at annex 4), the results are attached at annex 1a, this details where the assurance over each of the balances comes from. Where gaps have been identified through external audit only sampling a low number of items Deloitte were engaged to provide additional assurance.
- 8 The result of the above was:
 - Deloitte has performed testing and provided assurance over grants paid, subrogation's from the Statutory Trust Accounts (STA), external grant recoveries, and residual balance recoveries.

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- Assurance is gained from the work performed by PwC for contributions received, investment funds and bank balances, emergency fund debtors and inter company balances and the compensation fund recharge.
- Additional assurance has not been sought on items such as interest, audit fee's and tax charges due to the low value and low volume and specific supporting evidence being available.
- Where relevant assurance has been given by senior SRA management and relied on in relation to the existence and progress on any outstanding legal cases.

Results of Deloitte work performed

9 In line with the specified procedures engagement letter, Deloitte has reviewed a sample of items, as detailed below, covering grants paid, subrogation's, other grant recoveries and residual balances. The Deloitte work covers both items which will impact directly on the financial statements but also work over controls surrounding grants which would not directly impact the financial statements

10 Sampling performed:

Financial statements area	Value per financial statements <u>£'000</u>	Deloitte testing		
		Items samples	Value tested	Coverage obtained
		<u>Number</u>	<u>£'000</u>	
Grant recoveries (subrogation)	9,583	24	9,440	99%
Grant recoveries (other)	1,280	25	N/a*	N/a*
Residual balances	967	24	775	80%
Grants Paid	10,268	124	8,573	83%

* Note that this sample tests the appropriate treatment of recoveries in the SRA and that relevant transfers to the Compensation Fund have been correctly treated. This is a test of process rather than value, as such coverage is not applicable.

11 Deloitte's final report is attached at annex 5 and is summarised below

Results of Deloitte work - not directly impacting the financial statements

12 A minor number of process discrepancies were identified during the testing. These were immaterial in nature did not impact on the financial statements. They were reported and discussed at FAC and have been fed back to the organisation to improve operational processes.

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Recommendation: to agree the Compensation Fund 2016 Financial Statements and Letter of Representation.

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Date 17 May 2017

Annexes

- Annex 1a** Summary of sources of assurance obtained – Financial Statements
- Annex 1b** Summary of sources of assurance obtained – Letter of Representation
- Annex 2** Compensation Fund Statement of Disclosure
- Annex 3** Compensation Fund Letter of Representation
- Annex 4** Compensation Fund 2016 Financial Statements
- Annex 5** Deloitte report