

Solicitors Regulation Authority Limited
Company No. 12608059

SOLICITORS REGULATION AUTHORITY LIMITED
(A COMPANY LIMITED BY GUARANTEE)
FINANCIAL STATEMENTS
FIVE MONTH PERIOD TO 31 OCTOBER 2021

Solicitors Regulation Authority Limited

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FOREWORD

This is our first report as Solicitors Regulation Authority Ltd. It follows our increased separation from the Law Society of England and Wales and being established as a distinct legal entity within the Law Society Group in June 2021.

We consider that the new arrangement will not only be more effective but create more transparency for the profession and the public about our roles and responsibilities – the Solicitors Regulation Authority (SRA) as the regulator and the Law Society, as the professional body for solicitors in England and Wales.

You will see in the report that we have achieved a lot this year – from the introduction of the new Solicitors Qualifying Examination to our work to maintain high professional standards while supporting innovation that could help people access legal services.

We are fully committed to good governance, to transparency and to accountability, and I hope you find the contents of this report helpful.

More information is available on our website, including regular reporting on our decision making and performance. We are always open to hearing your views and your feedback.

STRATEGIC REPORT FOR THE PERIOD ENDED 31 OCTOBER 2021

The directors present their strategic report on the company for the **period ended 31 October 2021**.

SRA Review of the year

The Solicitors Regulation Authority (SRA) is the largest regulator of legal services in England and Wales, covering around 90% of the regulated market. We oversee more than 210,000 solicitors and 9,800 law firms.

We protect members of the public and support the rule of law and the administration of justice. We do this by overseeing all education and training requirements necessary to practise as a solicitor, setting the standard and behaviours for solicitors and firms, and taking action when things go wrong. We also work to create an innovative, competitive legal market to help improve access to legal services.

This year (1 November 2020 – 31 October 2021) was the first year of the implementation of our 2020 to 2023 strategy, which focuses on three objectives: high standards for the profession and ourselves, supporting innovation and technology that can assist people to access legal help, and anticipating and responding to change.

In this review, we cover our key achievements in delivering our strategy, while also focusing on our work since June 2021 – when the SRA began operating as a distinct legal entity within the Law Society Group.

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Driving high standards

This year we changed the way solicitors qualify. The culmination of a decade's worth of consultation and development, the new Solicitors Qualifying Examination (SQE) came into effect in September 2021. A new single, rigorous assessment, the SQE replaces the old system where there were multiple courses and examinations, providing greater assurance that qualifying solicitors have met the same, high standards.

Once qualified, the vast majority of solicitors work to high standards. However, if solicitors fall short of what is expected, we step in. We take action to help keep the public safe: ranging from fines to referrals to the Solicitors Disciplinary Tribunal (SDT). We brought 100 cases to the SDT this year. We also intervened into and closed down 26 law firms where we felt there was a significant and immediate risk to clients and the public.

We can help members of the public and small businesses that have lost money in certain circumstances, for instance due to a dishonest solicitor. This year we paid out £27m from the Compensation Fund. The Compensation Fund is a separate Fund operated by the SRA to reimburse persons who have suffered a loss due to the actions of a defaulting solicitor.

Preventing money laundering is a priority risk for the legal sector. We published guidance on acting as a tax adviser, and guidance on acting as a trust and company services provider to help firms understand their obligations and the risks in these areas.

We continued our programme of proactive anti-money laundering (AML) supervision, including visits to firms, desk-based reviews and a series of visits to consider the role of the money laundering reporting officer (MLRO) and money laundering compliance officers (MLCO).

We ran a range of interactive virtual events on compliance issues – ranging from AML to our transparency rules - attracting more than 35,000 views.

We must also maintain high standards in our work. In December 2020, the Legal Services Board confirmed that we met all 27 of its performance outcomes, including on being well led.

Promoting technology and innovation

We have laid the foundations of our future work on lawtech with substantial research by the University of Oxford into the use of technology in the legal sector and our involvement in the Lawtech UK Sandbox programme. The sandbox aims to fast-track transformative ideas, products and services that address the legal needs of businesses and society.

We ran a series of events and webinars to explore issues around technology and innovation. These have had almost 4,000 views. We also ran face-to-face events in Liverpool and Cardiff to explore practical innovation tips and insights with legal businesses.

We are leading a project called the Agile Nations Lawtech Innovation Network aimed at helping to create a global market for legal services.

We continue to run our SRA Innovate programme, and have updated our web resources to explain the range of support we offer to those who want to provide legal services in innovative ways.

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Anticipating and responding to change

We updated the questions we use to collect diversity data from the profession. We saw an increase in the collection of data from individual solicitors and a good response from firms to our biennial data collection, with the results published early in 2022. For the second successive year, we provided data on the profile of the profession for the annual report on the diversity of the judiciary.

We use this diversity data to understand the equality impact of our work and to monitor the profile of individuals within our enforcement work. We reported our analysis for the periods between 2018 – 2020. Further research is in hand as we look at the complex issues underpinning the overrepresentation of Black, Asian and minority ethnic solicitors in our enforcement work. We have also appointed Exeter University to carry out major research on the attainment gap in professional assessments.

We have continued to monitor the impact of the Covid-19 pandemic on the sector closely, so we can respond in an agile and pragmatic way where needed. Our Risk Outlook for 2021/22 looked at how the legal market was emerging from the impacts of the pandemic. Our analysis is that the legal sector has come through the challenges of Covid-19 relatively well. The flexibility that our Standards and Regulations provided has been helpful, while maintaining high professional standards.

We have also been evaluating the major reforms of recent years. As well as appointing specialists to conduct the year one evaluation of our Standards and Regulations, we also published a report showing the positive impacts of our transparency rules. This will continue to feed into our response to the Competition and Markets Authority's recommendations for the legal services sector.

Our Regulatory Futures event explored the latest thinking on regulation – both in the legal sector and beyond. It brought together speakers and an audience from a range of sectors – from utilities to financial services – and attracted 900 views.

In June 2021 we took the important step of establishing ourselves as a distinct legal entity within the Law Society Group. We consider that the new arrangement will not only be more effective but create more transparency for the profession and the public about our roles and responsibilities.

Environmental Considerations

As a responsible organisation, we have a duty to consider our impact on the environment and use resources effectively. In order to do this, we have in place an accredited ISO:14001 Environmental Management System which helps us to deliver on our objective of becoming more sustainable.

Partly due to the pandemic but also due to IT improvements and changes to the way we work, we have significantly decreased our use of paper by working electronically. Our travel has also decreased with more use of virtual meetings and webinars. These are changes that we will look to incorporate into our ways of working as we come out of the pandemic.

The move to a hybrid working model has also enabled us to reduce our office space which will provide the most significant reduction in our use of resources. We are refurbishing the remaining office space in line with best practice on sustainable building practices to minimise our environmental impact in the longer term.

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Achievements since June 2021

In the five months since we began operating as Solicitors Regulation Authority Limited, highlights have included:

- successfully opened registration and booking for the first SQE assessments, with 1,084 candidates sitting the first SQE 1 examinations.
- published our first professional supervisor anti-money laundering report, which sets out the work we have done over 12 months to help firms make sure their processes are effective and followed properly.
- were awarded a grant from the Regulators Pioneer Fund to help connect those using new legal technologies with those who need their services in Bristol and Swansea. The project will involve working with universities, local authorities and the Information Commissioner's Office. This work will take place throughout 2022.
- were chosen by the Department for Business, Energy and Industrial Strategy to lead a project called the Agile Nations Lawtech Innovation Network aimed at helping to create a global market for legal services.
- Head of Welsh Affairs has started in the new role, working on mapping and engaging with stakeholders in Wales. The appointment has been well received and is already increasing our understanding of the Welsh landscape and where we can add value.
- carried out significant collaborative work in relation to the UK exit from the EU.
- received approval from the Legal Services Board for our application for practising fees, with fees reducing. Our consultation on our business plan, which included the budget and our element of practising fee, involved engagement with more than 8,000 people and 50 organisations.
- completed the first Institute of Customer Service external benchmarking survey of customers across a number of SRA teams
- exceeded our annual target of one million visits to Legal Choices - the public facing website and social media presence we manage on behalf of the legal regulators.
- completed initial analysis of our commissioned research exploring consumer attitudes towards comparison and review websites.

We have set out key areas of our work for 2021-22 in our business plan which was widely consulted on and published on the SRA website in draft and final form.

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Financial review 1 June 2021 – 31 October 2021

On 1 June 2021 the Solicitors Regulation Authority Limited began operating, carrying out a number of functions previously undertaken by the SRA as part of the Law Society, a Royal Charter Company (RC000304).

As part of the agreement to transfer these activities a number of financial assets and obligations passed to Solicitors Regulation Authority Limited. This included the transfer of all staff that previously worked as part of the SRA within the Law Society, the assets and obligations previously included as part of SRA within the segmental reporting in the Law Society Annual Report and a capital contribution of £13.3m to ensure Solicitors Regulation Authority Limited is financially stable. Further details of the transfer are included at note 16.

In practical terms the operations of Solicitors Regulation Authority Limited represents a like for like continuation of the operations of Solicitors Regulation Authority as an operating unit within the Law Society.

The result for the five months to 31 October 2021 was a surplus of £1.880m.

Income

The majority of our funding comes from annual fees set each year. We can charge these fees to individuals (eg practising certificate fee) as well as to firms (recognised bodies and licensed bodies). These are mandatory and must be paid in order for individuals and firms to practise.

These fees are invoiced from October to cover the following November to October period. Therefore, the fee income recognised in the 2021 year represents a proportion of the 2020/21 fee collection. The amount recognised between June and October 2021 was £24.1m. At the end of October 2021 there were 156,928 practising solicitors and 9,860 solicitor firms. These can range from sole practitioners to large firms, with a global presence and thousands of lawyers. Not all solicitors are practising, the total number of solicitors on the roll is in excess of 210,000.

For 2021/22 the individual practicing certificate fee was set at £266, a reduction from £278 in 2020/21. Not all the fees collected are retained by the SRA, a proportion are collected on behalf of the Law Society to fund elements of its work and levies to external bodies. The Law Society share of practising fee income is reported within the consolidated accounts of the Law Society Group.

Fees for firms vary and are related to the turnover of each firm. The 2021/22 fee collection window opened on 11 October 2021 and finished on 11 November 2021. At 31 October 2021 £22.5m of invoices had been raised and recognised as deferred income for the 2021/22 renewal year. By the end of January 2021 £56.9m of invoices had been raised and only £62k of the year end debtors remained outstanding.

In addition to the practising fees a levy is collected on behalf of the Compensation Fund (the fund) (a non-consolidated entity) which funds compensation claims against defaulting practitioners and the costs associated with its management by the SRA. This is paid by all individual practising certificate holders, except for those working for the Crown Prosecution Service, and by all firms holding client money. The above figures exclude the cash collected on behalf of the Fund.

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Other income

Income recognised from the Fund for costs associated with the management and administration of the Fund by the SRA totalled £3.4m between June 2021 and October 2021. Additionally, we collected £1.4m in administration fees for other applications from individuals and firms.

Expenditure

Our total operating expenditure for the reporting period was £27.3m of which 51% was on staff related costs.

Legal and Intervention Costs

The provision for intervention, disciplinary proceedings and litigation costs at 31 October 2021 was £2.3m. The provision represents the cost of legal fees to complete ongoing matters at the year end. Costs incurred during the reporting period in relation to interventions were recharged in full to the Fund.

Assets

The SRA received £9m in investments and other fixed assets from the Law Society as part of the transfer of operations. Additions to tangible fixed assets in the period were limited to the acquisition of leased laptop computers.

Property

The SRA leases properties in Birmingham and London. The floorspace of the Birmingham offices was reduced by 40% in March 2022, while the remaining space is subject to ongoing improvements works which were completed in March and will result in the capitalisation of a significant amount in recognition of the improvements made.

Cash balances

The cash balances held are at their highest level following the annual practising fee renewals exercise. This was slightly delayed in 2021 and took place from 11 October 2021 to 11 November 2021. The cash balance at the end of the year reflects the fact that we were midway through this exercise. Cashflows continue to be positive throughout November and then reduce throughout the remainder of the financial year until the next renewal period. A new investment policy was approved in December 2021 providing for cash balances to be actively managed to maximise returns as much as possible while limiting the risk to funds.

Reserves

At the end of the financial period the balance sheet shows net assets of £15.4m, of which £14.7m is unrestricted reserves once fixed assets are excluded. Our reserves policy outlines a requirement to hold between £15.7m and £22.5m of unrestricted reserves after fixed assets are excluded; the policy is guided in part by guidance issued by the Legal Services Board (LSB) who regulate the SRA. The policy identifies the long term level of reserves considered appropriate. This being our first year of operations, reserves were determined very much by the initial capital contribution from the Law Society. As part of the annual approval of practising fees by the LSB we are required to outline our reserves policy and plans to move towards the minimum level of reserves if we are not at that level. The reserves position will be considered by the Board when they set the level of practising fees for 2022/23.

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Financial Key Performance Indicators

The Directors consider that the key financial performance indicators are as follows

- Revenue for the period was £29.23m
- Surplus for the period was £1.88m
- The company had a cash balance of £35.24m at the end of the period

Risk governance and management

Our Risk management Framework sets out the policy and framework for managing and obtaining assurance on all risks likely to adversely impact on the successful delivery of our strategic and regulatory objectives.

It provides the guiding principles within which the risk management process is managed and operated. In accordance with that framework, we maintain risk registers at three levels; high level risks are documented on our Strategic Risk Register. This is underpinned by operational risk registers across the SRA and a Mid-Tier risk register which brings together more significant or organisation-wide risks which are not at the strategic level.

To support the transparency of a structured risk reporting cycle, the Strategic Risk Register is presented to the SRA Audit and Risk Committee and SRA Board on a quarterly basis. The Audit and Risk Committee also reviews the Mid-Tier Risk register. Ownership of both these registers sits with the Senior management Team which monitors them regularly.

To further support risk management activity, the SRA has continued to enhance risk governance and management systems during this period.

In 2021, the SRA carried out the annual fundamental review of its strategic risk register. The principal risks have been captured on this register and cover the following risks and uncertainties:

- Risks around delivery of crucial new/our evolving areas of work – specifically the SQE and our AML agenda.
- A risk around the sufficiency of our resourcing to respond with agility to new and unforeseen challenges which might emerge.
- Risks around the adequacy of our response to legislative changes and the equality, diversity and inclusion agenda.

The Board is satisfied with how these risks are managed with appropriate mitigating controls in place including strong governance arrangements, close monitoring of delivery milestones, effective stakeholder engagement and longer-term planning. We work to the three lines of defence model with a strong control framework which is regularly updated and rigorously tested. All risks currently sit within the Board's risk tolerance.

The Board has considered the impact of the ongoing Covid-19 pandemic as part of the assessment regarding going concern and does so when considering the strategic risk register on a regular basis.

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Statement of Compliance with section 172 (1) of the Companies Act 2006

Directors Duties

The directors are required to act in a manner which complies with their duties as set out in the UK Companies Act 2006. In summary, Section 172 of the UK's Companies Act requires a Director of a Company to act in a way they consider, in good faith, would most likely promote the success of the company for the benefit of its members. In doing this, the Director must have regard, amongst other matters, to the:

- the likely consequences of any decision in the long term,
- the interests of the company's employees,
- the need to foster the company's business relationships with suppliers, customers and others,
- the impact of the company's operations on the community and the environment,
- the desirability of the company maintaining a reputation for high standards of business conduct, and
- the need to act fairly as between members of the company.

The following is an overview of how the Board has performed its duties in this regard during this year.

This being a five-month financial period the activity was inevitably less than in a full 12-month financial year.

People

The company's employees are fundamental to the successful performance of the business, Employees are regular kept updated through SRA wide business updates which provide an opportunity to feedback on key business activity and upcoming changes. The staff forum and staff union offer representatives of employees regular access to the Chief Executive and members of the senior management team to address important and topical issues. Throughout the year the Board receives regular updates on matters relating to employees as part of quarterly performance reporting. An annual staff survey offers employees the opportunity to provide their views in an anonymous format. The results of these surveys are provided to the Board. The structure of annual pay awards is agreed with the Union each year allowing employees to be consulted in advance of decisions being made.

We expect the law firms we regulate to create and champion an equal and diverse culture, so we make sure we do the same. We expect our staff to consider equality, diversity and inclusion (EDI) throughout their work, whatever their role and encourage our staff networks to promote a culture of inclusion. We have active networks for women, race ethnicity and cultural heritage, sexual orientation and gender identity, carers and working parents, disability and Mental Health and Wellbeing.

We promote inclusion for all staff through our EDI policy which covers our values and behaviours, attraction and retention, reasonable adjustments and how we support the health and wellbeing needs of our staff. Our training and other initiatives to promote career development are made available to all staff. We monitor the diversity of our workforce, including for disability, tracking a range of employment areas throughout the employment lifecycle to make sure these opportunities are being accessed fairly by all groups.

We are a disability confident level 2 employer which enable us to make the most of the opportunities provided by employing disabled people. Our activities over this reporting year

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to promote LGBTQ+ inclusion resulted in us being awarded a Gold employer's award from Stonewall and in early 2022 being named in the top 30 employers in their Workplace Equality Index.

Supplier relationships

In order to successfully manage the SRA's business, strong relationships are maintained with key suppliers. The organisation expects suppliers to conform to its code of conduct to ensure good practice across its supplier base. Regular engagement is sought from suppliers on both commercial matters and other considerations such as environmental issues, equality, diversity and inclusion and innovation, building resilient partnerships with suppliers and reinforcing the importance of the organisation's commitment to high standards of behaviour both for itself and its suppliers.

Regulated population and other stakeholders

The Business Plan and Budget of the SRA for 2021/22 were approved during the reporting period. Both were consulted on widely over a two month period. We took a multi-channel approach to engagement using traditional media, digital channels, such as webinars, social media and e-newsletters and direct engagement with a wide range of stakeholders through workshops and focus groups. Our aim was to raise awareness of the consultation, encourage formal written responses, while also gathering feedback through direct engagement and on specific points through social media.

The results of the consultation were considered by the Board in July 2021 before a decision was made on the final budget and business plan for 2021/22.

The budget, alongside that of the Law Society, determines the level of practising fees paid by the regulated population and these were approved by the Board on 20 July 2021 prior to approval by the Legal Services Board.

Any significant changes to the way in which the profession is regulated, or that may significantly impact the profession are subject to consultation before decisions are made. There were no other consultations within the reporting period however since the financial year end we have consulted on proposed changes to our fining powers and post six year run-off cover and the Solicitors Indemnity Fund. All consultations are published on our website and remain available after closing.

Members

The Law Society is the sole member of the company. The company is committed to successfully performing and discharging any and all functions as delegated or conferred upon the Company by the Law Society.

The Board of Directors consider, both individually and collectively, that they have acted in a way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members (having regard to the stakeholders and matters set out in section 172 (1) of the Act) in the decisions taken during the period ended 31 October 2021.

Approved and signed on behalf of the Board

Anna Bradley
Chair
22 March 2022

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DIRECTORS' REPORT

The Solicitors Regulation Authority Limited was incorporated on 18 May 2020. Its principal activity is to regulate solicitors and law firms in the public interest, protecting members of the public, supporting the rule of law and the administration of justice. This is done by licensing individuals and firms to practise, setting the standards of the profession and regulating and enforcing compliance against these standards, and overseeing all of the education and training requirements necessary to enter the profession and practise as a solicitor. The sole member of the company is the Law Society.

The company remained dormant until 1 June 2021 and accounts for a dormant company were made up to 31 May 2021. On 4 Jan 2022 the accounting period was shortened so as to end on 31 October 2021. This ensures that the end of the financial year aligns with that of the Law Society.

The directors present their report and the audited financial statements of the company for the period 1 June 2021 to 31 October 2021.

Directors

The directors during the reporting period were as follows: -

Anna Bradley

Ann E Harrison

Dr Peter J P Higson Resigned 31 December 2021

Paul B Loft

Barry Matthews Resigned 31 December 2021

Geoffrey Nicholas Resigned 31 December 2021

Dermot Nolan

Vikas S Shah

Elizabeth H Smart

Selina Ullah

Tony Williams

Lisa Mayhew was appointed on 1 January 2022

The Board

We had a Board of 11 members throughout this period.

We confirmed that Anna Bradley has been reappointed as the Chair of our Board for a second three-year term until the end of 2024. One other member of the Board, Selina Ullah, was reappointed for a further three years, also until the end of 2024. Tony Williams took on the role of Senior Independent Director.

Appointments and reappointments to the Board are governed by our Board composition and appointments protocol which forms part of our Governance Handbook which is available to view on our website.

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All appointments to the Board including the appointment of the Chair will be made on the basis of selection on merit following open and fair competition, with no element of election or nomination by any particular sector or interest groups. Appointments will be made by the Chair on advice from an appointment panel for which members will be selected by the Nominations Committee each time a recruitment round is held. Decisions on reappointment of directors will be made by the Chair, taking advice from the Nominations Committee, guided by objective annual appraisals and the desirability of ensuring a balance between regular turnover and continuity.

Board member remuneration is £12,500 per annum. Chairs of Committees receive an additional £5,000 pa, as does the Senior Independent Director. The Board Chair receives £90,000 pa.

The performance of all Board members is considered on an annual basis through an appraisal process which is conducted against an appraisal framework and behavioural competencies.

Board meetings

The Board held eleven formal meetings during 2020/21 including one meeting in London in July 2021 and one in Manchester in October 2021. All other Board meetings have been held virtually. Board papers and minutes are published on the SRA website.

The Board has continued to hold regular workshop sessions before its formal meetings. These provide the opportunity for engaging with external parties and more free ranging discussion of particular issues in advance of the Executive formulating more formal proposals for the Board to consider. The Board also holds two strategy days in April and October.

Board transparency

The Board maintains openness of its decision making so that the public from all communities and all sectors of the profession can see that decisions are properly made. This includes:

- publication of a full accountability statement that sets out where our powers derive from, to whom we are accountable, including the public and profession, and how we discharge that accountability
- publication of a Board transparency statement which describes how we share information about the Board, how it works and make decisions, our meeting papers and what we can publish, what we cannot, and why
- full Board minutes and publication of papers and a Chair's blog post meetings
- publication of a Board decision-making framework setting out the factors the Board considers when making its decisions.

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Delegation

We have in place a Board delegation framework which sets out how the Board, Committees and Executive work together to discharge the SRA's functions. The Board has two committees: Audit and Risk Committee and Remuneration Nominations Committee.

The Audit and Risk Committee provides assurance to the Board on matters including:

- The effectiveness of systems to identify and manage risk.
- The effectiveness and independence of the internal and external audit processes.
- The effectiveness of systems of internal control
- The integrity of the company's financial statements and management accounts.

The members of the Committee during the period were Paul Loft (Chair), Tony Williams, Vikas Shah and Ann Harrison.

The Remuneration Nominations Committee advises the Board on policies relating to the remuneration of non-executive Board Members, committee members, and the Executive Team. The members of the committee during the period were Selina Ullah (Chair), Anna Bradley, Elizabeth Smart, Barry Matthews and Peter Higson.

The Board delegates the day to day operational management of the company to the Senior Management Team which is comprised of:

Paul Philip	Chief Executive Officer
Jane Malcolm	Executive Director - External and Corporate Affairs
Juliet Oliver	General Counsel
Liz Rosser	Executive Director - Resources
Robert Loughlin	Executive Director - Operations and Performance
Tracy Vegro	Executive Director - Strategy and Innovation

Distinct legal entity status

The Legal Services Act 2007 brought in a new framework for legal regulation, separating out representation and regulation and setting out clear objectives for regulation. The Law Society delegated its regulatory responsibilities to the SRA as the independent regulator of legal services in England and Wales and in June 2021 the SRA began operating as a distinct legal entity within the Law Society Group. This change will not only enable us to be more effective but create more transparency for the profession and the public about our respective roles and responsibilities.

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Work with other regulators

The SRA works with the Legal Services Board, the oversight regulator of legal services in England and Wales, and under its rules, including the Internal Governance Rules 2019 (IGRs) which safeguard the independent exercise by approved regulators of their regulatory functions. We also work with the Office for Professional Body Anti Money Laundering Supervision which supervises the professional body supervisors such as the SRA in the legal and accountancy sectors. We also have significant engagement with the other eight legal sector regulators in England and Wales, as well as with regulators such as the Office of the Immigration Services Commissioner, Information Commissioner's Office and the Financial Conduct Authority.

Engagement with employees

As referenced within the Section 172 statement, the staff forum and union represent an opportunity for employees to have their voices heard in a formal setting. We also engage with employees through consultation on significant issues such as changes to working arrangements and the introduction of hybrid working.

Employment of disabled people

As an organisation, we expect the law firms we regulate to create and champion an equal and diverse culture, so we need to make sure we do the same. We expect our staff to consider EDI throughout their work, whatever their role. Our staff networks support the promotion of equal opportunities in terms of policies, procedures, practices, recruitment and career development for SRA employees to ensure disabled employees are treated equally. We also offer portfolio of training to develop our staff in a fair and non-discriminatory manner. We are a disability confident level 2 employer which enables us to make the most of the opportunities provided by employing disabled people. We have more recently reviewed our premises strategy in both London and Birmingham with a view to creating more flexible working environments going forward. The selection and design of our workplaces has allowed us the opportunity to enhance accessibility for those staff with disabilities

Statement of corporate governance arrangements

While the SRA does not adopt the UK Corporate Governance Code, the SRA Governance Handbook requires that Board members should at all times have regard to their obligations as directors of the SRA under relevant legislation, the Articles of Association and the Principles of the UK Corporate Governance Code.

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Emissions and energy consumption

The table below shows CO₂ equivalent for energy consumption in the period 1 June 2021 to 31 October 2021.

Source	Tonnes CO ₂ Equivalent (CO ₂ E)
Natural Gas	0
Electricity	49.04
Car Miles	12.91
Flights	0.18
Rail	339.83
Total	401.96
Tonnes CO ₂ E per employee	0.60

The greenhouse gas emissions have been assessed following the ISO 14064-1:2018 standard and has used the 2021 emission conversion factors published by Department for Environment, Food and Rural Affairs (Defra) and the Department for Business, Energy & Industrial Strategy (BEIS). The assessment follows the location-based approach for assessing Scope 2 emissions from electricity usage. The financial control approach has been used.

Statement of directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and.
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This Directors' Report was approved by order of the Board on 22 March 2022

Anna Bradley
Chair
22 March 2022

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOLICITORS REGULATION AUTHORITY

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 October 2021 and of its surplus for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Solicitors Regulation Authority ("the Company") for the period ended 31 October 2021 which comprise the Income and Expenditure Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Solicitors Regulation Authority Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOLICITORS REGULATION AUTHORITY (CONTINUED)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Solicitors Regulation Authority Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOLICITORS REGULATION AUTHORITY (CONTINUED)

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We made enquiries of management, the Audit and Risk Committee and the directors. This included the following:

- how they have identified, evaluated and complied with laws and regulations and whether they were aware of any instances of non-compliance;
- their process for detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
- which internal controls have been established to mitigate risks related to fraud or non-compliance with laws and regulations.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company. These include, but are not limited to, compliance with, Companies Act 2006, UK GAAP and tax legislation.

In addition, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: data protection and health and safety. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Those Charged with Governance and other management and inspection of regulatory and legal correspondence if any.

Solicitors Regulation Authority Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOLICITORS REGULATION AUTHORITY (CONTINUED)

We considered management's incentives and opportunities for fraudulent manipulation of the financial statements (including revenue recognition and the risk of override of controls) and determined that the principal risks were related to posting inappropriate journal entries to manipulate financial results and management bias in accounting estimates.

Audit response to risks identified

- We reviewed the financial statement disclosures and tested to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- We made enquiries of management and the directors;
- We read minutes of meetings of those charged with governance;
- In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; considered completeness of related party transactions; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- We challenged assumptions made by management in significant accounting estimates, including provisions.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Kyla Bellingall (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
Birmingham

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Solicitors Regulation Authority Limited

INCOME AND EXPENDITURE STATEMENT

For the five month period to 31 October 2021

	Note	5 month period to 31 October 2021	18 May 2020 to 31 May 2021
		£'000	
Revenue	4	29,233	-
Operating expenses		(27,349)	-
Operating surplus for the year	5	1,884	-
Surplus before taxation		1,884	-
Tax on surplus	7	(4)	-
Surplus for the financial year		1,880	-

All operations are continuing.

The notes on pages 27 to 43 form part of these financial statements

Solicitors Regulation Authority Limited

STATEMENT OF COMPREHENSIVE INCOME

For the five month period to 31 October 2021

	Note	5 month period to 31 October 2021	18 May 2020 to 31 May 2021
		£'000	
Surplus for the financial year	5	1,880	-
<hr/>			
Other comprehensive income for the year			
Unrealised gains on investments	8	299	-
Tax on other comprehensive income	7	(72)	-
Total comprehensive income		2,107	-

The notes on pages 27 to 43 form part of these financial statements

Solicitors Regulation Authority Limited

BALANCE SHEET

As at 31 October 2021

	Note	31 October 2021	31 May 2021
		£'000	£'000
Fixed assets			
Tangible fixed assets	9	653	-
Investments	8	9,316	-
		9,969	-
Current assets			
Debtors	10	19,558	-
Cash at bank		35,239	-
		54,797	-
Creditors: amounts falling due within one year	11	(45,519)	-
Net current assets		9,278	-
Total assets less current liabilities		19,247	-
Creditors: amounts falling due after one year	12	(168)	-
Provision for other liabilities	14	(3,635)	-
Net assets		15,444	-
Capital and reserves			
Capital contribution		13,337	-
Total comprehensive income		2,107	-
Total		15,444	-

Approved and authorised for issue by the Board of Directors on 22 March 2022
and signed on its behalf by: -

Anna Bradley
Chair

Solicitor Regulation Authority Limited
Registered no. 12608059

The notes on pages 27 to 43 form part of these financial statements

Solicitors Regulation Authority Limited

STATEMENT OF CHANGES IN EQUITY

For the Period 1 June 2021 - 31 October 2021

	Capital Contribution	Retained earnings	Total equity
	£'000	£'000	£'000
Balance as at 31 May 2021	-	-	-
Capital contribution	13,337	-	13,337
Total comprehensive income for the period	-	2,107	2,107
Balance as at 31 October 2021	13,337	2,107	15,444

The notes on pages 27 to 43 form part of these financial statements

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Solicitors Regulation Authority Limited

STATEMENT OF CASH FLOWS

For the Period 1 June 2021 - 31 October 2021

	Note	5 month period to 31 October 2021 £'000	18 May 2020 to 31 May 2021 £'000
Net cash from operating activities		10,227	-
Net cash generated from operating activities	16	10,227	-
Cash flow from investing activities			
Cash contribution	16	25,000	-
Purchase of fixed assets		(33)	-
Sales of fixed assets		45	-
Net cash generated by investing activities		25,012	-
Net increase in cash and cash equivalents		35,239	-
Cash and cash equivalents at the beginning of the year		-	-
Cash and cash equivalents at the end of the year		35,239	-
Cash and cash equivalents consists of:			
Cash at bank and in hand		35,239	-

The notes on pages 27 to 43 form part of these financial statements

Solicitors Regulation Authority Limited

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JUNE 2021 – 31 OCTOBER 2021

1. Statement of compliance

The financial statements of Solicitors Regulation Authority Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102') and the Companies Act 2006.

2. Summary of significant accounting policies

a) Basis of preparation

The financial statements are prepared on a going concern basis, under the historical cost convention with the exception of the valuation of investments. The most significant accounting policies adopted by the SRA are described below and these have been applied consistently, unless otherwise stated

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Solicitors Regulation Authority Limited was incorporated on 18 May 2020 and began operating on 1 June 2021. These financial statements are prepared for a five month period to 31 October 2021. This change is in order to align with the financial year end of the Law Society Group.

b) Going Concern

The financial statements have been prepared on a going concern basis.

In the current business climate, the Board acknowledges the ongoing Covid-19 pandemic. The Executive and the Board continues to closely monitor all aspects of SRA's activities and financial performance. Sensitivity analysis relating to potential reductions in practising fee income and has been carried out. The liquidity of investments has also been considered to ensure that funds are sufficiently accessible should they be called upon.

Given the strength of the balance sheet and availability and liquidity of investments and the relative certainty of income, the Board believes that, while uncertainty exists, this does not pose a material uncertainty that would cast doubt on the SRA's ability to continue as a going concern. The Board, therefore, considers it appropriate for the accounts to be prepared on a going concern basis.

Solicitors Regulation Authority Limited

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JUNE 2021 – 31 OCTOBER 2021 (Continued)

c) Non-consolidated entities

In the opinion of the Board the following entity should not be consolidated into the financial statements as this entity is not considered to be a subsidiary, associate or joint venture as defined by FRS 102:

- The SRA Compensation Fund

The results of the SRA Compensation Fund (the Fund) which is maintained and administered by the SRA under requirements set out in statute, are not included within these SRA financial statements as the Fund is considered to be held on 'Trust' purely for the specific purpose for which the Fund is created and the SRA does not have the right to access any of the Fund's assets for its own purposes and would not be liable to meet any liabilities created by the Fund if the Fund were unable to meet them. As the SRA does not have control or significantly influence and does not derive anything other than inconsequential indirect benefit, the financial results, assets and liabilities of the Fund are not included in the financial statements of the SRA. The financial statements of the Fund are available annually on the SRA website.

d) Consolidated financial statements

The company is a limited by guarantee and the sole member is the Law Society. The Law Society was incorporated by Royal Charter. The company is included in the consolidated accounts of the Law Society. These financial statements are the company's separate financial statements. The company has taken advantage of FRS102 reduced disclosure exemptions – the requirements of Section 33 Related Party transactions and as such transactions with the Law Society are not disclosed.

e) Foreign currency

Transactions in foreign currencies are translated into Sterling at the rate of exchange ruling at the date of transaction. All foreign exchange differences have been taken to the income statement activities during the year.

f) Revenue recognition policies

- i. Practising fees collected to fund operating activities

Revenue in relation to practising fees is recognised on an accruals basis, apportioned over the period to which the practising certificate relates (1 November to 31 October, except where individuals join during the year). Income invoiced but not yet received prior to year-end is included in debtors and in deferred income to match the period to which they relate. Practising fees collected by the SRA are only used to fund permitted activities under section 51 of the Legal Services Act 2007.

Solicitors Regulation Authority Limited

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JUNE 2021 – 31 OCTOBER 2021 (Continued)

ii. Solicitors Qualifying Examination

The Solicitors Qualifying Examination (SQE) is the assessment for all aspiring solicitors in England and Wales. The first examinations took place in November 2021. Income from SQE entries is recognised on an accruals basis ensuring revenue is recognised as services are delivered.

iii. Other income

There are a number of other income streams. For each, income is recognised on an accruals basis ensuring that revenue is recognised as the services are delivered. The date of delivery is typically the invoice date.

There is one significant exception to this which is Periods of Recognised Training. Revenue in relation to Periods of Recognised Training is apportioned over the period to which the training is undertaken which is 2 years.

iv. Income from the SRA Compensation Fund

The SRA manages and administers the activity of the Fund on behalf of the Fund. The cost of this activity is recovered from the Fund. This income is recognised when actually calculated and notified to the Fund by the SRA on a monthly basis. The costs to be charged to the Fund are agreed annually by the SRA Audit and Risk Committee. The amount recharged represents the work done directly on behalf of the fund as well as an agreed proportion of overhead costs allocated to the Fund.

v. Investment income

Income from investments is recorded as interest income or capital gains/losses as realised. Changes in the value of the investment portfolio are included as unrealised gains within the statement of comprehensive income.

g) Employee benefits

Payments or other benefits arising from the termination of a person's employment are recognised as a liability and expensed when an individual is notified of the redundancy or termination.

The SRA makes contributions towards the defined contribution scheme up to maximum of 12.25% of basic salary. The amount charged to the income and expenditure account in respect of pension costs and other post-retirement benefits is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Solicitors Regulation Authority Limited

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JUNE 2021 – 31 OCTOBER 2021 (Continued)

h) Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the income and expenditure account, except to the extent that it relates to items recognised in other comprehensive income. In this case tax is also recognised in other comprehensive income. Deferred balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date.

i) Tangible assets

Depreciation is provided on a straight-line basis to write off the cost over the useful economic life of the assets as follows:

Furniture and equipment	5 years straight line
Computers and hardware	3 years straight line
Leasehold property improvements	Over the period of the lease

Leasehold property improvements are capitalised where there is future economic benefit arising from the improvements. Assets under construction are not depreciated until the asset is completed. Cost of repairs and maintenance are expensed as incurred.

Tangible assets are assessed for indicators of impairment at each reporting end date. Assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated values have been affected. The impairment loss is recognised in the Income Statement.

j) Leased Assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the SRA. All other leases are classified as operating leases.

Assets held under finance leases and hire purchase contracts are recognised initially at the lower of the fair value of the asset or the present value of the minimum payments at the inception of the contract. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Assets held under finance leases and hire purchase agreements are included in tangible fixed assets and depreciated and assessed for impairment losses in the same way as owned assets.

Rentals paid under operating leases are charged to the income and expenditure account on a straight-line basis over the lease term.

The benefits of lease incentives are recognised as a reduction to the rental expense over the lease term on a straight-line basis.

Solicitors Regulation Authority Limited

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JUNE 2021 – 31 OCTOBER 2021 (Continued)

k) Valuation of investments

Current asset investments comprise of managed investment funds. Investments are measured at fair value. Changes in fair value are recognised in other comprehensive income. The fair value of investments is obtained at the balance sheet date based on valuations normally using prices obtained from an independent pricing source.

l) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents are defined as cash at bank and in hand, and short-term cash deposits defined as those maturing within three months of acquisition. The managed investment portfolios are not included in the definition of cash and cash equivalents as, while they can be liquidated without penalty with 24 hours' notice, there is a risk of change in the value.

m) Provisions and contingencies

i. Provisions

Provisions are recognised where the SRA has a present obligation resulting from a past event that will probably result in the transfer of funds to a third party and the amount due to settle the obligation can be measured or estimated reliably. All provisions are made based on management's best estimate given past experience and available information.

The SRA recognises provisions for the following items on the basis outlined below:

- Interventions, disciplinary proceedings and litigation - the unavoidable costs of completing proceedings in these areas based on earlier activity.
- Dilapidations - the unavoidable costs of restoring leased property to the same state as when the property lease was taken on by the SRA (or by the Law Society if subsequently transferred to the SRA).
- Assigned Risks Pool– the SRA recognises, based on predicted claim values for the current economic environment, probable liabilities for the firms who have applied and been provided with a professional indemnity insurance policy from the Assigned Risks Pool for a specific indemnity year under a contractual arrangement with this related entity.

ii. Contingencies

Contingent liabilities are not recognised. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

Solicitors Regulation Authority Limited

n) Financial instruments

The SRA has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments. Financial instruments are recognised when the company becomes party to the contractual provisions of the instrument.

i. Financial Assets

Basic financial assets, which include trade and other receivables and cash and bank balances, are measured at transaction price including transaction costs.

Financial assets, other than those held at fair value through profit or loss, are assessed for indicators of impairment at each reporting end date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected.

ii. Financial liabilities

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less.

o) Related party transactions

The company has taken advantage of FRS102 reduced disclosure exemptions – the requirements of Section 33 Related Party transactions and as such transactions with the Law Society are not disclosed.

p) Reserves

Reserves comprise a capital contribution from the Law Society upon the transfer of activities from the Law Society to Solicitors Regulation Authority Limited and accumulated surpluses made within SRA. Practising fees collected by the SRA and consequently any surpluses made can only be used for purposes permitted by Section 51 of the Legal Services Act 2007. Reserves are not distributable outside of the Company other than if the Company were to be wound up.

3. Critical accounting judgements and key sources of estimation uncertainty

To be able to prepare the financial statements in accordance with United Kingdom accounting standards, management must make estimates and assumptions that affect the recorded assets and liabilities. These estimates are based on historical experience and various other assumptions that management believe are reasonable.

The result of these form the basis for making judgements about the carrying value of assets and liabilities that may not be readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions however they are based on management's best estimate and all available information and after consideration of the sensitivity of key assumptions. The following accounting policies include significant judgments and key sources of estimation:

Solicitors Regulation Authority Limited

i. Recoveries

Costs incurred in protecting the public may be recoverable from solicitors in due course and any potential recovery will be recognised at the point there is reasonable expectation of recovery and provision is made for the likelihood of recovery. The SRA does not make provision for other potential future recoveries due to the uncertainty of whether any amounts can be recovered.

ii. SRA provisions

Provisions are recognised in respect of present obligations as a result of past events where it is probable that an outflow of resources will be required to settle the obligations and they can be reliably estimated. All provisions are made based on management's best estimate given past experience and available information.

The SRA recognises provisions for the following items on the basis outlined below:

- Interventions, disciplinary proceedings and litigation - the SRA recognises provisions for the unavoidable costs of completing proceedings in these areas based on earlier activity. The cost of completing the works is based on estimates provided by the third party agents undertaking the works and agreed by internal staff involved in the proceedings.
- Dilapidations - the SRA recognises provisions for the unavoidable costs of restoring leased property to the same state as when the property lease was taken on by the SRA. The costs represent the full cost of dilapidations at the end of the lease term. The estimate is based on recent works undertaken and settlements recently agreed.
- Assigned Risks Pool costs – the SRA has recognised, based on predicted claim values for the current economic environment, probable liabilities for the firms who have applied and been provided with a professional indemnity insurance policy from the Assigned Risks Pool for a specific indemnity year under a contractual arrangement with this related entity. The provision is based on the assessments undertaken by the firm responsible for managing and handling claims on behalf of the SRA. The provision has been released this year and no provision is considered necessary now as the likelihood of further calls on the SRA for payment of costs or claims is considered to be remote.

4. Analysis of Revenue

	5 month period to 31 October 2021 £'000	18 May 2020 to 31 May 2021 £'000
Practising fee income	24,124	-
Compensation Fund Income	3,392	-
Other income	1,696	-
Interest	21	-
Total Revenue	29,233	-

Solicitors Regulation Authority Limited

5. Operating surplus

Operating surplus is stated after charging

	5 month period to 31 October 2021 £'000	18 May 2020 to 31 May 2021 £'000
Loss on disposal of fixed assets	22	-
Impairment of fixed assets	58	-
Impairment of trade receivables	966	-
Operating lease costs	678	-
Depreciation	256	-
Audit fees payable to the company's auditors	109	-

6. Employees and directors

Employees

The average monthly number of persons (including executive directors) employed by the company during the reporting period was 675.

Directors

The directors' emoluments were as follows:

	5 month period to 31 October 2021 £'000	18 May 2020 to 31 May 2021 £'000
Aggregate remuneration	96	-

Highest paid director

The highest paid director's emoluments were as follows:

	5 month period to 31 October 2021 £'000	18 May 2020 to 31 May 2021 £'000
Total amount of emoluments	37	-

The Directors received no other financial benefits or remuneration

Solicitors Regulation Authority Limited

Key management Compensation

Key management includes the directors and members of senior management. There are six members of the senior management team. The compensation paid to the senior management team in the reporting period is shown below:

	5 month period to 31 October 2021 £'000	18 May 2020 to 31 May 2021 £'000
Salaries and other short-term benefits	484	-
Pension contributions	35	-
	519	-

Staff costs

	5 month period to 31 October 2021 £'000	18 May 2020 to 31 May 2021 £'000
Wages and salaries	11,745	-
Social security costs	1,278	-
Other pension costs	1,020	-
Staff costs	14,043	-

7. Taxation

The activities of the SRA are considered by the Directors to be non-trading activities and therefore any surplus not subject to Corporation Tax. Tax is payable on interest received and capital gains on investments once realised.

	5 month period to 31 October 2021 £'000	18 May 2020 to 31 May 2021 £'000
UK Corporation tax at 19%	4	-
Total current tax charge	4	-
Origination and reversal of timing differences	72	
Total deferred tax charge	72	
Total tax charge	76	

Solicitors Regulation Authority Limited

Reconciliation of tax charge

	5 month period to 31 October 2021 £'000	18 May 2020 to 31 May 2021 £'000
Profit on ordinary activities before tax	1,884	-
Tax at 19%	358	-
Amendments to tax		
Expenses not deductible for tax purposes	5,196	-
Income not taxable for tax purposes	(5,550)	-
Unrealised gain on investments	72	-
Tax charge for the period	76	-

8. Fixed asset investments

	5 month period to 31 October 2021 £'000
At 1 June 2021	-
Transfer of investments from the Law Society	9,000
Interest received	21
Loss on disposal	(4)
Unrealised gain on investments	299
At 31 October 2021	9,316

Solicitors Regulation Authority Limited

9. Tangible fixed assets

	Leasehold property £'000	Furniture and equipment £'000	Computers and hardware £'000	Total £'000
At 1 June 2021	-	-	-	-
Transferred in	234	67	403	704
Additions	-	-	285	285
Disposals	-	(27)	-	(27)
Depreciation	(128)	(8)	(115)	(251)
Impairment	(58)	-	-	(58)
Closing net book amount	48	32	573	653
At 31 October 2021				
Cost	234	40	688	962
Accumulated depreciation and impairment	(186)	(8)	(115)	(309)
Net book amount	48	32	573	653

The net book value of assets held on finance lease is £245k

10. Debtors

	31 October 2021 £'000	31 May 2021 £'000
Trade debtors	16,052	-
Prepayments	1,717	-
Accrued income	1,789	-
	19,558	-

Trade debtors includes £855k of debtors on payment plans which fall due in more than one year. Trade debtors are stated after provisions for impairment of £966k.

Solicitors Regulation Authority Limited

11. Creditors: amounts falling due within one year

	31 October 2021	31 May 2021
	£'000	£'000
Trade creditors	913	-
Amounts due to Law Society	11,541	-
Amounts due to the SRA Compensation Fund	1,724	-
Corporation Tax	4	-
Taxation and social security	818	-
Finance leases	84	-
Other creditors	1,193	-
Practising fee deferred income	22,480	-
Accruals and deferred income	6,762	-
	45,519	-

12. Creditors: amounts falling due after more than one year

	31 October 2021	31 May 2021
	£'000	£'000
Finance leases	168	-
	168	-

The finance lease relates to laptop computers. The remaining term is 2 years and 11 months. At the end of the lease the company has no option to purchase.

13. Loans and other borrowing

Finance leases

The future minimum finance lease payments are as follows

	31 October 2021	31 May 2021
	£'000	£'000
Not later than one year	84	-
Later than one year and not more than five years	168	-
Total gross payments	252	-
Less: finance charge	1	-
Carrying amount of liability	251	-

Solicitors Regulation Authority Limited

14. Provision for other liabilities

The company had the following provisions during the reporting period

	31 May 2021	Transferred in £'000	New provisions £'000	Utilised / realised £'000	31 October 2021 £'000
Interventions, disciplinary proceedings and litigation	-	1,797	2,228	(1,746)	2,279
Dilapidations	-	860	424	-	1,284
Assigned Risks Pool	-	676	-	(676)	0
Deferred taxation	-	-	72	-	72
		3,333	2,724	(2,422)	3,635

The provision for interventions, disciplinary proceedings and litigation includes the costs of legal fees to complete ongoing matters at the year end. Costs in relation to interventions are recharged in full to the Compensation Fund when incurred. These provisions are likely to be utilised within the next 12 months.

The provision for dilapidations represents the unavoidable costs of restoring the leasehold properties to the same state as when the lease was taken by the SRA (or by the Law Society where subsequently transferred to the SRA). The costs represent the best available estimate of the costs of carrying out the required works or eliminating the obligation by way of a negotiated settlement. £705k of this provision is expected to be utilised within the next 6 months, the remainder is expected to be utilised at the end of the lease, which is expected to be no earlier than March 2027.

The Assigned Risks Pool provided professional indemnity insurance cover for firms who were unable to obtain cover from Qualifying Insurers. The ARP's last year of operation was 2013. An arrangement is in place for liabilities under claims made by applied firms in the final year of the ARP to be met by the SRA and Qualifying Insurers under agreed layers. The provision was based on estimates of claims arising from this final year and includes provision for the six-year run off period which ended in 2019. A provision is no longer considered necessary as the likelihood of further calls on the SRA for payment of costs or claims is considered so remote as to not require further provision.

The provision for deferred taxation consists of the following deferred tax liabilities:

	31 October 2021 £'000	31 May 2021 £'000
Tax on unrealised gains on investments	72	-

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15. Financial instruments

The company has the following financial instruments.

	31 October 2021
	£'000
Financial assets at fair value through income and expenditure	
Investments	9,316
Debt instruments measured at amortised cost	
Trade debtors	16,052
Accrued income	1,789
Cash	35,239
	62,396

	31 October 2021
	£'000
Financial liabilities measured at amortised cost	
Trade creditors	913
Amounts due to Law Society	11,541
Amounts due to the SRA Compensation Fund	1,724
Other creditors	1,193
Accruals	4,328
	19,699

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16. Notes to the statement of cash flows

The SRA was an operating division within the Law Society until 1 June 2021. The balances below were transferred from the Law Society on 1 June 2021 as part of the transfer of operations to Solicitors Regulation Authority Limited.

	1 June 2021	31 May 2021
	£'000	£'000
Fixed assets		
Tangible fixed assets	704	-
Investments	9,000	-
	9,704	-
Current assets		
Debtors	12,148	-
Cash at bank	25,000	-
	37,148	-
Creditors: amounts falling due within one year	(30,182)	-
Net current assets	6,966	-
Total assets less current liabilities	16,670	-
Provision for other liabilities	(3,333)	-
Net assets	13,337	-
Capital and reserves		
Capital contribution	13,337	-
Total	13,337	-

The movements on the cash flow statement show the movement from the opening balances after the transfer from the Law Society to the end of the reporting period.

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	5 month period to 31 October 2021	18 May 2020 to May 2021
	£'000	£'000
Surplus for the financial year	1,880	-
Net interest	(21)	-
Capital loss on investments	4	-
Depreciation of fixed assets	256	-
Impairment of fixed assets	59	-
Gain on disposal of fixed assets	(23)	-
Increase in provisions	230	-
Working capital movements		-
Increase in debtors	(7,410)	-
Increase in creditors	15,252	-
Cash flow from operating activities	10,227	-

17. Analysis of changes in net debt

	1 June 2021	Cashflow	Other non- cash changes	31 October 2021
	£'000	£000	£000	£'000
Cash and cash equivalents	-	35,239	-	35,239
Finance leases	-	-	(252)	(252)
	-	35,239	(252)	34,987

18. Non-cash transactions

The SRA has acquired tangible assets under finance leases. £252k has been capitalised as the cost of the asset, being the present value of the minimum lease payments.

19. Litigation

Legal matters will arise as a matter of course within the business due to the nature of operations, as solicitors may challenge decisions on action taken against them or their firms. The SRA has a robust process of reviewing and managing high profile litigation matters. Provisions and accruals are made in the financial statements to reflect litigation costs as appropriate. The Board does not consider there to be any litigation legal claims that require provision or disclosure.

20. Contingent gains and losses

There are a number of assets over which the SRA has some title / claim which may lead to potential future recoveries. These potential assets are not recognised as part of the

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provisions for recoveries as, in the opinion of the Board, they are so uncertain that they cannot be practically measured and hence no estimate is included here.

21. Capital and other commitments

At 31 October the SRA had the following capital commitments

	31 October 2021	31 May 2021
	£'000	£'000
Contracts for future capital expenditure not provided in the financial statements – Leasehold improvements	1,562	-

At 31 October 2021 the company had future minimum lease payments under non-cancellable operating leases as follows: -

	31 October 2021	31 May 2021
	£'000	£'000
Not later than one year	1,016	-
Later than one year and not more than five years	5,075	-
Later than five years	7,864	-
	13,955	-

The company had no other off-balance sheet arrangements.

22. Related Party Transactions

The Law Society and the Fund are related parties of Solicitors Regulation Authority Limited. Related party transactions with the Fund in the year totalled £3.4m (year to 31 May 2021: £nil) which represented income received from the Fund in respect of administration of the Fund. Additionally, the SRA collects contributions on behalf of the Fund annually.

The company is exempt from disclosing other related party transactions as they are with other companies that are wholly owned within the Law Society group and therefore transactions between the company and the Law Society are not disclosed.

See note 6 for disclosure of the directors' remuneration and key management compensation.

23. Controlling parties

The ultimate controlling party is the Law Society.