SRA Compensation Fund

Annual Report and Financial Statements
For the Year ended 31 October 2025

Contents

About the Compensation Fund

The Solicitors Regulation Authority Compensation Fund (the Fund) can make payments to members of the public and small businesses. It provides a vital safety net for client money that is not accounted for or has been stolen. Usually, people make a claim on the fund after we have intervened into a law firm they were using. The Solicitors Regulation Authority (SRA) manages the fund and law firms and solicitors pay into it through an annual contribution.

Established under the Solicitors Act 1974, the fund is not a legal entity and the SRA's role is to administer it only. It is a discretionary fund of last resort and is governed by the SRA Compensation Fund Rules 2021. Individuals and businesses must make an application to the fund to receive a payment. We will then consider their claim, bearing in mind our rules.

We seek to recover claims made on the fund through all avenues, including taking action against the intervened solicitors or managers, the firm's insurer and, in certain cases, the firm's former partners and directors. The funding comes from the law firms and the solicitors regulated by the SRA, so recovering costs is important as ultimately our costs are passed onto the public who buy legal services.

In February 2024, we launched a review of our overall approach to protecting consumers who place their trust in regulated law firms – our consumer protection review.

We consider there is a strong case to properly explore the long-term transformation of the model of holding client money and how the Fund is funded.

However, our immediate focus is on making changes to better protect and safeguard client money under the current system. This is also the focus of the strategic priorities outlined in our proposed 2026-27 business plan and relevant LSB Directions post-Axiom Ince.

We consulted further on client money in legal services in late 2025 with the consultation closing on 20 February 2026. We will publish the outcome of this later in 2026.

We then plan to return to the longer-term questions of solicitors holding client money and the Fund after we have made changes to the current system, when we can give them the robust consideration they need. This will build on the views and insights we have already gained from stakeholders and will involve working further with those stakeholders. We will also share a summary of the consultation feedback we received on these topics later this year.

We support a competitive legal market in which access to justice and public confidence and trust in legal services are maintained.

About the SRA

The Solicitors Regulation Authority is the largest regulator of legal services in England and Wales, covering around 90% of the market. We regulate more than 200,000 solicitors and around 9,000 law firms. Our mission is to drive confidence and trust in legal services.

Two-thirds of the public say they have that confidence. Our responsibility is to protect and further build that trust.

Our focus is on the issues that can transform legal services:

- Setting the high standards the public expects: solicitors must meet a demanding standard of knowledge, with the primary route for new entrants to the profession being to pass the Solicitors Qualifying Examination (SQE).

- Preventing harm and protecting consumers when things go wrong: we are developing our approach to regulation, to provide early warning of potential problems. When a firm collapses, we will move quickly to protect client money and any files relating to their case. Where dishonesty within a legal services provider means a client loses money, we will provide compensation. And where standards fall short, we will hold those responsible to account, closing businesses or referring individual solicitors to an independent tribunal where needed.

- Supporting the use of new technology and innovation: we are working to create an open and competitive legal market, providing modern, accessible and affordable services.

Principal activities of the Compensation Fund

The primary objective of the SRA Compensation Fund (the fund) is to replace money in the small number of cases in which a defaulting practitioner (primarily solicitors) or a defaulting practitioner's employee, manager or owner has misappropriated or otherwise failed to properly account for client money.

The fund makes discretionary grants to those persons who have either suffered or are likely to suffer financial loss directly resulting from an activity of a kind which is part of the usual business of a defaulting practitioner and, in the case of a defaulting licensed body, the act or default arose in the course of performance of an activity regulated by the SRA in accordance with the terms of the body's licence, in two circumstances. These are:

- dishonesty of a defaulting practitioner or the employee or manager or owner of a defaulting practitioner; or

- failure to account for money which has come into the hands of a defaulting practitioner or the employee or manager or owner of a defaulting practitioner, which may include the failure by a defaulting practitioner to complete work for which the defaulting practitioner was paid.

The majority of these grants arise from claims made following an intervention by the SRA into the practise of a defaulting practitioner.

All regulated practitioners (except those working for the Crown Prosecution Service) and licensed firms of practitioners who hold client money are required to pay an annual contribution to the fund. Contributions are determined and collected on behalf of the fund by the SRA. The cost of processing the claims is borne by the SRA and then charged to the fund.

Contribution setting

The SRA Board considers the following four principles in setting the contribution levels for, and the management of, the fund. These principles were consulted on publicly in June 2020.

Principle one - The overriding principle is to maintain the viability of the fund

We need to ensure that the fund has sufficient money to be able to make the grant payments and pay the administration costs it bears. There is considerable risk involved given the degree of uncertainty over the level, type and timing of interventions that will arise in any year, which is not possible to predict. Through the annual contribution setting process we seek to ensure that the balance of the fund remains sufficient to make payments as they are required, ensuring that the fund remains viable and consumers are adequately protected.

The fund balance had been on a managed, broadly downward, trajectory for several years from 2018-19, with a significant increase in these outflows in the year 2023-24. In 2024-25 outflows increased significantly again, although the increased levels of contributions in recent years meant that the balance of the fund remained relatively stable.

The fund's cash flow cycle over each financial year is that every October it receives the annual contributions from solicitors and firms of solicitors as part of the annual practising certificate renewal process. The end of October is therefore typically the peak in the fund's balance. The low point is usually September. The going concern review below considers the recent actual monthly cash balances of the fund.

Principle two - we will ensure that the contributions to the fund are as manageable as possible for those we regulate

In order to help firms and solicitors plan ahead, we will strive to avoid significant fluctuations and volatility in the contribution levels. This means that we must, as set out in principle one, ensure provision is sufficient to cover a level of unanticipated claims as well as anticipated future demand. We will do this by maintaining a reserve that at least covers future demand and takes account of any exceptional cases (such as high value multiple claims), while minimising year-on-year fluctuations.
This is not always possible when there are exceptional interventions, which have very significant impacts in the year they arise on the fund's position and action must be taken to ensure we can meet the fund's payment requirements.

Contribution setting (continued)

Principle three - We will collect contributions to the fund in a way that is manageable for those we regulate

Under principle three the SRA collects the fund's contributions annually, alongside solicitors' practising certificate fees, which is a well-established process for the regulated community.

Principle four – We will be transparent about the fund monies and their management

The information in these financial statements provides information that is intended to be useful to stakeholders of the fund.

We invite comment on the contribution level within the SRA business plan consultation. We do not consult separately on the contribution levels, which is a decision made by the SRA Board. In considering the appropriate level of contribution the Board will consider the expected activity within the fund, levels of interventions and the appropriate balance to maintain the fund.

Over the last decade the contributions to the Compensation Fund have varied as the requirements of the fund change from year to year. They are shown in the table below. This also shows the accumulated funds at the end of each financial year (31 October). As noted above, the lowest point in the fund's cashflow is typically the end of September each year before the annual contribution collection exercise. The low balance at the end of 2022-23 has now been increased through higher levels of contributions in the subsequent years.

Financial year	Individual fee	Firm fee	Accumulated funds (£000s)
2016-17	32	548	41,438
2017-18	40	778	48,908
2018-19	90	1,680	66,662
2019-20	60	1,150	60,628
2020-21	50	950	50,610
2021-22	40	760	54,183
2022-23	30	690	25,050
2023-24	30	660	44,651
2024-25	90	2,220	41,326
2025-26	70	1,950	N/a

Contribution setting (continued)

Our approach to Compensation Fund contribution setting

We use a cash projection to support our decision-making process for determining a recommended contribution level. The key element to determining the recommended level is the judgement we must make over:

- the degree to which we will use past experience to inform our assessment of what the future may hold.
- how much allowance to make for exceptional intervention events that have very material cash outflow impacts.
- our knowledge of potentially significant ongoing and upcoming claims
- the time it will take for claims to be settled and recoveries and residual balances[1] to be received.

The projection draws on historical and current data to forecast future grant payments, intervention related costs, cost recoveries and statutory trust receipts in the forthcoming two-year period (to the end of October 2027).

Based on our experience of the past variability in cash outflows, we determine a target reserve that the fund should hold to ensure that there is limited risk to its viability, with a particular focus on having sufficient money in the fund at the cyclical low point of September each financial year.

The overall contribution for the following year is then split, with half raised through individual solicitor contributions and half through law firm contributions. This apportionment between firms and individuals has been in operation since 2010 and was the subject of a consultation which concluded in early 2025[2].

These 50% overall income contributions are then divided by the projected number of solicitors (recovered from all solicitors other than Crown Prosecution Service solicitors) and applicable law firms (law firms which hold client money on account), to determine the specific contributions.

For the 2025-26 year, the contributions were set at £70 per solicitor and £1,950 per law firm, reduced from £90 and £2,220 respectively in 2024-25. These levels are lower than in previous years which were higher due to increased payments in relation to larger than average interventions.

[1] Balances remaining in law firms accounts following an intervention that cannot be returned to the rightful beneficiaries. These funds are transferred to the Fund and can be returned to beneficiaries when identified.
[2] https://www.sra.org.uk/sra/consultations/consultation-listing/delivering-sustainable-compensation-fund/?s=c

Governance

The Council of the Law Society (the Council) has empowered the SRA to deal with all matters relating to the fund.

The financial management and administration of the fund by the SRA is governed by the SRA Compensation Fund Rules which are made under sections 36 and 36A of the Solicitors Act 1974, section 9 of the Administration of Justice Act 1985, sections 21(2) and 83(5)(e) of, and paragraph 19 of Schedule 11 to, the Legal Services Act 2007 and an Order made under section 69 of the Legal Services Act 2007, S.I. 2011 No 1716, with the approval of the Legal Services Board under paragraph 19 of Schedule 4 to the Legal Services Act 2007.

Members of the SRA Board during the financial year under review and up to the date of signing were:

Anna Bradley (Chair)	
Ann Harrison	
Lisa Mayhew	
Vikas Shah	
Elizabeth Smart	
Nicola Williams	
Claire Bassett	
Rob McWilliam	
Paul Loft	Until 31 December 2024
Selina Ullah	Until 31 December 2024
Claudio Pollack	From 1 January 2025
Simon Millhouse	From 1 January 2025

The Chief Executive of the SRA during the financial year was Paul Philip. On 31 October 2025 Paul Philip retired from the SRA. Sarah Rapson became the Chief Executive Officer on 1 November 2025.

The Board delegated certain powers and duties during the financial year to its Audit and Risk Committee. Members of the Audit and Risk Committee during the financial year under review were:

Rob McWilliam	Chair
Paul Loft	Member until 31 December 2024
Vikas Shah	Member
Claire Bassett	Member
Simon Millhouse	Member from 1 January 2025

Given the Council's size (there are 100 places on the Council) the membership records are not shown here but are available on request and are included in the consolidated financial statements of the Law Society Group.

Operating and financial review

Income

The SRA collects contributions on behalf of the fund annually, predominantly as part of the annual practising fee collection exercise. These contributions may be used to provide cover for future claims in any year against the fund.

A contribution of £70 per individual solicitor and £1,950 per firm of solicitors holding client money (2024-25: £90 and £2,220 respectively) was approved by the Board at its meeting in July 2025 relating to the practising fee year 1 November 2025 to 31 October 2026.

Contributions received in the financial statements during the 2024-25 year totalled £26.4m compared with £29.7m in the prior year. The decrease was as a result of the reduced individual and firm contributions for 2025-26. The majority of contributions are received in October each year as part of the annual practising certificate renewals exercise.

Grant recoveries are often received several months or even years after the initial grant is paid and therefore are not necessarily related to grants paid in the same year due to the accounting policies adopted. Grants are recovered primarily from statutory trust accounts (STAs) held on trust by the SRA, which are client monies held by firms into which the SRA has intervened and which the SRA then holds on behalf of clients.

Recoveries of £22.8m (2024: £18.3m) were £4.5m higher than the prior year, while residual balances received from STAs of £12.9m (2024: £11.9m) were £1m higher than in 2023-24.

Of the total grant recoveries, £4.5m (2024: £3.5m) relates to monies recovered by cost recovery where the fund is able to recover, from solicitors, the grants that have been paid out from the fund to former clients of those solicitors.

Due to the combined impact of these changes, income overall was £2.2m higher than the previous year.

Expenditure

Grants paid

Grants paid totalled £46.4m compared to the prior year's £27.9m. The very high level of grants in the year related to the Metamorph Group and Axiom Ince interventions. More than £19.2m of the payments during 2024-25 were in relation to the Axiom Ince intervention.

We forecast that the total amount paid on the Axiom case will be in the region of £39.1m once all claims are paid, of which £37.5m was paid to 31 October 2025. There were 42 interventions in the year, compared to 59 in the previous financial year.

Statutory Trust Accounts (STAs)

In its role as the statutory approved regulator of solicitors the Law Society is the Trustee of separate funds which vest in it as a result of interventions into solicitors' practices in accordance with statute. The Law Society has delegated the handling of these funds to the SRA which holds and administers them in accordance with the SRA Statutory Trust Rules. The SRA is responsible for ensuring that the funds are properly accounted for and distributed appropriately. These funds are held in STAs. The fund is able to recover from the STAs and other avenues (e.g. insurers), via right of subrogation, grants it has made where the funds held can be identified as due to a claimant who has received a grant from the fund.

Once all reasonable and proportionate efforts have been made to trace beneficiaries, any residual balances remaining in STAs are transferred to the Compensation Fund. In 2025 the amount transferred was £12.9m (2024: £11.9m).

Administrative costs

Costs incurred during the year in administering, maintaining, applying and protecting the Fund were £20.3m (2024: £15.7m). Almost all fund administrative costs are incurred by the SRA and recharged to the Fund in accordance with an agreed methodology and cost allocation rates. The most significant element of the recharge relates to third party intervention and legal costs incurred by the SRA which totalled £15.1m (2024: £11.7m). This increase is a result of ongoing costs in relation to high volumes of client file collection, indexing, and repatriations in line with nature of interventions undertaken.

Result for the year

The financial result for the year was a deficit of £3.3m (2024: £19.6m surplus). The change year on year is due to a combination of significantly higher grant payments in the year, higher intervention costs, and higher receipts of residual statutory trust balances. The deficit or surplus is impacted by the timing of contributions to the Fund which are predominantly collected in October.

Balance sheet

The net assets of the Fund at the end of October 2025 were £41.3m (2024: £44.7m), decreased from the prior year end but significantly above the 2023 low point. The end of October typically represents the peak of the Fund's balance following the collection of contributions.

Operating and financial review (continued)

Investments

The SRA made a decision to disinvest fund investments in late 2024 in order to have readily available cash to cover a high volume of expected claim payments during the 2024-25 financial year. In the 2024-25 financial year the fund received £51k in interest and dividends (2024: £484k), a net realised gain on investments of £667k (2024: unrealised gain £2,868k) and incurred management fees of £29k (2024: £110k). The value of investments sold was £26.1m (2024: £nil)

At the end of October 2025, the fund had £21.5m in cash and £nil investments compared with £34.2m at the end of October 2024 (£25.4m investments and £8.8m cash). The latest forecasts for the fund indicate that a large proportion of the cash balances will be utilised to pay claims during 2025-26.

Debtors and cash

At the balance sheet date the Fund was owed £19.8m by the SRA, compared to £10.4m at the prior year end. The SRA collects the annual contribution on behalf of the Fund in October of each year. The amounts owed by the SRA have been paid to the Fund subsequent to the year end. Bank balances increased by £12.6m to £21.5m at 31 October 2025 primarily due to the decision to disinvest and ensure funds were more liquid.

Claims

The fund received or reopened 2,116 claims in 2025 (2024: 2,859) and closed 2,503 (2024: 2,718). At the end of the year there were 692 open claims (2024: 1,079) with a total claim amount of £26.4m (2024: £51.5m).

Principal risks and uncertainties

As stated on page 1, the primary object of the fund is to make discretionary grants. The principal risks of the fund are therefore that it holds insufficient accumulated funds to settle authorised grants or that grants are made in inappropriate circumstances.

These risks are mitigated by the fact that the fund is a discretionary fund of last resort as outlined in the SRA Compensation Fund Rules. This means that the SRA, as administrators of the Fund, must act in the public interest when approving claims made against the fund.

The going concern review below considers the risk of having insufficient funds available to make grants the fund considers it appropriate to make. The risk of inappropriate grants being made is mitigated by maintaining a robust process of investigation and adjudication.

Going concern review

Our review of fund viability is based on three key considerations:

- A number of recurring uncertainties:
  - The inherent uncertainty over whether the SRA will be required to make an intervention into a law firm of an exceptional scale in terms of consequential grant claims and the administration cost of intervention.
  - The usual variation in the number of smaller interventions leading to modest individual claims on the fund.
  - The timing of any exceptionally large interventions.

- The key mitigation of the SRA's ability to enforce its powers to raise an additional levy contribution against regulated individuals and bodies to fund a shortfall in accumulated funds.

- The arrangement of a £10m overdraft facility.

The fund continues to progress applications and we are making payments in accordance with the published prioritisation approach.

We expect the fund to be able to continue to make its required payments as decisions on grant applications are made.

Reserves at 31 October 2025 were £41.3m. We expect the balance in the fund to reduce across the financial year with the low point being during September 2026. While there is always inherent uncertainty in forecasting the timing of payments and receipts, the balance is expected to remain sufficient to pay grants as they fall due.

The total budgeted contribution for the 2025-26 practising year was £26.0m (2024-25: £31.0m). By 31 January 2026 over 98% of the budgeted amount had been collected with the balance expected to be collected throughout the remainder of the year.

As noted above, cash reserves are expected to reduce throughout the majority of 2025-26 until contributions for the 2026-27 year are collected. The substantial majority of these contributions are due to be collected during October 2026. The level of contributions will be confirmed by the SRA Board during the summer of 2026, then proposed to the LSB for approval.

The proposed fund contribution for 2026-27 will, as it is each year, be set at a level intended to ensure that the fund will be able to meet its obligations as they fall due. It will be based on a carefully considered estimate of the cash requirement that might be required during the 2026-27 financial year, plus an allowance for the inherent risk related to future events, which mean actual requirements may vary considerably from any projection.

Open claims

Due to the predominantly cash accounting nature of the accounting policies of the fund, explained further in note 1, no liability is recognised within these financial statements for open claims received.

The movement in open claims during 2024 and 2025 is shown in the table below based on the original claims value recorded:

	2025	**2024**
	£m	£m
Claims open at 1 November	51.5	60.1
Claims received or reopened during the year	86.8	95.1
Claims closed or deleted during the year	(104.1)	(106.7)
Net change in value of open claims	(7.8)	3.0
Claims open at 31 October	26.4	51.5

We have estimated the grants that may result from the claims outstanding at the end of 2025 and consider that the balances in the fund are sufficient to meet the potential liabilities as they fall due.

Some grant payments will later be recovered from the statutory trust accounts as client balances seized from intervened firms are reconciled. The exact amount to be recovered may take some time to be finalised. At the end of October 2025, the total balance held in statutory trust accounts was £47.8m. (October 2024: £73.2m).

Statement of financial control

The SRA Board acknowledges that it is responsible for the system of internal financial control and has reviewed its effectiveness, having regard to the following key procedures:

- a clearly defined management structure with open lines of communication
- an on-going review by the Board of the cost of claims in relation to the income and assets of the fund
- approval of cash projections and recommended fund contributions
- a regular review of actual expenditure.

All decisions and payments pertaining to the fund and STAs are governed by the SRA's schedule of delegations which is approved by the Board and was most recently updated in January 2026[3].

The Compensation Fund is subject to outsourced internal audit as part of the overall programme of SRA internal audit.

It must be stated that a system of internal financial control can provide only reasonable and not absolute assurance against material misstatement or loss.

[3] https://www.sra.org.uk/sra/decision-making/schedule-delegation/

Statement of the SRA Board's Responsibilities in respect of the financial statements

Council of the Law Society

The Council of the Law Society is accountable 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 Limited.

Solicitors Regulation Authority Limited

Under delegated authority from the Council of the Law Society, the Solicitors Regulation Authority Limited (SRA) is responsible for the preparation of the non–statutory financial statements in accordance with the basis of preparation and accounting policies in note 1 and which show the position of the fund at the end of the financial year and of any surplus or deficit for that period.

The SRA has taken responsibility for preparing non-statutory financial statements although there is no specific legal requirement to do so. The Council and SRA Board must not approve the non-statutory financial statements unless they are satisfied that they have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies in note 1 to the non-statutory financial statements.

In preparing these non-statutory financial statements, the SRA Board has:

- selected suitable accounting policies and then applied them consistently
- made judgements and accounting estimates that are reasonable and prudent
- stated the basis of preparation and accounting policies applied
- prepared the non-statutory financial statements on the going concern basis unless it is inappropriate to presume that the fund will continue in business.

The SRA Board is responsible for keeping adequate accounting records that are sufficient to show and explain the fund's transactions and disclose with reasonable accuracy at any time the financial position of the fund. It is also responsible for safeguarding the assets of the fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of the SRA Board's Responsibilities in respect of the financial statements (continued)

Statement of disclosure of information to auditors

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

- so far as we are aware, members of the Board are not aware of relevant audit information that has not been disclosed to the fund's auditors
- appropriate governance arrangements are in place and are operated, such as by the activities of the SRA Audit and Risk Committee and the Board
- we as members of the Board are satisfied that, by the said governance arrangements, members of the 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.

The annual report was approved by order of the Board on 21 April 2026.

Signed by:
Anna Bradley
Chair, SRA Board
28 April 2026

Independent auditor’s report to the Board of the Solicitors Regulation Authority Limited

Opinion

In our opinion, the special purpose financial statements of the SRA Compensation Fund for the year ended 31 October 2025 are prepared, in all material respects, in accordance with the accounting policies set out in Note 1 to the special purpose financial statements.

We have audited the special purpose financial statements of SRA Compensation Fund (the “Fund”) for the year ended 31 October 2025, which comprise of the following:

Income and Expenditure Account
Balance Sheet
Notes to the special purpose financial statements
A summary of significant accounting policies

The financial reporting framework that has been applied in their preparation is the accounting policies set out in Note 1 to the special purpose financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the special purpose 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 Fund in accordance with the ethical requirements that are relevant to our audit of the special purpose 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 special purpose financial statements, we have concluded that the Board of the Solicitors Regulation Authority Limited’s use of the going concern basis of accounting in the preparation of the special purpose 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 Fund's ability to continue as a going concern for a period of at least twelve months from when the special purpose financial statements are authorised for issue. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Fund’s ability to continue as a going concern.

Our responsibilities and the responsibilities of the Board of the Solicitors Regulation Authority Limited with respect to going concern are described in the relevant sections of this report.

Independent auditor's report to the Board of the Solicitors Regulation Authority Limited (continued)

Emphasis of matter - Basis of accounting and restriction on distribution and use

We draw attention to Note 1 to the special purpose financial statements, which describes the basis of accounting, which is a special purpose framework. The special purpose financial statements are prepared by the Board of the Solicitors Regulation Authority Limited as good governance in respect of the SRA Compensation Fund. As a result, the special purpose financial statements may not be suitable for another purpose. Our report is intended solely for the Board of the Solicitors Regulation Authority Limited and should not be distributed to or used by parties other than the Board of the Solicitors Regulation Authority Limited. Our opinion is not modified in respect of this matter.

Other information

The Board of the Solicitors Regulation Authority Limited are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements other than the special purpose financial statements and our auditor's report thereon. Our opinion on the special purpose financial statements does not cover the other information and, 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 special purpose 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 special purpose 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.

Responsibilities of the Board of the Solicitors Regulation Authority Limited

The Board of the Solicitors Regulation Authority Limited are responsible for the preparation of the special purpose financial statements in accordance with the accounting policies set out in Note 1 to the special purpose financial statements and for such internal control as the Board of the Solicitors Regulation Authority Limited determine is necessary to enable the preparation of special purpose financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the special purpose financial statements, the Board of the Solicitors Regulation Authority Limited are responsible for assessing the Fund'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 Board of the Solicitors Regulation Authority Limited either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the Board of the Solicitors Regulation Authority Limited (continued)

Auditor's responsibilities for the audit of the special purpose financial statements

Our objectives are to obtain reasonable assurance about whether the special purpose 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 special purpose financial statements.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Fund and management.

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:

Non-compliance with laws and regulations
Based on:

- Our understanding of the Fund and the industry in which it operates;
- Discussion with management and those charged with governance including the SRA Audit and Risk Committee; and
- Obtaining an understanding of the Fund's policies and procedures regarding compliance with laws and regulations

we considered the significant laws and regulations to be note 1 to the special purpose financial statements the applicable special purpose framework, sections 36 and 36A of the Solicitors Act 1974 as amended by the Courts and Legal Services Act 1990 and the provisions of the Administration of Justice Act 1985.

The Fund is also subject to laws and regulations where the consequence of non-compliance could have a material effect on the amount or disclosures in the special purpose financial statements, for example through the imposition of fines or litigations. We identified such laws and regulations to be data protection and health and safety legislation.

Our procedures in respect of the above included:

- Enquires of management whether there were any litigations and claims;
- Review of minutes of meetings of those charged with governance for any instances of non-compliance with laws and regulations; and
- Review of financial statement disclosures and agreeing to supporting documentation.

Independent auditor's report to the Board of the Solicitors Regulation Authority Limited (continued)

Fraud

We assessed the susceptibility of the special purpose financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Enquiry with management and those charged with governance regarding any known or suspected instances of fraud;

- Obtaining an understanding of the Fund's policies and procedures relating to:
  - Detecting and responding to the risks of fraud; and
  - Internal controls established to mitigate risks related to fraud.
- Review of minutes of meetings of those charged with governance for any known or suspected instances of fraud;
- Discussion amongst the engagement team as to how and where fraud might occur in the special purpose financial statements; and
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;

Based on our risk assessment, we considered the areas most susceptible to fraud to be related to posting inappropriate journal entries to manipulate financial results and management bias in accounting estimates.

Our procedures in respect of the above included:

- Testing a sample of journal entries throughout the year, which met defined risk criteria, by agreeing to supporting documentation;
- Assessing significant estimates made by management for bias including the cost allocation methodology used to calculate the recharge of costs from Solicitors Regulation Authority Limited to the Fund.
- A review of unadjusted audit differences for indications of bias or deliberate misstatement.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the special purpose 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 special purpose 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.

Independent auditor's report to the Board of the Solicitors Regulation Authority Limited (continued)

Use of our report

This report is made solely to the Board of Solicitors Regulation Authority Limited, as a body, in accordance with the terms of our engagement letter dated 19 November 2025. Our audit work has been undertaken so that we might state to the Board of Solicitors Regulation Authority Limited those matters we are required to state in an auditor's report in accordance with the terms of our engagement letter and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Board of Solicitors Regulation Authority Limited as a body, for our audit work, for this report, or for the opinions we have formed. This report must not be used for any purpose other than that for which it was prepared or be reproduced or referred to in any other document or made available to any third party. We accept no duty or responsibility and deny any liability to any third party who is shown and/or gains access to this report.

BDO LLP
Chartered Accountants
Birmingham, UK
Date:

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

Income and expenditure account for the year ended 31 October 2025

	Note	2025	2024
Income		**£'000**	**£'000**
Compensation Fund contributions	7	26,397	29,708
		26,397	**29,708**
Grant recoveries	3	22,769	18,258
Interest and dividends received	4	746	767
Residual balances received from Statutory Trust accounts	9	12,901	11,858
Total Income		**62,813**	**60,591**
Expenditure			
Grants paid	2	(46,359)	(27,928)
Administration costs	6	(20,268)	(15,692)
Auditors' remuneration – audit fees		(46)	(45)
Income tax	5	(132)	(193)
Total Expenditure		**(66,805)**	**(43,858)**
Unrealised gain on investments	8	-	2,868
Realised gain on investments		667	-
(Deficit) / surplus for the year		**(3,325)**	**19,601**
Fund balance as at 1 November		**44,651**	**25,050**
Fund balance as at 31 October		**41,326**	**44,651**

All activities derive from continuing activities. The notes on pages 22-27 form part of these non-statutory financial statements.

Balance sheet as at 31 October 2025

	Note	2025 £'000	2024 £'000
Current Assets			
Investments	8	-	25,429
Bank and cash		21,483	8,832
Money owed from the SRA	9	19,843	10,390
Total Assets		41,326	44,651
Accumulated Funds		41,326	44,651

The notes on pages 22-27 form part of these non-statutory financial statements.

The financial statements of the SRA Compensation Fund were approved on 21 April 2026 by:

Sarah Rapson
Chief Executive, SRA

Anna Bradley
Chair, SRA Board

Signed date: 28 April 2026

Notes to the financial statements for the year ended 31 October 2025

1 Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with the following accounting policies. As the fund is maintained and administered pursuant to sections 36 and 36A of the Solicitors Act 1974 as amended by the Courts and Legal Services Act 1990 and under the provisions of the Administration of Justice Act 1985, it is not required to prepare statutory financial statements or comply with applicable United Kingdom accounting standards or the Companies Act 2006 but has chosen to prepare non-statutory financial statements and have them audited as good governance.

The accounting policies adopted by the fund are described below and these have been applied consistently.

Cash flow statement

No separate cash flow statement is prepared as the accounting policies adopted by the fund are predominantly on a cash accounting basis.

Contributions

Fund contributions received in conjunction with SRA practising fees are recognised in full when an invoice is raised following an application from a solicitor or a firm. The contributions relate to practising years which begin on 1 November each year. These amounts are recognised in full and not deferred and therefore the financial statements include amounts invoiced in advance relating to the following year.

Grants paid

Grants paid by the fund are discretionary in nature and are accounted for when paid. Grant authorisation is given by an adjudication panel or an authorised adjudicator under delegated authority from the Board.

Grants recovered via right of subrogation from the Statutory Trust Accounts (STAs)

The fund is able to recover from the STAs, via right of subrogation, grants it has made provided certain procedures are followed. Recoveries from the STAs are recognised when cash is received.

Grants recovered from solicitors

The fund is able to recover grants from solicitors that have been paid out to former clients of those solicitors. Recoveries from solicitors are recognised when cash is received.

Notes to the financial statements for the year ended 31 October 2025 (continued)

1 Accounting policies (continued)

Residual balances received from Statutory Trust Accounts (STAs)

Remaining funds held in STAs are transferred to the fund once all reasonable efforts to establish and trace beneficiaries have been exhausted. Income from residual balances in STAs is recognised when the cash is received.

Investments

Investments consist of managed investment funds. Movement in the value of investments is recognised separately in the income and expenditure account.

Interest and dividends

Income is received in the form of interest and dividends. Income arising on bank and cash amounts is received as interest. Interest and dividend income is accounted for when cash is received.

Administration costs

Administration costs are incurred by the fund via a recharge from the SRA in accordance with an agreed cost allocation methodology and cost allocation rates. Administration costs are recognised when actually calculated and notified to the fund by the SRA.

Certain costs are incurred directly by the fund and are recognised when paid.

Taxation

The fund is only liable to taxation on its investment income at the basic rate of tax and normal dividend rates of income tax and obtains no tax relief for its overhead expenditure. Charges for taxation are recognised when paid or received and no account is taken of deferred taxation assets and liabilities.

Valuation of investments

Investments consist of managed investment funds. Investments are measured at fair value. Changes in fair value are recognised separately within the income and expenditure account. The fair value of investments is obtained at the balance sheet date based on valuations normally using prices obtained from an independent pricing source.

Notes to the financial statements for the year ended 31 October 2025 (continued)

1 Accounting policies (continued)

Going concern

The Board has considered the level of reserves and the fact that the fund's grants are discretionary, and concluded that the fund has sufficient funds available to it to meet future obligations as they fall due.

Despite the significant levels of grant payments and administration costs over the past two years, the fund continues to hold reasonable reserves. The latest forecasts for the fund, for the period to 31 October 2027, based on best estimates of the recommended contribution income, and the increased intervention costs for PM Law, indicate that there should continue to be sufficient reserves through the next 18 months and beyond.

In the event of a major intervention, the SRA:

- has the power to raise an additional levy on regulated individuals and bodies between the annual October practicing certificate collections if required and might need to use this if a very large intervention arose subsequent to the approval of the proposed 2025-26 contribution, and

- can make use of a £10m overdraft facility to support working capital requirements.

Based on the latest forecasts and the available liquid resources, the Board is confident over the fund's ability to continue as a going concern for at least 12 months after the date on which the financial statements are signed. The Board, therefore, considers it appropriate for the accounts to be prepared on a going concern basis.

2 Grants paid

Grants paid in 2025 totalled £46.4m (2024: £27.9m).

3 Grant recoveries

Grant recoveries in 2025 totalled £22.8m (2024: £18.3m) of which £18.3m (2024: £14.8m) were recovered through rights of subrogation from the STAs and £4.5m (2024: £3.5m) were recovered directly from solicitors.

4 Interest and dividends received

Interest and dividends received in 2025 totalled £746k (2024: £767k).

Notes to the financial statements for the year ended 31 October 2025 (continued)

5 Income tax

Income tax is payable on gross interest earned during the year from money market funds and treasury deposits. Tax paid in the year was £132k (2024: £193k). Income tax falling due on investment income for the financial year totals £149k (2024: £153k). This tax will be paid in future periods.

6 Administration costs

	2025 £'000	2024 £'000
Direct cost of processing fund claims	3,655	2,680
Direct cost of interventions and other legal costs	15,115	11,696
Total Direct Cost	18,770	14,376
Allocated cost of other regulatory activity that administers and protects the fund	1,469	1,206
Investment and cash management fees	29	110
Total Administration Costs	**20,268**	**15,692**

All administration costs except investment and cash management fees are incurred by the SRA and recharged to the fund.

7 Compensation Fund contributions

Contributions recognised in 2025 totalled £26.4m (2024: £29.7m) of which £23.8m (2024: £28.9m) relates to the practicing year 2025-26.

Notes to the financial statements for the year ended 31 October 2025 (continued)

8 Investments

A large proportion of the fund's reserves were held in a managed investment portfolio. The movement in the portfolio during the year is shown in the table below.

	2025 £000	2024 £000
Balance at 1 November	25,429	22,187
Interest and dividends received	51	484
Management fees	(29)	(110)
Withdrawn	(26,118)	-
Net gain on investments	667	2,868
Balance at 31 October	**-**	**25,429**

The fund's investments were divested in order to have the necessary cash to be able to meet payments in the 2024-25 financial year.

9 Related party transactions

The Law Society has ultimate accountability for the maintenance of the fund and the STAs, delegated to the SRA. Both the SRA and the STAs are therefore considered to be related parties for the purpose of financial reporting.

The SRA collects all fund contributions on behalf of the fund, as disclosed within the income and expenditure account. In addition, the SRA charges the fund client protection costs, as disclosed in note 6. Amounts owed from the SRA at 31 October 2025 were £19.8m (2024: £10.4m) and are disclosed on the balance sheet.

Transactions with the STAs are recovery of grants under rights of subrogation and amounted to £18.3m (2024: £14.8m).

Further monies are also received from residual balances in STAs once all reasonable efforts have been made to trace beneficiaries. Any remaining funds are then transferred to the fund and amounted to £12.9m in 2025 (2024: £11.9m).

Disclosure of related parties arising from Council members and Board members, included in recharged costs, are disclosed in the Law Society consolidated financial statements where required.

There are no other significant related party transactions.

Notes to the financial statements for the year ended 31 October 2024 (continued)

10. Disclosure of significant assets and liabilities

Due to the predominantly cash accounting nature of the accounting policies certain assets and liabilities are not included in the financial statements. The most significant are explained below.

Open claims

As explained in note 1, grants made are recognised when cash is paid. Amounts approved for payment and those related to outstanding claims being investigated are not included in the financial statements.

No reliable estimate can currently be made of future claims against interventions in progress and no estimate is made of amounts recoverable from the seized accounts relating to those interventions.

Statutory Trust Accounts (STA), undistributed balances

The 2006 Re Ahmed judgement provided for any undistributed STA balances (residual balances) to be transferred to the fund after reasonable investigations to distribute them.

In 2025 this resulted in £12.9m being transferred from STAs to the fund (2024: £11.9m). This is in addition to the funds received via rights of subrogation.

Statutory Trust Accounts, amounts due via right of subrogation

In accordance with the accounting policies, no amounts are recognised within the balance sheet or income and expenditure account in respect of amounts due to the fund via rights of subrogation from the STAs as these amounts are only recognised when received.

Whilst the amounts due to the fund are likely to be significant, it is not possible to accurately quantify the amount due until the work has been completed. At the end of October 2025, the total balance held in STAs was £47.8m (2024: £73.2m).

Uninsured firms

From 1 October 2012 the SRA Compensation Fund Rules were changed to provide cover for claims made against uninsured firms that would previously have been covered by the Assigned Risks Pool (ARP) under certain arrangements for non-applied firms. This cover is similar to that provided historically through the ARP arrangements whilst still retaining the discretionary nature of the Compensation Fund. The cover extends to claims made against firms that are practising whilst uninsured and includes six-year run-off cover in the event that a practice ceases without successor practice whilst uninsured.