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This paper will be published

Compensation Fund 2018 Financial Statements

Purpose

- 1 This paper presents the Compensation Fund 2018 Financial Statements, Letter of Representation and Statement of Disclosure for the year ending 31 October 2018. The information within this paper was presented to the Finance and Audit Committee meeting on 7 May 2019 and the feedback is reflected in this paper.

Recommendation

- 2 The Board is asked to:
 - a) agree the Compensation Fund 2018 Financial Statements (annex 5) and Letter of Representation (annex 4).

If you have any questions about this paper please contact: Mark Draisey, interim Executive Director, mark.draisey@sra.org.uk.

Equality, Diversity and Inclusion considerations

- 3 This paper relates to the overall financial position of the Compensation Fund and does not, therefore, deal with any specific issues relating to EDI. Any proposals for changes of policy relating to the Fund will consider EDI issues in detail.

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Compensation Fund 2018 Financial Statements

Introduction

- 4 As part of the year end external audit process, the SRA Board is asked to approve the 2018 year-end Financial Statements on a going concern basis (Going Concern assessment is at annex 7) and to approve signing of the Letter of Representation to the auditors. This Letter of Representation requires the approver to make representations based on enquiries of management and staff with relevant knowledge and experience and, where appropriate, inspection of supporting documentations sufficient to allow the approver to properly make the representations.
- 5 To provide assurance to the Board to enable it to make these representations, a review was performed of the work already performed by the external auditors. This work was then mapped to the Compensation Fund Financial Statements (see annex 2). Where this identified additional assurance was required, Deloitte was engaged to perform additional independent testing.
- 6 The results of the work performed is summarised below.

Executive summary of work performed

- 7 Deloitte performed substantive testing over grant payments, residual balance recoveries, grant recoveries via subrogation and grant recoveries from defaulting solicitors. 215 items were tested giving coverage between 68% and 96% by value where applicable. The work performed by Deloitte identified a small number of control issues (such as values entered into Doxis not matching the claims forms and missing evidence) but no items that have led to misstatements in the Financial Statements and so no adjustments have been made as a result of the work performed.
- 8 Of the work performed by the external auditors, and additional testing performed by group finance, no further misstatements were identified.

Scoping of work

- 9 A review has been performed (annex 1) of the draft Compensation Fund Financial statements (Balance Sheet, Income Statement and Notes) to document where comfort over each of the balances comes from, and where gaps have been identified through external audit only sampling a low number of items, Deloitte has been engaged to provide additional comfort.
- 10 The result of the above was:
 - Deloitte has performed testing over Grants paid, Subrogation's from the STA, external grant recoveries, and residual balance recoveries.

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- Comfort would be taken over the work performed by BDO for Contributions received, investment funds and bank balances, emergency fund debtors and intercompany balances and the recalculation of the Compensation Fund recharge (a separate paper has been provided to the Committee detailing the basis of the calculation).
- Group finance has represented on specific Group Finance items such as, interest recording, audit fee's and tax charges with additional supporting evidence provided on request.
- Internal management comfort required on the existence and progress on any outstanding legal cases.

Results of Deloitte work performed

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

12 Sampling performed:

Financial statements area	Value per financial statements <u>£'000</u>	Deloitte testing		
		Items samples	Value tested	Coverage obtained
		<u>Number</u>	<u>£'000</u>	
Grant recoveries (subrogation)	8,755	24	8,438	96%
Grant recoveries (other)	4,041	25	N/a*	N/a*
Residual balances	570	24	389	68%
Grants Paid	18,085	142	13,402	75%

* Note that this test was included to test that recoveries were being appropriately transferred from the SRA as such tested receipts into the SRA and then confirmed whether they were comp fund related, and if so that they were transferred. As such coverage is not applicable.

13 Deloitte's final report is attached in annex 6 and summarised below.

Results of Deloitte work - not directly impacting the financial statements

14 The Deloitte report identified 3 points:

- Finding one is a note that the financial statements were rounded to the nearest £1,000 and so the detailed listing did not agree exactly to the financial statements. This finding is for information only as the accounts would be expected to be rounded



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- Finding two on the Deloitte report identifies the only issue, which does not impact on the financial statements, but represented a control issue.
- Finding three is a note for information only, noting that a write off had occurred during the year.

Recommendation: the Board is asked to:

- agree the Compensation Fund 2018 Financial Statements and Letter of Representation.**

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Date 10 May 2019

Annex 1	Summary of sources of assurance obtained – Financial Statements
Annex 2	Summary of sources of assurance obtained – Letter of Representation
Annex 3	Compensation Fund Statement of Disclosure
Annex 4	Compensation Fund Letter of Representation
Annex 5	Compensation Fund 2018 Financial Statements
Annex 6	Deloitte report
Annex 7	Going concern assessment

NB: only Annex 5 will be published because others contain commercially confidential information