

SRA BOARD

14 July 2020

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This paper will be published

Compensation Fund 2019 Financial Statements

Purpose

- 1 This paper presents the Compensation Fund 2019 Financial Statements, Letter of Representation and Statement of Disclosure for the year ending 31 October 2019. The information within this paper was presented to the Finance and Audit Committee meeting on 12 May 2020 and the feedback is reflected in this paper.

Recommendation

- 2 The Board is asked to:
 - a) agree the Compensation Fund 2019 Financial Statements (annex 5) prepared on a going concern basis and agree the Letter of Representation (annex 4) to be signed by the Chief Executive
 - b) note the financial update at annex 7.

If you have any questions about this paper please contact: Liz Rosser, Executive Director of Resources, liz.rosser@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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Introduction

- 4 As part of the year end external audit process, the SRA Board is asked to approve the 2019 year-end Financial Statements on a going concern basis (Going Concern assessment is at annex 3) 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 1). Where this identified additional assurance was required, KPMG was engaged to perform additional independent testing.

Compensation Fund 2019 financial statements

- 6 The results of the work were considered by the Finance and Audit Committee at its meeting on 12 May 2020. The Chair of FAC provided the following update following that meeting.
- 7 *The Committee reviewed the 2019 Financial Statements for the Compensation Fund, including the additional assurance that had been carried out on the accounts by our internal auditors and the Letter of Representation, prior to them coming to the Board on 15 June.*
- 8 *The Board will recall that the Compensation Fund Financial Statements are non-statutory. The SRA chooses to have them externally audited each year. They are prepared based on the accounting policies set out in the Financial Statements, which are predominantly cash accounting. No provision is made for claims received but not yet paid. Grants made by the Fund are recognised in the accounts when paid. However, in the Financial Statements we state that:*

“ we have estimated the grants that may result from claims outstanding at the end of 2019 and consider that the balances in the Fund are sufficient to meet the potential liabilities as they fall due.”
- 9 *Our assurance that we can make this statement was all the detailed work that was done and presented to the Committee in order to set the contributions for 2020/21, which included projections to the end of 2021. The Fund is very prudently reserved and the Committee considers that it comfortably passes this threshold.*

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- 10 *The Financial Statements also state that:*
- “ No estimate can currently be made of future claims against interventions in progress.”*
- 11 *In setting contributions for 2020/21, the Board may remember that we believe we have erred on the prudent side in case of an increase in interventions resulting from the impact of Covid-19 and a downturn in the economy on solicitors firms.*
- 12 *The Committee agreed the Compensation Fund 2019 Financial Statements prepared on a going concern basis and the Letter of Representation. We welcomed the planned review of the assurance package on the accounts to ensure the most suitable approach was being taken and asked the Executive to consult with our external auditors on whether the impacts of Covid-19 needed to be referenced in the financial statements.*
- 13 Following discussions with BDO, they requested amendments to the financial statements to reflect the possible risks associated with the Covid-19 outbreak. These amended statements were provided to the Audit and Risk Committee in early July.
- 14 It is these updated financial statements that the Board is asked to approve.
- 15 In previous years, the Compensation Fund financial statements have been published only as part of publishing Board papers. Once approved it is our intention to publish them more formally this year making them more easily available on our website.
- 16 An update on the financial position of the fund this year is included at annex 7. This provides additional assurance on the viability of the fund. Quarterly updates to the Board will, in future, be provided within the quarterly performance pack.

Recommendations

- 17 The Board is asked to:
- a) agree the Compensation Fund 2019 Financial Statements prepared on a going concern basis and agree the Letter of Representation to be signed by the Chief Executive
 - b) note the financial update at annex 7.

Author David Adams, Head of Finance and Business Planning

Contact Details David.adams@sra.org.uk

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Annexes

- Annex 1** Summary of sources of assurance obtained – Financial Statements
- Annex 2** Summary of sources of assurance obtained – Letter of Representation
- Annex 3** Going concern assessment
- Annex 4** Compensation Fund Letter of Representation
- Annex 5** Compensation Fund 2019 Financial Statements
- Annex 6** KPMG report
- Annex 7** Compensation Fund financial update

NB: annexes 1 to 4 and 6 and 7 will not be published because they contain commercially confidential information discussion of risk that might be exacerbated by publication or legal or other professional advice on sensitive or confidential matters.