

The Council
The Law Society
113 Chancery Lane
London
WC2A 1PL

28 March 2017

For the attention of Richard Collins

Dear Richard,

Report of Factual Findings

We have performed the following procedures as agreed by The Law Society ("**Society**") on the schedule of information provided by Management (the "**Schedule**") in accordance with our engagement letter dated 20 January 2017. The purpose of the agreed upon procedures was to assist management of the Solicitors Regulation Authority ("SRA"), who are charged with governance of the Compensation Fund, with an internal review on the financial accounting of the Compensation Fund for the year ended 31 October 2016 (the "**the period**").

1. Scope of our work and factual findings

The procedures performed were as follows:

Grant recoveries (subrogation):

- Obtained a listing from management of all subrogations during the year to 31 October 2016 and compared the total per this listing to the draft financial statements of the Compensation Fund for the year ended 31 October 2016 provided by management on 16th January 2017. We have stated any difference noted in Appendix A;
- From a listing of all grant subrogations obtained from management for the year to 31 October 2016, we selected a non-statistical sample of 24 subrogations, being the largest two grant recoveries recorded in each calendar month or 75% coverage of the total balance recorded in the general ledger, whichever was the greatest. Where two grant recoveries were not available in a particular calendar month, as agreed with management, alternative samples were randomly selected;
 - i. Obtained the subrogation claim form for the intervention received from the Compensation Fund;

- ii. Obtained the adjudication document for the subrogation confirmed with the Senior Financial Accountant, that the document had been appropriately approved. Further, we stated in Appendix A any difference in the value for the subrogation on this document to that recorded in Form 44;
- iii. Confirmed the amount shown on the adjudication document to the amount paid on the bank statement and stated any difference and the date of the payment in Appendix A. Through request from management, any differences caused by supplementary grants and interest charges, where supporting documentation was provided, have not been raised as exceptions, but have been included in Appendix A.

Residual balances:

- Obtained from management a listing of all residual balances transferred from Statutory Trust Accounts for the year to 31 October 2016 and compared the total per this listing to the draft financial statements of the Compensation Fund for the year ended 31 October 2016 provided by management. We stated any difference noted in Appendix A;
- From a listing provided by management of all residual balances transferred from Statutory Trust Accounts during the year to 31 October 2016, we selected a non-statistical sample of 24 residual balances, being the two largest residual balances recorded in each calendar month and performed the following procedures:
 - i. Obtained the adjudication document and confirmed the residual balance per the document;
 - ii. Confirmed that the adjudication document had been appropriately approved by an individual on the residual balances decision makers' document;
 - iii. Compared the amount shown on the adjudication document to the amount paid on the bank statement and stated any difference and the date of the payment in Appendix A.

Grants paid:

- Obtained from management a listing of all grants paid during the year to 31 October 2016 and compared the total per this listing to the draft financial statements of the Compensation Fund for the year ended 31 October 2016 provided by management. We stated any difference noted in Appendix A;
- From a listing provided by management of all grants paid during the year to 31 October 2016, we selected a non-statistical sample of 124 grant payments, being the largest 10 grant payments from each calendar month or 75% coverage of the total balance recorded in the general ledger, whichever was greatest, in the following proportions of complexity category defined by management:

Straightforward	4
Moderate	3
Semi-complex	2
Complex	1

- For each sample, we performed the following procedures:
 - i. Obtained the 'SRA Claims Management Claim Form' and stated the amount claimed by the individual;
 - ii. Compared the amount recorded on this SRA Claims Management Claim Form to the 'original claim value' recorded on the Outstanding Claims Report provided by management and stated any difference;

- iii. Obtained the adjudication decision document and confirmed that it had been approved by the method based on the Adjudication Process Levels document;
- iv. Compared the amount included on the adjudication decision document to the 'actual claim value' recorded on the Outstanding Claims Report provided by management and stated any difference and noted this in Appendix A. As requested by management, any differences caused by supplementary grants and interest charges, where supporting documentation was provided to us, have not been raised as exceptions;
- v. Compared the amount shown on the adjudication decision document to the amount paid on the bank statement and stated any difference and the date of payment.

Recoveries from Solicitors:

- Obtained a listing from management of all sales invoices raised by the SRA during the year to 31 October 2016 and compared the total per this listing to the total sales invoices raised per the SRA trial balance. We stated any difference noted in Appendix A;
- Compared the listing of all sales invoices raised by the SRA to the cost recoveries and cash receipts schedule maintained by finance to confirm all project invoices are included within the cost recoveries and cash receipts schedule and stated any exceptions in Appendix A;
- Selected a sample of 25 cost recoveries from the listing of all sales invoices raised by the SRA provided by management for the year to 31 October 2016, being the five largest cash receipts during the period, and a non-statistical sample of 20 cost recoveries split between those flagged as being recharged to the Compensation Fund and those retained within the Society;
- For each sample, we performed the following procedures:
 - Identified and stated whether the recovery relates to the Compensation Fund or The Law Society based on the project code reference;
 - Identified and stated the invoice value and the final outstanding value per the debtors listing. Confirmed that the difference is equal to the cash receipt value per the cost recoveries and cash receipts schedule provided by finance. We stated the difference, if any, between the totals of these two balances in Appendix A;
 - Confirmed that the recovery has been accurately recorded and recognised within the Compensation Fund. If the recovery selected related to The Law Society, confirmed that the value is not recorded within the Compensation Fund balance;
 - Obtained the invoice for the payment from the client's protection team and stated the invoice number and analysis code in Appendix A;
 - If the recovery relates to the Compensation Fund, confirmed that the correct analysis code is shown on the invoice to reflect this.

Other than as noted in Appendix A, procedures as set out above were performed without exception.

The scope of our work in preparing this report ("**Report**") was limited solely to those procedures set out above. Accordingly we do not express any opinion or overall conclusion on the procedures we have performed. You are responsible for determining whether the scope of our work specified is sufficient for your purposes and we make no representation regarding the sufficiency of these procedures for your purposes. If we were to perform additional procedures, other matters might come to our attention that would be reported to you.

Our Report should not be taken to supplant any other enquiries and procedures that may be necessary to satisfy the requirements of the recipients of the Report.

The procedures we performed did not constitute a review or an audit of any kind. We did not subject the information contained in our Report or given to us by the Society to checking or verification procedures except to the extent expressly stated in the engagement letter. This is normal practice when carrying out such limited scope procedures, but contrasts significantly with, for example, an audit. The procedures we perform are not designed to and are not likely to reveal fraud or misrepresentation by the management of the Society. Accordingly, we cannot accept responsibility for detecting fraud (whether by management or by external parties) or misrepresentation by the management of the Society.

2 Use of Report

Our Report has been prepared solely for your exclusive use and solely for the purpose to assist the management of the SRA, who are charged with governance of the compensation fund, with an internal review on the financial accounting of the Compensation Fund. Our Report is not to be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any other person without our prior written express consent. We accept no duty, responsibility or liability to any other party in connection with the Report or this engagement.

Yours faithfully

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Deloitte LLP

Chartered Accountants

Birmingham

Appendix A: Exceptions identified

The following exceptions were noted:

No.	Scope area	Exception
1	Subrogation	One of 24 grant recoveries (subrogation) sampled was not documented in accordance with standard process. Whilst Form 44 had been completed, the adjudication document was not completed. Therefore there was no third signature in the adjudication document to support of the £68,051.41 paid to the claimant as required.
2	Subrogations	The total grant recoveries (subrogations) per the draft financial statements for the Compensation Fund for the year ended 31 October 2016 was £0.50 higher than the total listing of grant recoveries (subrogations) provided by management.
3	Residual balances	The total residual balances per the draft financial statements for the Compensation Fund for the year ended 31 October 2016 was £344.77 higher than the total listing of residual balances provided by management.
3	Grants Paid	The total grants paid per the draft financial statements for the Compensation Fund for the year ended 31 October 2016 was £103,261.06 lower than the total listing of grants paid provided by management.
4	Grants Paid	<p>From a sample of 124 grants paid, the following 12 exceptions were identified:</p> <ul style="list-style-type: none"> • For six of the claims made, there was a discrepancy noted between the value submitted on the original claim form and the value entered into the claim system, Dosis. • For three of the claims made, there was no amount entered into the claim system, Dosis. • For one claim, there was no value stated on the initial claim form and therefore no evidence to support the agreement of the claim value with the claimant. • Supporting documentation for one of the claims had been mixed with that of another claim. Whilst the claimant had been paid the correct amount per the adjudication document, the claims system (Dosis) did not correspond to the claim value referenced in the grants listing provided by management. • For one claim, there was no evidence to support the value per the revised claim form. The difference between the original and amended claim forms was £707.20.
5	Recoveries from Solicitors	The total recoveries from solicitors per the sales invoice listing for the year end 31 October 2016 was seen to be £672.37 higher than the sales invoices per the SRA trial balance.